

Annual Report
2019



Henkel

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Fiscal 2019 at a glance

Key financials

	2015	2016	2017	2018	2019	+/- 2018–2019
in million euros						
Sales	18,089	18,714	20,029	19,899	20,114	1.1%
Operating profit (EBIT)	2,645	2,775	3,055	3,116	2,899	-7.0%
Adjusted ¹ operating profit (EBIT)	2,923	3,172	3,461	3,496	3,220	-7.9%
Return on sales (EBIT)	14.6%	14.8%	15.3%	15.7%	14.4%	-1.3 pp
Adjusted ¹ return on sales (EBIT)	16.2%	16.9%	17.3%	17.6%	16.0%	-1.6 pp
Net income	1,968	2,093	2,541	2,330	2,103	-9.7%
Attributable to non-controlling interests	47	40	22	16 ²	18	12.5%
Attributable to shareholders of Henkel AG & Co. KGaA	1,921	2,053	2,519	2,314 ²	2,085	-9.9%
Earnings per preferred share	in euros	4.44	4.74	5.81	5.34 ²	4.81
Adjusted ¹ earnings per preferred share	in euros	4.88	5.36	5.85	6.01	5.43
Return on capital employed (ROCE)		18.2%	17.5%	16.3%	15.5%	13.5%
Dividend per ordinary share	in euros	1.45	1.60	1.77	1.83	1.83³
Dividend per preferred share	in euros	1.47	1.62	1.79	1.85	1.85³

pp = percentage points

Sales by business unit 2019**Sales by region 2019**¹ Adjusted for one-time charges / gains and restructuring expenses.² Prior-year figures amended (please refer to the notes on pages 154 to 157).³ Proposal to shareholders for the Annual General Meeting on April 20, 2020.⁴ Sales and services not assignable to the individual business units.⁵ Eastern Europe, Africa / Middle East, Latin America, Asia (excluding Japan).**Sales****0.0 %**

organic sales growth.

EBIT**16.0 %**adjusted¹ return on sales (EBIT): down 1.6 percentage points.**EPS****5.43 €**adjusted¹ earnings per preferred share (EPS): down 9.7 percent.**EPS development****-10.1 %**

at constant exchange rates.

Dividend**1.85 €**dividend per preferred share³.

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Our business units**Adhesive Technologies****Key financials¹**

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in million euros	2018	2019	+/-
Sales	9,403	9,461	0.6%
Proportion of Henkel sales	47 %	47 %	-
Operating profit (EBIT)	1,669	1,631	-2.3%
Adjusted ² operating profit (EBIT)	1,761	1,712	-2.8%
Return on sales (EBIT)	17.7 %	17.2 %	-0.5 pp
Adjusted ² return on sales (EBIT)	18.7 %	18.1 %	-0.6 pp
Return on capital employed (ROCE)	19.3 %	17.2 %	-2.1 pp
Economic Value Added (EVA®)	762	685	-10.2%

Our top brands**LOCTITE****TECHNOMELT****BONDERITE**¹ Calculated on the basis of units of 1,000 euros; figures commercially rounded.² Adjusted for one-time charges / gains and restructuring expenses.

pp = percentage points

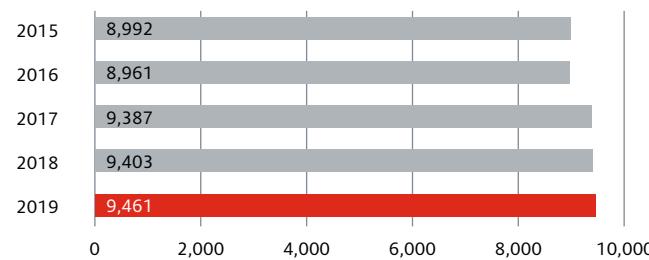
Sales**-1.5%**

organic sales growth.

Sales Adhesive Technologies

5

in million euros



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Beauty Care

Key financials¹

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in million euros	2018	2019	+/-
Sales	3,950	3,877	- 1.8 %
Proportion of Henkel sales	20%	19%	-
Operating profit (EBIT)	589	418	-29.0 %
Adjusted ² operating profit (EBIT)	675	519	-23.1 %
Return on sales (EBIT)	14.9%	10.8%	- 4.1 pp
Adjusted ² return on sales (EBIT)	17.1%	13.4%	- 3.7 pp
Return on capital employed (ROCE)	14.8%	10.1%	- 4.7 pp
Economic Value Added (EVA®)	230	88	-61.9 %

¹ Calculated on the basis of units of 1,000 euros; figures commercially rounded.² Adjusted for one-time charges / gains and restructuring expenses.

pp = percentage points

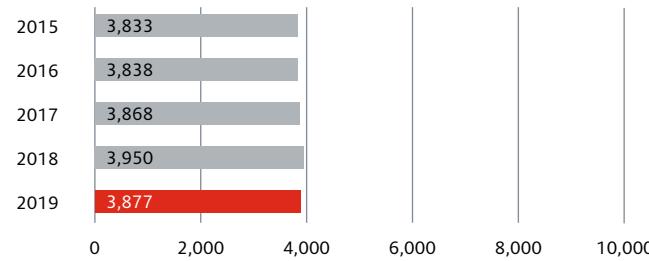
Our top brands**Sales****-2.1 %**

organic sales growth.

Sales Beauty Care

7

in million euros



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Laundry & Home Care

Key financials¹

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in million euros	2018	2019	+/-
Sales	6,419	6,656	3.7 %
Proportion of Henkel sales	32 %	33 %	-
Operating profit (EBIT)	970	973	0.3 %
Adjusted ² operating profit (EBIT)	1,162	1,096	-5.7 %
Return on sales (EBIT)	15.1 %	14.6 %	-0.5 pp
Adjusted ² return on sales (EBIT)	18.1 %	16.5 %	-1.6 pp
Return on capital employed (ROCE)	13.1 %	12.6 %	-0.5 pp
Economic Value Added (EVA®)	306	356	16.2 %

Our top brands**Persil****Bref**¹ Calculated on the basis of units of 1,000 euros; figures commercially rounded.² Adjusted for one-time charges / gains and restructuring expenses.

pp = percentage points

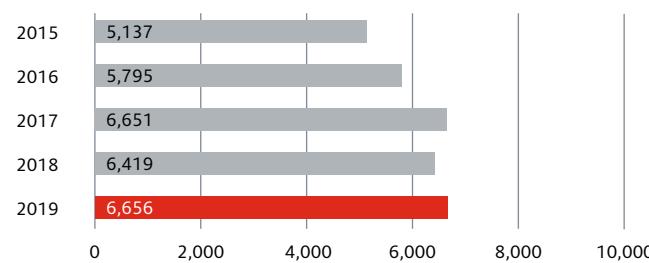
Sales**+3.7 %**

organic sales growth.

Sales Laundry & Home Care

9

in million euros



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What drives us

Our purpose

Creating sustainable value.

Our vision

**Leading with our innovations,
brands and technologies.**

Our values

We put our **customers** and **consumers** at the center of what we do.

We value, challenge and reward our **people**.

We drive excellent sustainable **financial performance**.

We are committed to leadership in **sustainability**.

We shape our future with a strong entrepreneurial spirit based on our **family business** tradition.

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“What really makes the difference is having the right strategy, the right team and the right culture.”

CARSTEN KNOBEL

CHAIRMAN OF THE MANAGEMENT BOARD

Dear Shareholders and Friends of the Company,

At the beginning of this year, I took over as Chairman of the Management Board after serving eight years as Chief Financial Officer. It is an honor and privilege to lead this outstanding company together with my colleagues on the Management Board. I am proud to serve a company with a strong tradition as a family business, a unique set of values, a distinct corporate culture and an outstanding global team of more than 52,000 dedicated employees.

As one of my first tasks, I want to report to you about our performance and key developments at Henkel in 2019. I would also like to reconfirm to you the unwavering commitment of the Management Board and everyone at Henkel to creating sustainable value for all our stakeholders. This is our shared purpose. We are convinced that Henkel has the potential to deliver lasting, superior returns to our shareholders, bring unique benefits through our brands, innovations and technologies to customers and consumers around the world, attract and retain talented and dedicated employees, drive progress in sustainable business practices and contribute to society as a responsible company.

Mixed business performance in 2019

In 2019, our business performance was impacted by different developments. The year was characterized by decelerating growth in almost all major economies, increasing trade tensions between the USA and China, rising tariffs and trade barriers, geopolitical conflicts in different regions as well as uncertainty about the consequences of a potential “no deal” Brexit in Europe.

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This impacted our Adhesive Technologies business, which serves mostly industrial customers. Here, we faced a marked slowdown in key customer segments, in particular the automotive industry as well as the electronics industry. Other segments, however, like our aircraft and aerospace solutions delivered very strong growth. Organically, excluding the impact from currencies as well as acquisitions and divestments, Adhesive Technologies closed the year with sales below the prior year.

At the same time, our consumer businesses, Laundry & Home Care and Beauty Care, faced intense competition and continued pressure on pricing in many markets. Laundry & Home Care recorded strong organic growth thanks to the successful launch of innovations, for example under its flagship brand Persil, and a very strong performance in its Home Care business. Beauty Care reported a negative organic sales development. This was mainly due to its retail business, especially our businesses in Western Europe and Asia. In contrast, the Hair Salon business continued to deliver good growth momentum.

In total, Henkel Group sales in 2019 amounted to 20.1 billion euros. This is an increase of 1.1 percent in nominal terms, while sales were organically stable compared to the prior year.

At the beginning of 2019, we announced that we will increase growth investments by around 300 million euros annually from 2019 onward to strengthen our brands, technologies and innovations as well as to accelerate the digital transformation of Henkel. These increased expenditures impacted, however, the outlook for our earnings and EBIT margin for 2019.

In the course of the year, we gradually stepped up our investments in innovation and marketing as well as in digitalization across the company. Thanks to our continued focus on cost management, higher efficiency of our processes and the adaptation of structures, we were able to partially mitigate the impact on earnings and profitability.

We also continued to invest in the expansion and upgrading of manufacturing sites and innovation centers. In addition, we further strengthened our different businesses through targeted acquisitions and partnerships with a total volume of more than 500 million euros.

For the full year, adjusted¹ earnings before interest and taxes (EBIT) decreased by 7.9 percent to 3.2 billion euros. Adjusted¹ return on sales (EBIT margin) was at 16 percent compared to 17.6 percent in the prior year. Adjusted¹ earnings per preferred share (EPS) were at 5.43 euros. This is a decrease of 9.7 percent or 10.1 percent at constant exchange rates. Free cash flow climbed to a new high of 2.5 billion euros compared to 1.9 billion euros in the prior year. Our net financial position further improved to –2.0 billion euros compared to –2.9 billion in 2018.

At the end of 2019, we published our outlook for 2020. We announced that we continue to expect a challenging market environment, particularly with regard to global industrial demand, and that we will further increase our growth investments.

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

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Mainly as a consequence of an overall mixed business performance in 2019 and our outlook for 2020, Henkel preferred shares closed the year 3.4 percent below the prior-year level. In comparison, the DAX over the same period rose by 25.5 percent.

At our Annual General Meeting on April 20, 2020, we will propose to our shareholders a stable dividend payment of 1.85 euros per preferred share and of 1.83 euros per ordinary share, well within the range of our increased dividend payout ratio of 30 to 40 percent.

I would like to take this opportunity to thank all Henkel employees around the world for their strong commitment, relentless efforts and dedication in a challenging environment.

We know that they make the difference in highly competitive and volatile markets. To succeed, we need a strong culture, shared values and a clear framework for how we collaborate as one team. For this reason, we introduced new Leadership Commitments to all our employees globally in 2019. These Commitments will further strengthen customer focus, entrepreneurial spirit, teamwork as well as people development across all levels of our company.

Addressing global challenges

For us at Henkel, sustainability has been at the core of everything we do for decades. Our commitment to leadership in sustainability is part of our corporate culture and values. Our employees worldwide have been trained as Sustainability Ambassadors over the past years. They pioneer more sustainable ways of doing business, demonstrate their commitment toward our customers and actively engage in their communities.

Driving sustainability is not limited to our own operations. We also pursue continuous progress in sustainability along the entire value chain – from our sourcing to production and logistics up to the use phase by customers and consumers and, finally, recycling.

In 2019, we made further progress in sustainability and continued to improve our resource efficiency. Compared to the base year 2010, we have become 56 percent more efficient in how we use energy, water and other precious resources in relation to the value we create with our products.

In the course of the year, two topics moved to the center of the public debate: How can we protect our climate, and how do we avoid plastic waste, especially in our oceans? Addressing these global challenges is an integral part of our sustainability strategy – with ambitious goals, concrete actions and transparent reporting on our progress. We strive to become a climate-positive company by 2040 and, as a first step, to reduce the carbon footprint of our production by 75 percent by 2030. Regarding packaging, we focus on using sustainable materials, developing smart packaging solutions, and establishing a circular economy. By 2025, we want all packaging in our consumer businesses to be recyclable or reusable.

You will find more details and concrete examples in our extensive Sustainability Report, which is published online at the same time as this Annual Report.

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To be very clear: The overall development of our company – as reflected in our financial results and our share price performance – is not in line with our ambitions. We understand that you, our shareholders, expect that we take concrete action to improve our business performance.

We know we can do better. And we will do better. Together, with my colleagues on the Management Board and everyone at Henkel, we will do what it takes to reinvigorate sustainable growth, drive improved results and deliver superior performance.

To achieve this, we need to take an unbiased look at our strategic priorities, our implementation and the results we have delivered to date – also in comparison to our competition. I am sure that we have to constantly challenge our convictions, rethink our approaches and evaluate new ways to shape our business for long-term success.

As we currently go through this process to evolve our strategic framework for the coming years, I am convinced that we have a rock-solid foundation and strong assets to shape our future: our brands and technologies, our global presence and leading market positions as well as our healthy balance sheet. But what really makes the difference is having the right strategy, the right team and the right culture.

Committed to creating sustainable value

On behalf of the Management Board, I would like to thank our supervisory bodies for their support as well as their valuable advice over the last year. On a personal note, I am deeply grateful for the trust they have put in me through the appointment as Chairman of the Management Board. I would also like to take this opportunity to thank my predecessor as Chairman of the Management Board, Hans Van Bylen, for 35 years of dedicated service to our company.

We would also like to thank our customers and consumers as well as our business partners around the world for their trust in our company, our brands and technologies.

In particular, I would like to express our gratitude to you, our shareholders, for your continued confidence in our company and our future also in challenging times.

At Henkel, we are fully committed to creating sustainable value for you and all our stakeholders in 2020 and in the years to come. This is our purpose guiding us in everything we do.

Düsseldorf, January 30, 2020



Carsten Knobel
Chairman of the Management Board

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“We are preparing for new challenges and will resolutely tackle the changes they bring.”

DR. SIMONE BAGEL-TRAH**CHAIRWOMAN OF THE SHAREHOLDERS’ COMMITTEE
AND THE SUPERVISORY BOARD**

Dear Shareholders and Friends of the Company,

In the past year, Henkel's business performance was affected by an increasingly difficult market environment. Not only did industrial demand decline noticeably overall, while uncertainty about the further development of the economy as a whole persisted; price and promotional pressure in the markets for consumer goods also continued unabated. In spite of these difficult conditions, sales in fiscal 2019 again topped the 20 billion euros mark. We also launched numerous initiatives to further strengthen the ability of our businesses to compete.

On behalf of the Supervisory Board, I would like to thank all employees at Henkel for their dedicated commitment over the past year. My thanks are equally due to the members of the Management Board who have steered the company through a difficult market environment. I am also grateful to our employees' representatives and the members of the works council for their unwavering, constructive support in growing Henkel.

To you, our shareholders, I extend my special thanks for your continued confidence in our company, its management and employees, and our brands and technologies over the past year.

Ongoing dialog with the Management Board

We continued to diligently discharge our Supervisory Board duties in fiscal 2019 in accordance with the legal statutes, Articles of Association and rules of procedure governing our actions. We consistently monitored the work of the Management Board, advising and supporting it in its stewardship and in the strategic development of the corporation, and discussing with it business matters of major importance. In doing so, we were able to ascertain that the Management Board's performance of its duties was legally compliant, fit for purpose, and proper at all times.

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The Management Board and Supervisory Board continued to cooperate in 2019 through extensive dialog founded on mutual trust and confidence. The Management Board kept us regularly and extensively informed of all major issues affecting the corporation's business and our Group companies with prompt written and oral reports. Specifically, the Management Board reported on the business situation, operational development, business policy, profitability issues, our short-term and long-term corporate, financial and personnel planning, as well as capital expenditures and organizational measures. We also discussed the risk situation and dealt with compliance issues. Financial reports focused on the sales and profits of the Henkel Group as a whole, with further analysis by business unit and region. All members of the Supervisory Board and the Audit Committee consistently had sufficient opportunity to critically review and address the issues raised by each of these reports and explanations, and to provide their individual guidance.

Outside of Supervisory Board meetings, the Chairman of the Audit Committee and I, as Chairwoman of the Supervisory Board, remained in regular contact with individual members of the Management Board or with the Management Board as a whole. This procedure ensured that we were constantly aware of current business developments and significant events. The other members were informed of major issues no later than by the next Supervisory Board or committee meeting.

There were no indications of conflicts of interest involving Management Board or Supervisory Board members that might have required immediate disclosure to the Supervisory Board and reporting to the Annual General Meeting.

Supervisory Board meetings

The Supervisory Board held one extraordinary meeting in the form of a telephone conference in the year under review. Both the Supervisory Board and the Audit Committee each held four regular meetings in the reporting year. Attendance at the meetings of the Supervisory Board and the Audit Committee was

97 percent. For details of individual Supervisory Board members' attendance at meetings, please refer to the remuneration report. No member of the Supervisory Board attended just half or less of the Supervisory Board meetings or relevant committee meetings.

In each of our meetings, we discussed the reports submitted by the Management Board, conferring with it on the development of the corporation and on strategic issues. We also discussed the overall economic situation and Henkel's business performance.

As already mentioned in our last Annual Report, we discussed our balance sheet and financial planning for fiscal 2019 in detail in a telephone conference on January 18, 2019.

In our meeting on February 18, 2019, we discussed the annual and consolidated financial statements for 2018, including the combined management report for Henkel AG & Co. KGaA and the Group, together with the risk report, corporate governance report and separate combined non-financial statement for Henkel AG & Co. KGaA and the Group, which was issued in the form of the sustainability report. We also approved both the 2019 Declaration of Compliance and our proposals for resolution by the 2019 Annual General Meeting. The development and strategy of our retail businesses in Beauty Care and Laundry & Home Care in North America were discussed in detail, as were our innovation priorities and growth initiatives of our business units for 2019.

As well as dealing with market and competitive conditions and the performance of our business units over the first few months of the fiscal year, our meeting on April 8, 2019 focused specifically on the position occupied by our Adhesive Technologies business unit in its competitive environment. We also discussed the development of Henkel CareFlex, our company's nursing insurance scheme.

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Areas of particular focus at our meeting on September 30, 2019 included the performance of our business units over the first eight months of the year and the status of implementation of our strategic priorities. Particular attention was paid to our strategic priority "drive growth" in light of the challenges in the consumer goods business.

Our meeting on December 6, 2019 focused on the expected results for 2019 and our balance sheet and financial planning for fiscal 2020. We also discussed in detail the extensively documented underlying budgets of our business units.

Supervisory Board committees

In order to enable us to efficiently comply with the duties incumbent upon us according to legal statute and our Articles of Association, we have established an Audit Committee and a Nominations Committee. Prof. Dr. Theo Siegert, who chaired the Audit Committee in the year under review, complies with the statutory requirements of impartiality and expertise in the fields of accounting or auditing and brings experience in the application of accounting principles and internal control procedures. For more details on the responsibilities and composition of the committees, please refer to the corporate governance statement (on pages 30 to 46 of this Annual Report) and the membership lists on page 246 of this Annual Report.

Committee activities

Following the appointment of the external auditor by the 2019 Annual General Meeting, it was mandated by the Audit Committee to audit the annual financial statements and the consolidated financial statements, including the combined management report for Henkel AG & Co. KGaA and the Group, and to review the preparation and content of the interim financial reports for 2019. The audit fee and focus areas of the audit were also established. Agreement was reached that the auditor will notify the Supervisory Board immediately of any findings or incidents discovered or occurring during the audit that are material to the performance of the Supervisory Board's duties;

a cap on the provision of non-audit-related services as permitted in the relevant EU regulations was specified. The Audit Committee again obtained the necessary validation of auditor independence for the performance of these tasks. The auditor has informed the Audit Committee that there are no circumstances that might give rise to a conflict of interest in the execution of its duties. The Audit Committee also engaged the external auditor to review the content of the separate, combined non-financial statement for Henkel AG & Co. KGaA and the Group, which is compiled as a separate non-financial report and made available in the public domain through publication on our website.

The Audit Committee held four meetings during the year under review. The Chairman of the Audit Committee also remained in regular contact with the auditor outside of the meetings. The meetings and resolutions were prepared through the provision of reports and other information by the Management Board. The heads of the relevant Group functions also reported on individual agenda items and were available to answer questions. The Chair of the Committee reported promptly and in full to the plenary Supervisory Board on the content and results of each of the Committee meetings.

The company and Group accounts, including the interim financial reports (quarterly statements and financial report for the half year) were scrutinized at all Audit Committee meetings and duly discussed with the Management Board. The three meetings at which we discussed and approved the interim financial reports were attended by the auditor. The latter reported on the results of the relevant review activities and on the main issues and occurrences relevant to the work of the Audit Committee. There were no objections raised in response to these reports.

The Audit Committee also focused in great detail on the accounting process and the efficacy and further development of the Group-wide internal control and risk management

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systems. The efficiency of the risk management system was reviewed, based on the risk reports of previous years. The report given by the General Counsel & Chief Compliance Officer on material legal disputes and compliance within the Group was also discussed, as was the status report submitted by Internal Audit: The audit plan submitted by Internal Audit focusing on audits of the functional reliability and effectiveness of the internal control system and the compliance organization was approved. The Audit Committee likewise discussed treasury risks, their management, and the EMIR mandatory audit pursuant to Section 32 of the Securities Trading Act [WpHG]. It also monitored the provision of non-audit-related services by the auditor and adherence to the cap specified for same.

As one particular area of focus, the Audit Committee commissioned an audit per German audit standard IDW PS 980 of Henkel's data protection management system to examine compliance with the EU General Data Protection Regulation. KPMG certified without qualification that the processes are appropriate and effective.

A further key item for discussion was the mandatory rotation of auditors, which required engagement of a different auditor to conduct the audit of the financial statements from fiscal 2020 onward. In a multi-stage selection process, an assessment of potential candidates was performed on the basis of the Audit Committee's definition and weighting of evaluation criteria. This selection process commenced back in 2017 with a bidding procedure and concluded in the Audit Committee meeting on November 6, 2019, with a final recommendation of two candidates to the Supervisory Board, with indication of which candidate was preferred. The Audit Committee made sure the candidates possessed the requisite independence.

At its meeting on March 2, 2020, attended by the auditor, the Audit Committee discussed the annual and consolidated financial statements, together with the combined management report for Henkel AG & Co. KGaA and the Group, and also the separate, combined non-financial report for Henkel AG & Co. KGaA and the Group for fiscal 2019, as well as the audit reports and auditor's notes, the associated proposal for appropriation of profit, and the risk report, and prepared the corresponding resolutions for the Supervisory Board. As in previous years, other members of the Supervisory Board took part as guests in this specifically accounting-related meeting of the Audit Committee.

The Nominations Committee submitted a recommendation regarding the election of new shareholder representatives in preparation for the Supervisory Board's proposals for resolution by the Annual General Meeting 2020.

Efficiency audit

At regular intervals, the Supervisory Board and the Audit Committee hold an internal review to determine the efficiency with which they carry out their duties. A comprehensive, company-specific checklist forms the basis for the audit and covers important aspects – such as meeting preparation and procedure, the scope and content of documents and information particularly with respect to financial reports, compliance and auditing, as well as financial control and risk management. Such a survey took place in the reporting year. The findings and assessments were discussed in detail at the meetings of the Audit Committee on March 2, 2020 and of the Supervisory Board on March 3, 2020. Corporate governance issues and suggestions for improvement were also examined. The efficiency with which the Supervisory Board and Audit Committee carry out their duties, and the required independence of their members, were duly confirmed.

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The Supervisory Board again dealt with questions of corporate governance in the reporting year. Our meeting on December 6, 2019 focused in particular on reviewing and updating our objectives with regard to Supervisory Board composition to reflect the government commission's amendments to the German Corporate Governance Code (GCGC). Details of this and of Henkel's corporate governance can be found in the corporate governance statement (pages 30 to 46 of this Annual Report), with which we duly acquiesce.

At our meeting on March 3, 2020, we discussed and approved the joint declaration of compliance for 2020 to be submitted by the Management Board, Shareholders' Committee and Supervisory Board, as specified in the German Corporate Governance Code. The full wording of the current and previous declarations of compliance can be found on the company website.

Annual and consolidated financial statements / Audit

In its capacity as auditor appointed for 2019 by the Annual General Meeting, KPMG examined the annual financial statements prepared by the Management Board, and the consolidated financial statements, together with the consolidated management report, which has been combined with the management report for Henkel AG & Co. KGaA for fiscal 2019. The annual financial statements and the combined management report were prepared in accordance with German statutory provisions. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU, and in accordance with the supplementary German statutory provisions pursuant to Section 315e (1) German Commercial Code [HGB]. The consolidated financial statements in their present form exempt us from the requirement to prepare consolidated financial statements in accordance with German law.

KPMG conducted its audits in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany [Institut der Wirtschaftsprüfer, IDW]. Unqualified audit opinions were issued for the annual and the consolidated financial statements, and also for the combined management report.

KPMG also reviewed the separate, combined non-financial statement for Henkel AG & Co. KGaA and the Group for fiscal 2019 as compiled by the Management Board to ensure its content included the disclosures required by law. The review was based on the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" as published by the International Auditing and Assurance Standards Board (IAASB) for the purpose of obtaining limited assurance. Based on its review and the evidence obtained, the auditor is not aware of any circumstances that might prompt it to believe that the disclosures in the separate, combined non-financial report for Henkel AG & Co. KGaA and the Group for fiscal 2019 have not been prepared in compliance with all material aspects of commercial law provisions.

The annual financial statements, consolidated financial statements, combined management report, and separate, combined non-financial report for fiscal 2019 were presented in good time to all members of the Supervisory Board, together with the corresponding audit reports and relevant auditor's notes and the recommendations by the Management Board for the appropriation of the profit made by Henkel AG & Co. KGaA. We examined these documents and discussed them at our meeting on March 3, 2020, in the presence of the auditor, which reported on its main audit findings. We received and approved the audit reports. The Chairman of the Audit Committee provided the plenary session of the Supervisory Board

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with a detailed account of the treatment of the annual financial statements, the consolidated financial statements, the combined management report and the separate, combined non-financial report by the Audit Committee. Having received the final results of the review conducted by the Audit Committee and concluded our own examination, we see no reason for objection to the aforementioned documents. We confirm the results of KPMG's audits. The assessment by the Management Board of the position of the company and the Group coincides with our own appraisal. At our meeting on March 3, 2020, we concurred with the recommendations of the Audit Committee and therefore approved the annual financial statements, the consolidated financial statements, the combined management report and the separate, combined non-financial report as prepared by the Management Board.

Additionally, we discussed and approved the proposal by the Management Board to pay out of the unappropriated profit of Henkel AG & Co. KGaA a dividend of 1.83 euros per ordinary share and of 1.85 euros per preferred share, and to carry the remainder and the amount attributable to the treasury shares held by the corporation at the time of the Annual General Meeting forward to the following year. This proposal takes into account the financial and earnings position of the corporation, its medium-term financial and investment planning, and the interests of our shareholders.

We also approved our proposals for resolution at the Annual General Meeting at our meetings on December 6, 2019 and March 3, 2020. Following the recommendation of the Audit Committee, the Supervisory Board proposes the engagement of PricewaterhouseCoopers GmbH Wirtschaftsprüfungs-gesellschaft, Düsseldorf, to audit the annual and consolidated financial statements and to review the half-year financial report for fiscal 2020.

Pursuant to Art. 16 (2) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of April 16, 2014 on specific requirements regarding the statutory audit of public-interest entities and on repealing Commission Decision 2005/909 / EC (EU Audit Regulation), the Audit Committee recommended PricewaterhouseCoopers GmbH Wirtschaftsprüfungs-gesellschaft, Düsseldorf, and Deloitte GmbH Wirtschaftsprüfungs-gesellschaft, Frankfurt am Main, to the Supervisory Board for performance of the aforementioned audit services, indicating its preference for PricewaterhouseCoopers GmbH Wirtschaftsprüfungs-gesellschaft, Düsseldorf.

Neither the recommendation by the Audit Committee to the Supervisory Board nor the Supervisory Board's proposal were unduly influenced by any third party. Equally, no rules as defined in Art. 16 (6) EU Audit Regulation restricted the choice of auditors.

Risk management

Risk management issues were examined by both the Audit Committee and the plenary Supervisory Board, with emphasis on the risk management system in place at Henkel and any major individual risks of which we needed to be notified; there were no identifiable risks that might jeopardize the continued existence of the corporation as a going concern. The structure and function of the risk early warning system were also integral to the audit performed by KPMG, which found no cause for reservation. It is also our considered opinion that the risk management system corresponds to the statutory requirements and is fit for the purpose of early identification of developments that could endanger the continuation of the corporation as a going concern.

The Company[Fiscal 2019 at a glance](#)[Foreword](#)**Report of the Supervisory Board**[Our Management Board](#)[Shares and bonds](#)[Corporate governance](#)[Combined management report](#)[Consolidated financial statements](#)[Further information](#)**Changes in the Supervisory Board and Management Board**

There were no changes in the Supervisory Board in 2019.

As already reported last year, Kathrin Menges left the Management Board by mutual agreement at the end of April 8, 2019. She was replaced by Sylvie Nicol, effective April 9, 2019, as Management Board member responsible for Human Resources (HR) and Infrastructure Services.

The appointment of Hans Van Bylen as Chairman and member of the Management Board was terminated by mutual agreement, effective December 31, 2019. After around 35 years with the company, of which he spent around 15 years on the Management Board, four of them as Chair, Hans Van Bylen was not available for another term of office for personal reasons. Under Hans Van Bylen's leadership, all business units were further strengthened through acquisitions and partnerships. I would like to thank Hans Van Bylen on behalf of all our corporate bodies for his major course-setting influence during his time as Chairman of the Management Board and for his commitment to our company over those 35 years.

Carsten Knobel was appointed new Chairman of the Management Board, effective January 1, 2020. I am delighted that we have been able to appoint Carsten Knobel from the ranks of our Management Board as our successor in the role of Chairman of the Management Board. I am confident his leadership will help to drive the sustained, successful growth of Henkel. Carsten Knobel began his career at Henkel in 1995 as assistant to the Management Board member responsible for research and development. He then moved to the Beauty Care business unit where he occupied various positions with increasing responsibility in financial control, M&A and day-to-day operations. Having headed up the Group strategy and financial control functions and assumed the role of Financial Director for the Beauty Care business unit, he was appointed Chief Financial Officer in 2012.

Marco Swoboda was appointed to succeed Carsten Knobel as Chief Financial Officer, also effective January 1, 2020. Marco Swoboda began his career at Henkel back in 1997. After occupying various managerial positions in financial control, including at Cognis, he took on the additional responsibility for the Group's corporate planning activities. Between 2011 and 2014, he headed up our financial organization in the Asia-Pacific region, based in Shanghai. He then returned to head office in Düsseldorf to take charge of the global financial organization and responsibility for corporate accounting, subsidiary controlling, and corporate finance/treasury.

We wish both Carsten Knobel and Marco Swoboda every success in their new roles.

The coming year will pose new challenges for both our employees and the company's management. We are preparing for these, and will resolutely tackle the changes they bring. We believe that Henkel is well equipped for the future and are confident that we will be able to move the company further forward.

We thank you for your ongoing trust and support.

Düsseldorf, March 3, 2020

On behalf of the Supervisory Board



Dr. Simone Bagel-Trah
(Chair)

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Our Management Board

**Carsten Knobel**

Chairman of the
Management Board

Born in Marburg / Lahn,
Germany,
on January 11, 1969;
with Henkel since 1995.

**Marco Swoboda**

Executive Vice President
Finance (CFO) / Purchasing /
Integrated Business Solutions

Born in Velbert,
Germany,
on September 23, 1971;
with Henkel since 1997.

**Sylvie Nicol**

Executive Vice President
Human Resources /
Infrastructure Services

Born in Paris,
France,
on February 28, 1973;
with Henkel since 1996.

**Jan-Dirk Auris**

Executive Vice President
Adhesive Technologies

Born in Cologne,
Germany,
on February 1, 1968;
with Henkel since 1984.

**Jens-Martin
Schwärzler**

Executive Vice President
Beauty Care

Born in Ravensburg,
Germany,
on August 23, 1963;
with Henkel since 1992.

**Bruno Piacenza**

Executive Vice President
Laundry & Home Care

Born in Paris,
France,
on December 22, 1965;
with Henkel since 1990.

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Overall, the performance of Henkel's shares declined slightly in 2019. The share price initially fell sharply following the announcement at the start of the reporting year of increased investments in brands, technologies, innovations and digitalization, prompting reduced earnings expectations. As the year progressed, Henkel share performance followed more or less the pattern of the DAX and EURO STOXX® Consumer Goods benchmarks, although only benefiting from the stock market upswing to a limited degree. In an overall challenging market environment and with corporate news – including our revised full-year outlook issued in mid-August – receiving a partially subdued response, Henkel shares were characterized by volatile sideways movement in the course of the year. The publication of our guidance for fiscal 2020 in December caused a further decline in the share price. As a result, Henkel shares closed the year slightly below their prior-year prices.

Henkel preferred shares closed the year at 92.20 euros, down –3.4 percent year on year, while the ordinary shares closed –2.0 percent down at 84.00 euros. Assuming reinvestment of the dividend (before tax deduction) in the shares at the time of payment, the preferred and ordinary shares generated a total return of –1.3 and plus 0.2 percent respectively. As such, Henkel shares significantly underperformed their benchmarks, the DAX and EURO STOXX® Consumer Goods Index. Henkel preferred shares traded at an average premium of 8.2 percent over the ordinary shares in 2019. The trading volume (Xetra) of preferred shares increased in 2019 versus 2018. Each trading day saw an average of around 657,000 preferred shares changing hands (2018: 624,000). The average trading volume of our ordinary shares increased to a greater extent, to around 117,000 shares (2018: 98,000). The market capitalization of our ordinary and preferred shares totaled 38.2 billion euros as of year-end 2019.

Key data on Henkel shares 2015 to 2019

in euros	2015	2016	2017	2018	2019
Earnings per share					
Ordinary share	4.42	4.72	5.79	5.32 ¹	4.79
Preferred share	4.44	4.74	5.81	5.34 ¹	4.81
Share price at year-end²					
Ordinary share	88.62	98.98	100.00	85.75	84.00
Preferred share	103.20	113.25	110.35	95.40	92.20
High for the year²					
Ordinary share	99.26	105.45	113.70	104.70	89.55
Preferred share	115.20	122.90	128.90	115.05	97.02
Low for the year²					
Ordinary share	76.32	77.00	96.15	83.30	76.20
Preferred share	87.75	88.95	110.10	93.46	81.78
Dividend					
Ordinary share	1.45	1.60	1.77	1.83	1.83³
Preferred share	1.47	1.62	1.79	1.85	1.85³
Market capitalization²					
Ordinary shares	in bn euros	23.0	25.7	26.0	22.3
Preferred shares	in bn euros	18.4	20.2	19.6	17.0
					16.4

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).² Closing share prices, Xetra trading system.³ Proposal to shareholders for the Annual General Meeting on April 20, 2020.

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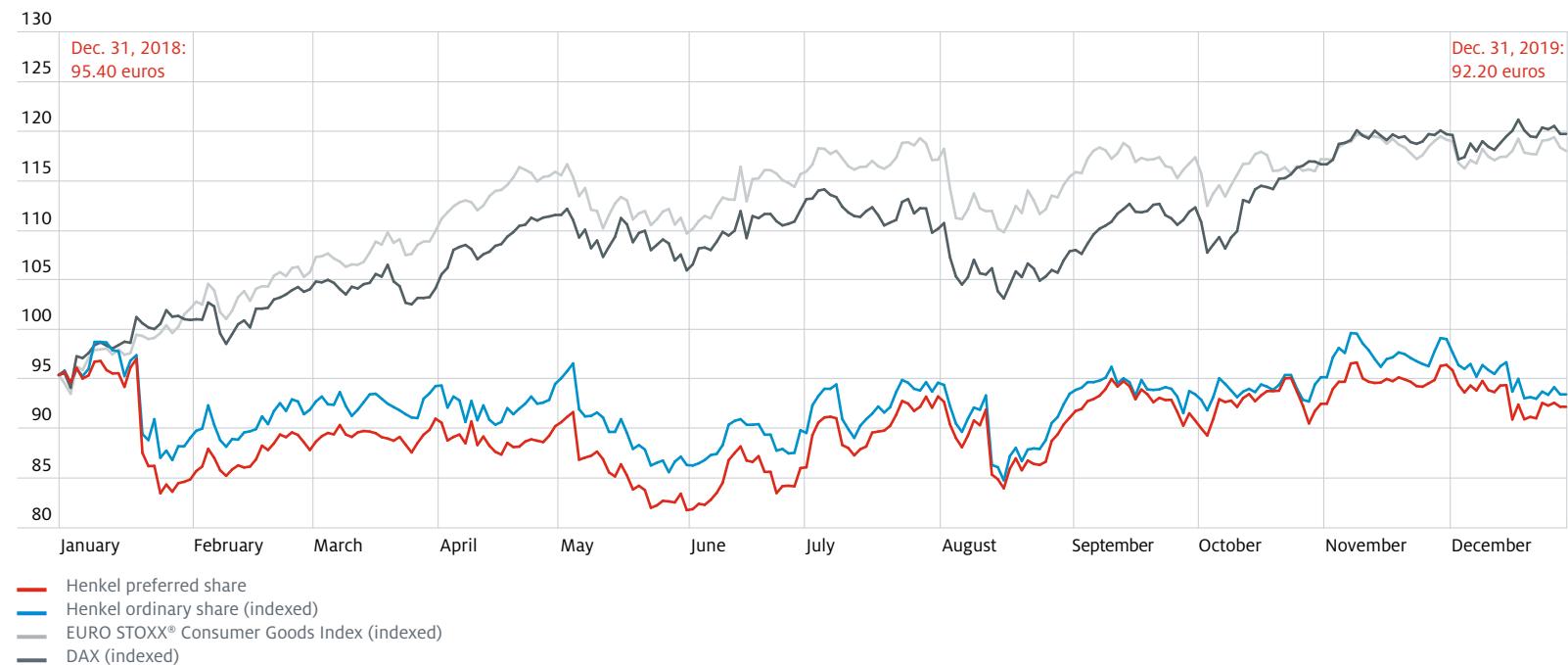
Henkel shares have proven to be a good investment for long-term investors. Over the last five and ten years, the Henkel preferred share has shown an average yield of 2.2 percent and 11.4 percent per year respectively (assuming reinvestment of the dividend before tax deduction). In the same periods, the DAX posted an average annual return of 5.8 percent and 8.3 percent respectively. Shareholders who invested the

equivalent of 1,000 euros when Henkel preferred shares were issued in 1985, and reinvested the dividends received (before tax deduction) in the stock, had a portfolio value of 32,607 euros at the end of 2019. This represents an increase in value of 3,161 percent or an average yield of 10.7 percent per year. Over the same period, the DAX provided an annual return of 7.4 percent.

Performance of Henkel shares versus market January through December 2019

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in euros



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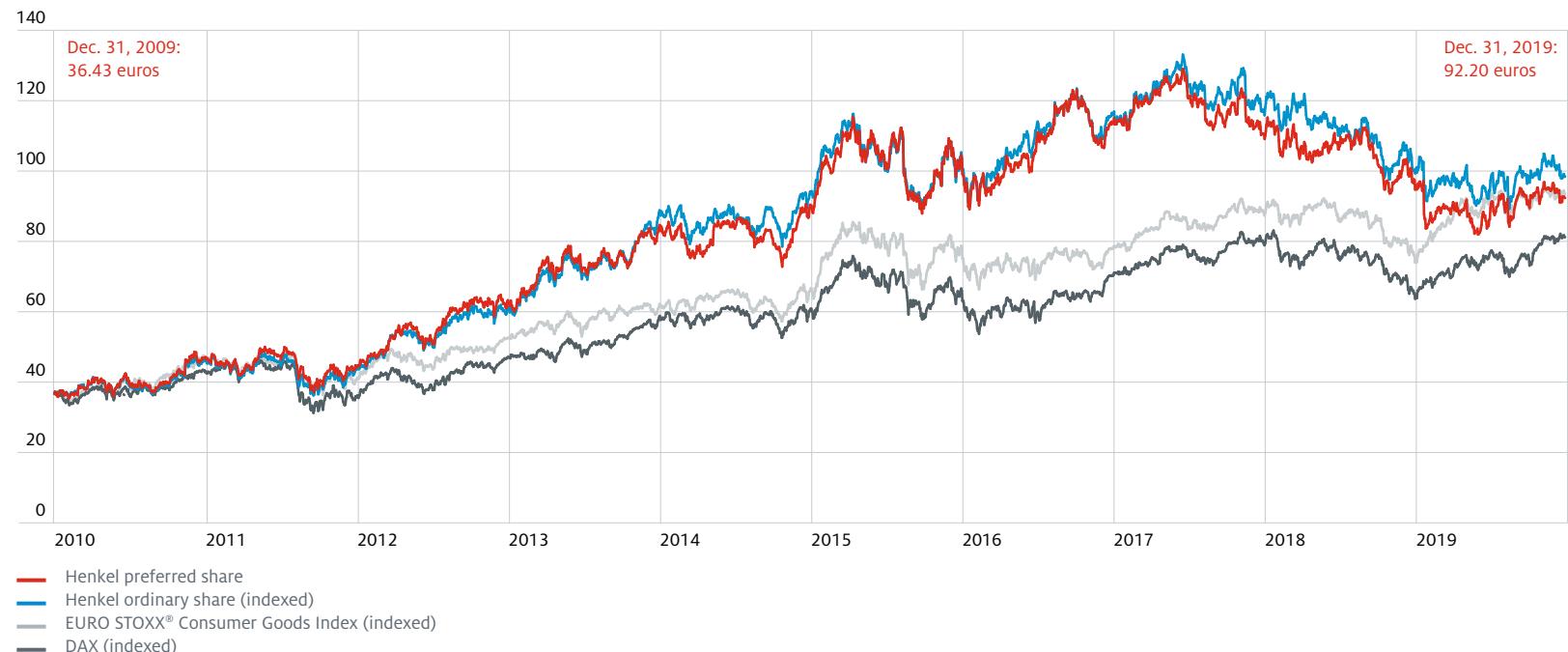
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Performance of Henkel shares versus market
2010 through 2019

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in euros



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Henkel represented in all major indices

Henkel shares are traded on the Frankfurt Stock Exchange, predominantly on the Xetra electronic trading platform. Henkel is also listed on all regional stock exchanges in Germany. In the USA, investors are able to invest in Henkel preferred and ordinary shares by way of stock ownership certificates obtained through the Sponsored Level I ADR (American Depository Receipt) program. In January 2019, BNY Mellon, which acts as the depositary bank on Henkel's behalf, announced a change in the ratio of shares to ADRs, which has served to significantly enhance the appeal of the program. Since January 15, 2019, one share has been equivalent to four ADRs (previously 1 share = 1 ADR). This change was among the reasons for the significant increase in the number of ADRs outstanding for ordinary and preferred shares to approximately 10.3 million at year-end (2018: 1.7 million).

The international importance of Henkel preferred shares derives not least from their inclusion in many leading indices that serve as important indicators for capital markets and as benchmarks for fund managers. Particularly noteworthy in this respect are the MSCI World, STOXX® Europe 600, and FTSE World Europe indices. Henkel's inclusion in the Dow Jones Titans 30 Personal & Household Goods Index makes it one of the most important corporations in the personal and household

goods sector worldwide. As a DAX stock, Henkel is one of the 30 most significant exchange-listed companies in Germany.

At year-end 2019, Henkel continued to rank 19th in terms of the market capitalization with the preferred shares included in the DAX index and 26th in terms of average trading volume (2018: 25th). Our DAX weighting decreased to 1.53 percent (2018: 1.90 percent).

Once again our advances in sustainable management earned recognition from external experts in 2019. Our performance with respect to non-financial indicators (environmental, social and governance themes) was reflected in regular positive assessments by various national and international rating agencies, from which – among other things – sustainability indices are derived.

Henkel has been represented in the ethics index FTSE4Good since 2001, and in the STOXX® Global ESG Leaders index family since its launch by Deutsche Börse in 2011. Our inclusion in the Ethibel Pioneer Investment Register and the sustainability indices Euronext Vigeo World 120, Europe 120 and Eurozone 120 was also confirmed, as was our membership in the MSCI Global Sustainability Index series. Henkel is, moreover, one of only 50 companies worldwide to be included in the Global Challenges Index.

Share data

	Preferred shares	Ordinary shares
Security code No.	604843	604840
ISIN code	DE0006048432	DE0006048408
Stock exch. symbol	HEN3.ETR	HEN.ETR
Number of shares	178,162,875	259,795,875

ADR data

	Preferred shares	Ordinary shares
CUSIP	42550U208	42550U109
ISIN code	US42550U2087	US42550U1097
ADR symbol	HENOY	HENKY
Ratio	1 share : 4 ADRs	1 share : 4 ADRs

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International shareholder structure

Compared to the ordinary shares, our preferred shares are the significantly more liquid class of Henkel stock. Apart from the treasury shares amounting to 2.07 percent, they are entirely in free float. A large majority are owned by institutional investors whose portfolios are, in most cases, broadly distributed internationally.

According to notices received by the corporation, members of the Henkel family share-pooling agreement own a majority of the ordinary shares amounting to 61.20 percent as of October 12, 2018. We have received no other notices indicating that a shareholder holds more than 3 percent of the voting rights (notifiable ownership). As of December 31, 2019, treasury stock amounted to 3.7 million preferred shares.

Shareholder structure:

Institutional investors holding Henkel shares

Employee share plan

Since 2001, Henkel has offered an employee share plan (ESP). For each euro invested in 2019 by an employee (limited to 4 percent of salary up to a maximum of 4,992 euros per year), Henkel added 33 eurocents. Around 12,500 employees in 58 countries purchased Henkel preferred shares under this program in 2019. At year-end, some 16,000 employees held a total of around 2.5 million shares in the ESP securities accounts, representing 1.4 percent of total preferred shares outstanding. The lock-up period for newly acquired ESP shares is three years.



At November 30, 2019
Source: Nasdaq.

61.20 %

of voting rights are held by members of the Henkel family share-pooling agreement.

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Henkel bonds

In 2019, Henkel successfully placed in the capital market two bonds with a total volume of 750 million British pounds. One bond was issued with a volume of 400 million British pounds and a term of three years and another bond with a volume of 350 million British pounds and a term of seven years. The proceeds were used to redeem some of the Group's commercial paper liabilities.

Issued in 2016, a further bond with a volume of 700 million euros and a term of five years and a 300 million British pound bond with a term of six years remain outstanding. Henkel also placed a 600 million US dollar bond with a term of three years in the eurodollar market in June 2017. Further information can be found on the website:

 www.henkel.com/creditor-relations

Pro-active capital market communication

An active and open information policy ensuring prompt and continuous communication is a major component of the value-based management approach at Henkel. Hence, shareholders, shareholder associations, participants in the capital market, financial analysts, the media and the public at large are kept informed of the current situation and major business changes relating to the company. All stakeholders are treated equally in this respect.

Up-to-date information is likewise incorporated in the regular financial reporting undertaken by the company. The dates of the major recurring publications, and also the dates for the press conference on the preceding fiscal year and the Annual General Meeting, are published together with all relevant information on the internet at  www.henkel.com/ir. This also serves as the portal for the live broadcast of

Bond data

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Currency	2016		2017		2019
	EUR	GBP	USD	GBP	GBP
Volume	700 million	300 million	600 million	400 million	350 million
Coupon	0.00% p.a.	0.875% p.a.	2.00% p.a.	1.00% p.a.	1.25% p.a.
Maturity	9/13/2021	9/13/2022	6/12/2020	9/30/2022	9/30/2026
Issue price	100.00%	99.59%	99.78%	100.00%	99.99%
Issue yield	0.00% p.a.	0.95% p.a.	2.08% p.a.	1.00% p.a.	1.25% p.a.
Interest calculation	Act / Act (ICMA)	Act / Act (ICMA)	30 / 360 (ICMA)	Act / Act (ICMA)	Act / Act (ICMA)
Denomination	1,000 EUR	1,000 GBP	2,000 USD	100,000 GBP	100,000 GBP
Sec. code No.	A2BPAX	A2BPAZ	A2E4FR	A2YN22	A2YN23
ISIN	XS1488418960	XS1488419935	XS1626039819	XS2057835717	XS2057835808
Listing	Regulated Market of the Luxembourg Stock Exchange				

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telephone conferences and parts of the Annual General Meeting (AGM). The AGM offers all shareholders the opportunity to obtain extensive information about the company directly.

Shareholders, the media and the general public are provided with regular and comprehensive information through press releases and at events, while occurrences with the potential to materially affect the price of Henkel shares are communicated in the form of ad hoc announcements. The company's advancements and targets in relation to the environment, safety, health and social responsibility continue to be published annually in our Sustainability Report.

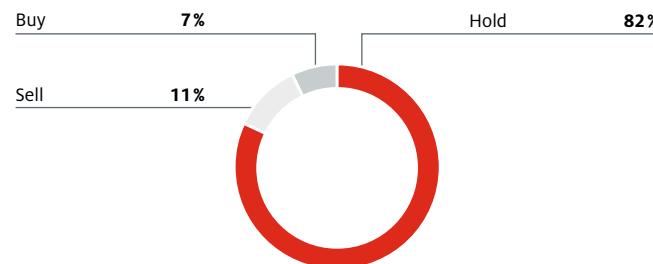
Henkel is covered by numerous financial analysts at an international level. More than 25 equity analysts regularly publish reports and commentaries on the current performance of the company.

Henkel places great importance on dialog with investors and analysts. At 30 capital market conferences and roadshows held in Europe and North America, institutional investors and financial analysts had an opportunity to engage with representatives of the company and, in many instances, directly with senior management. In total, we exchanged views with more than 700 different institutional investors and financial analysts around the globe in individual or group meetings and telephone conferences.

One highlight of our Investor Relations activities last year was our Investor and Analyst Day for the Adhesive Technologies business unit, held in Düsseldorf on July 2, 2019. Under the banner "Shape. Accelerate. Outperform," the Adhesive Technologies management team presented its strategy, the business performance and digital transformation of the business unit and our responses to the megatrends of mobility, connectivity and sustainability. An interactive tour covering the latest innovations and technologies connected with these key trends of the future was provided under the banner "Discover Henkel Adhesive Technologies."

Analyst recommendations

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At December 31, 2019
Basis: 27 equity analysts.

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Corporate governance at Henkel AG & Co. KGaA

The following takeover-relevant information as required in Sections 289a (1), 315a (1) of the German Commercial Code [HGB] and the corporate governance statement in compliance with Sections 289f, 315d HGB, together with the relevant explanations, form part of the externally audited and certified combined management report for Henkel AG & Co. KGaA and the Group. It should be noted that Section 317 (2) sentence 6 HGB stipulates that the audit of the disclosures pursuant to Sections 289f (2), 315d HGB is limited to the question as to whether the requisite information has been disclosed.

Takeover-relevant information

(Disclosures required per Sections 289a (1), 315a (1) HGB and explanations)

Composition of issued capital / Shareholders' rights

The capital stock of the corporation amounts to 437,958,750 euros. It is divided into a total of 437,958,750 bearer shares (of no par value), with each share representing a nominal proportion of the capital stock of 1 euro. Of this total, 259,795,875 are ordinary shares (total nominal proportion of capital stock: 259,795,875 euros, representing 59.3 percent) and 178,162,875 are preferred shares without voting rights (total nominal proportion of capital stock: 178,162,875 euros, representing 40.7 percent). All shares are fully paid in. Multiple share certificates for shares may be issued. In accordance with Art. 6 (4) of the Articles of Association, there is no right to individual share certificates.

Each ordinary share grants to its holder one vote (Art. 21 (1) of the Articles of Association). The preferred shares grant to their holders all shareholder rights apart from the right to vote (Sections 139 (1) and 140 (1) German Stock Corporation Act [AktG] in conjunction with Art. 6 (1) of the Articles of Association). The preferred shares carry the following preferential right in the distribution of profit (Section 139 (1) AktG in conjunction with Art. 35 (2) of the Articles of Association) unless otherwise resolved by the Annual General Meeting:

- The holders of preferred shares receive a preferred dividend in the amount of 0.04 euros per preferred share. If the profit to be distributed in a fiscal year is insufficient for payment of a preferred dividend of 0.04 euros per preferred share, the arrears are paid without interest from the profit of the following years, with older arrears to be paid in full before more recent arrears and the preferred dividend from the profit of a particular fiscal year paid only after the clearance of all arrears. The holders of ordinary shares then receive a preliminary dividend from the remaining unappropriated profit of 0.02 euros per ordinary share, with the residual amount being distributed to the holders of ordinary and preferred shares in accordance with the proportion of the capital stock attributable to them.
- If the preferred dividend is not paid out either in part or in whole in a year, and the arrears are not paid off in the following year together with the full preferred share dividend for that second year, the holders of preferred shares are accorded voting rights until such arrears are paid (Section 140 (2) AktG). Cancellation or limitation of this preferred dividend requires the consent of the holders of preferred shares (Section 141 (1) AktG).

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The shareholders exercise their rights in the Annual General Meeting as per the relevant statutory provisions (especially Sections 118 ff, 186 AktG) and the corporation's Articles of Association (especially Art. 18 ff). In particular, those holding shares with voting rights may exercise their right to vote either personally, by postal vote, through a legal representative or through a proxyholder nominated by the corporation (Section 134 (3) and (4) AktG in conjunction with Art. 21 (2) and (3) of the Articles of Association) and are also entitled to submit motions on the resolution proposals of management, speak on agenda items, and raise pertinent questions and propose motions (Sections 126 (1) and 131 AktG in conjunction with Art. 23 (2) of the Articles of Association). The ordinary Annual General Meeting usually takes place within the first four months of the fiscal year.

Shareholders whose shares jointly represent at least one twentieth of the capital stock – corresponding to 21,897,938 ordinary and/or preferred shares or a combination of both – may request that a general meeting of shareholders be called. If their proportionate amount of the capital stock jointly reaches 500,000 euros – corresponding to 500,000 ordinary and/or preferred shares or a combination of both – they may request that items be placed on the agenda and published (Section 122 (1) and (2) AktG). In addition, shareholders whose combined share of the capital stock amounts to 100,000 euros or more may, subject to certain conditions, request that a special auditor be appointed by the court to examine certain matters (Section 142 (2) AktG).

Through the use of electronic communications, particularly the internet, the corporation makes it easy for shareholders to participate in the Annual General Meeting. It also enables them to be represented by proxyholders for exercising their voting rights. The reports, documents and information required by law for the Annual General Meeting, including the financial statements and annual reports, are made available on the internet, as are the agenda for the Annual General Meeting and

any countermotions or nominations for election by shareholders that require publication.

Restrictions with respect to voting rights or the transfer of shares

Generally, preferred shares do not convey any voting rights (Sections 139 (1), 140 (1) AktG; please refer to the remarks above for further details). Voting rights attached to treasury shares held by the corporation (Section 71b AktG) and to ordinary shares for which the statutory notification requirement has not been met (Section 44 sentence 1 German Securities Trading Act [WpHG]) may not be exercised. The voting rights attached to ordinary shares are also excluded by law in the cases cited in Section 136 AktG (conflicts of interest concerning ordinary shares held by members of the Management Board, Supervisory Board or Shareholders' Committee).

A share-pooling agreement has been concluded between members of the families of the descendants of company founder Fritz Henkel, pursuant to which the members agree on how to exercise the voting rights conveyed by their relevant ordinary shares in Henkel AG & Co. KGaA and ensure their voting rights are exercised consistently. The agreement also contains restrictions with respect to transfers of the ordinary shares covered (Art. 7 of the Articles of Association).

Henkel preferred shares acquired by employees through the employee share plan, including bonus shares acquired without additional payment, are subject to a company-imposed contractual lock-up period of three years, which begins on the first day of the respective participation period. The shares may not be sold before expiration of this lock-up period. If employee shares are sold during the lock-up period, the bonus shares are forfeited. Henkel preferred shares acquired by employees through the Long Term Incentive (LTI) Plan 2020+ are also subject to a company-imposed contractual lock-up period and may not be sold before expiration of the four-year term of each tranche.

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Contractual agreements also exist with members of the Management Board governing lock-up periods for Henkel preferred shares which they purchase out of their variable annual cash remuneration (for additional information, please see the remuneration report on pages 47 to 74).

Major shareholders

According to notifications received by the corporation, as of October 12, 2018, a total of 61.20 percent of the voting rights are held by members of the Henkel family share-pooling agreement (for additional information on notifiable shareholdings as specified in Section 160 (1) No. 8 AktG, please see the disclosures provided in the notes to the consolidated financial statements under Note 42 on page 240). No other direct or indirect investment in capital stock exceeding 10 percent of the voting rights has been reported to us or is known to us.

Shares with special rights

There are no shares carrying multiple voting rights, preference voting rights, maximum voting rights or other special controlling rights.

Statutory requirements and provisions in the Articles of Association governing the appointment and dismissal of members of the Management Board and amendment of the Articles of Association

Decisions regarding the appointment and dismissal of personally liable partners are taken by the Shareholders' Committee of Henkel AG & Co. KGaA and not by the Annual General Meeting (Art. 26 of the Articles of Association). Henkel Management AG is the sole Personally Liable Partner of the corporation (Art. 8 (1) of the Articles of Association).

The Supervisory Board of Henkel Management AG is responsible for the appointment and dismissal of members of the Management Board of Henkel Management AG (Management

Board). The appointments are for a maximum tenure of five years, although initial appointments tend to be for a period of three years, in accordance with the recommendations of the German Corporate Governance Code (GCGC). A reappointment or extension of tenure is permitted for a maximum period of five years in each case (Section 84 (1) AktG). The Supervisory Board may revoke the appointment as member of the Management Board for good cause or reason, which may, in particular, consist of gross dereliction of management board duties or inability to properly manage the company's affairs (Section 84 (3) AktG). The Supervisory Board exercises due discretion when appointing and revoking appointments.

The Management Board is composed of at least two members in accordance with Art. 7 (1) of the Articles of Association of Henkel Management AG. The Supervisory Board of Henkel Management AG is also responsible for determining the number of members on the Management Board. The Supervisory Board can appoint a member of the Management Board as Chairperson.

Unless otherwise mandated by statute or the Articles of Association, the resolutions of the Annual General Meeting of Henkel AG & Co. KGaA are adopted by simple majority of the votes cast. If a majority of capital is required by statute, resolutions are adopted by simple majority of the voting capital represented (Art. 24 of the Articles of Association). This also applies to changes in the Articles of Association. However, modifications to the object of the corporation require a three-quarters' majority (Section 179 (2) AktG). The Supervisory Board and Shareholders' Committee have the authority to resolve purely formal modifications of and amendments to the Articles of Association (Art. 34 of the Articles of Association). By resolution of the Annual General Meeting, the Supervisory Board is also authorized to amend Art. 5 and 6 of the Articles of Association with respect to each use of the authorized capital and upon expiration of the term of the authorization.

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Authorization of the Management Board to issue or buy back shares

According to Art. 6 (5) of the Articles of Association, there is an authorized capital. The Personally Liable Partner is authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to increase the capital stock of the corporation until April 12, 2020, by up to a nominal total of 43,795,875 euros through the issuance of up to 43,795,875 new preferred shares with no voting rights against cash and/or payment in kind. The authorization may be utilized to the full extent allowed or in one or several installments. The proportion of capital stock represented by shares issued against payment in kind on the basis of this authorization must not exceed a total of 10 percent of the capital stock existing at the time the authorization takes effect.

The Personally Liable Partner is authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to set aside the pre-emptive rights of shareholders in the case of a capital increase against payment in kind, particularly for the purpose of business combinations or the (direct or indirect) acquisition of entities, operations, parts of businesses, equity interests or other assets, including claims against the corporation or companies dependent upon it within the meaning of Section 17 AktG.

If capital is increased against payment in cash, all shareholders are essentially assigned pre-emptive rights. However, these may be set aside in three cases, subject to the approval of the Shareholders' Committee and of the Supervisory Board: (1) in order to dispose of fractional amounts; (2) to grant to creditors/holders of bonds with warrants or conversion rights or a conversion obligation issued by the corporation or one of the companies dependent upon it, pre-emptive rights corresponding to those that would accrue to such creditors/bondholders following exercise of their warrant or conversion rights or on fulfillment of their conversion obligations; or (3) if the issue price

of the new shares is not significantly below the quoted market price at the time of issue price fixing.

In addition, the Personally Liable Partner is authorized to purchase ordinary and/or preferred shares of the corporation at any time until April 7, 2024, up to a maximum proportion of 10 percent of the capital stock existing at the time the resolution is adopted by the Annual General Meeting or at the time the authorization is exercised, whichever is lower. Equity derivatives (put and/or call options and/or forward contracts or a combination of such derivatives) can also be used for such purchase. The volume of all shares purchased using such derivatives must not exceed 5 percent of the capital stock existing at the time the resolution is adopted by the Annual General Meeting or at the time the authorization is exercised, whichever is lower. The term of the derivatives must not exceed 18 months in each case. The choice of derivative must ensure that the purchase of the preferred shares acquired through exercising the derivative is not possible after April 7, 2024.

This authorization to purchase treasury shares can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may, in particular, be transferred to third parties for the purpose of acquiring entities or participating interests in entities. 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. Treasury shares may also be offered for purchase or transferred to employees of the corporation and employees and members of corporate bodies of affiliated companies, in particular in connection with share-based payment schemes, including the Long Term Incentive Plan 2020⁺. The shares may likewise be used to satisfy warrants or conversion rights granted by the corporation. The Personally Liable Partner is also 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 General Meeting.

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Insofar as shares are issued or used to the exclusion of pre-emptive rights, the proportion of capital stock represented by such shares shall not exceed 10 percent.

Concerning the number of treasury shares and their use, please refer to the disclosures provided in the notes to the financial statements of Henkel AG & Co. KGaA, Note 10, on pages 13 and 14, and in the notes to the consolidated financial statements, Note 10, on pages 176 to 178.

Material agreements governed by a change of control, and compensation agreements in the event of a takeover bid

The corporation has not entered into any material agreements governed by a change of control in the wake of a takeover bid, nor any compensation agreements with members of the Management Board or individual employees in the event of a takeover bid.

Corporate governance statement

(Disclosures required under Sections 289f, 315d HGB and explanations)

The following statement takes into account the relevant recommendations of the German Corporate Governance Code (GCGC) and contains all disclosures and explanations required according to Sections 289f and 315d (corporate governance statement) of the German Commercial Code [HGB].

The Management Board, the Shareholders' Committee and the Supervisory Board are committed to ensuring that the management and stewardship of the corporation are conducted in a responsible and transparent manner aligned to achieving a long-term increase in shareholder value. With this in mind, they have pledged allegiance to the following three principles:

- **Value creation** as the foundation of our management approach.
- **Sustainability** achieved through the application of socially responsible management principles.
- **Transparency** supported by an active and open information policy.

The German Corporate Governance Code (GCGC) was introduced in order to promote confidence among investors, customers, the workforce and the general public in the management and oversight of listed German corporations.

The aim of the GCGC is to make the German corporate governance system with its institutional segregation of management (Management Board) and oversight (Supervisory Board) transparent and comprehensible. The Code offers recommendations and suggestions with regard to the management and oversight of German listed companies that are recognized nationally and internationally as standards of good and responsible corporate governance.

How Henkel applies the GCGC

The GCGC is substantially aligned to the statutory provisions applicable to a German joint stock corporation ("Aktiengesellschaft" [AG]). It is applied analogously by Henkel AG & Co. KGaA (the corporation). A description is provided below to enable a better understanding of the principles underlying the management and control structure of the corporation and the special features distinguishing us from an AG which derive from our specific legal form and our Articles of Association. The primary rights of shareholders of Henkel AG & Co. KGaA are likewise explained. The following statement takes into account the relevant recommendations of the GCGC and contains all disclosures and explanations required according to Sections 289f and 315d (corporate governance statement) of the German Commercial Code [HGB].

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Legal form / Special statutory features of Henkel AG & Co. KGaA

Henkel is a "Kommanditgesellschaft auf Aktien" [KGaA]. A KGaA is a company with a legal identity (legal entity) in which at least one partner has unlimited liability with respect to the company's creditors (personally liable partner). The other partners' liability is limited to their shares in the capital stock and they are thus not personally liable for the company's debts (limited partners per Section 278 (1) German Stock Corporation Act [AktG]).

In terms of its legal structure, a KGaA is a mixture of a joint stock corporation [AG] and a limited partnership [KG], with leaning toward stock corporation law. The differences with respect to an AG are primarily as follows: The duties of the executive board of an AG are performed at the corporation by Henkel Management AG – acting through its Management Board – as the sole Personally Liable Partner (Sections 278 (2) and 283 AktG in conjunction with Art. 11 of our Articles of Association). The corporation is the sole shareholder of Henkel Management AG.

The rights and duties of the Supervisory Board of a KGaA are more limited compared to those of the Supervisory Board of an AG. Specifically, the Supervisory Board is not authorized to appoint personally liable partners, preside over the partners' contractual arrangements, impose procedural rules on the Management Board, or rule on business transactions. These duties are performed for the corporation by the Shareholders' Committee and by the Supervisory Board of Henkel Management AG respectively. A KGaA is not required to appoint a director of labor affairs, even if, like Henkel, the company is bound to abide by Germany's Codetermination Act of 1976.

The general meeting of a KGaA essentially has the same rights as the shareholders' meeting of an AG. For example, it votes on the appropriation of earnings, elects members of the Supervisory Board (shareholder representatives), and formally approves the

Supervisory Board's actions. It appoints the auditor and also votes on amendments to the articles of association and measures that change the company's capital, which are implemented by the Management Board. Additionally, as stipulated by the legal form, it also votes on the adoption of the annual financial statements of the company, formally approves the actions of the personally liable partner, and elects and approves the actions of the members of the shareholders' committee as established under the articles of association. Resolutions passed in general meeting require the approval of the personally liable partner where they involve matters which, in the case of a limited partnership, require the authorization of the personally liable partners and also that of the limited partners (Section 285 (2) AktG) or relate to the adoption of annual financial statements (Section 286 (1) AktG).

According to our Articles of Association, in addition to the Supervisory Board, Henkel also has a standing Shareholders' Committee comprising a minimum of five and a maximum of ten members, all of whom are elected by the General Meeting (Art. 27 of the Articles of Association). The Shareholders' Committee is required in particular to perform the following functions (Section 278 (2) AktG in conjunction with Sections 114 and 161 HGB, and Art. 8, 9 and 26 of the Articles of Association):

- It acts in place of the General Meeting in guiding the business activities of the corporation.
- It decides on the appointment and dismissal of the Personally Liable Partners.
- It holds both the power of representation and executive powers over the legal relationships prevailing between the corporation and Henkel Management AG, the Personally Liable Partner.
- It exercises the voting rights of the corporation in the Annual General Meeting of Henkel Management AG, thereby choosing its three-member Supervisory Board which, in turn, appoints and dismisses the members of the Management Board.
- It issues rules of procedure incumbent upon Henkel Management AG.

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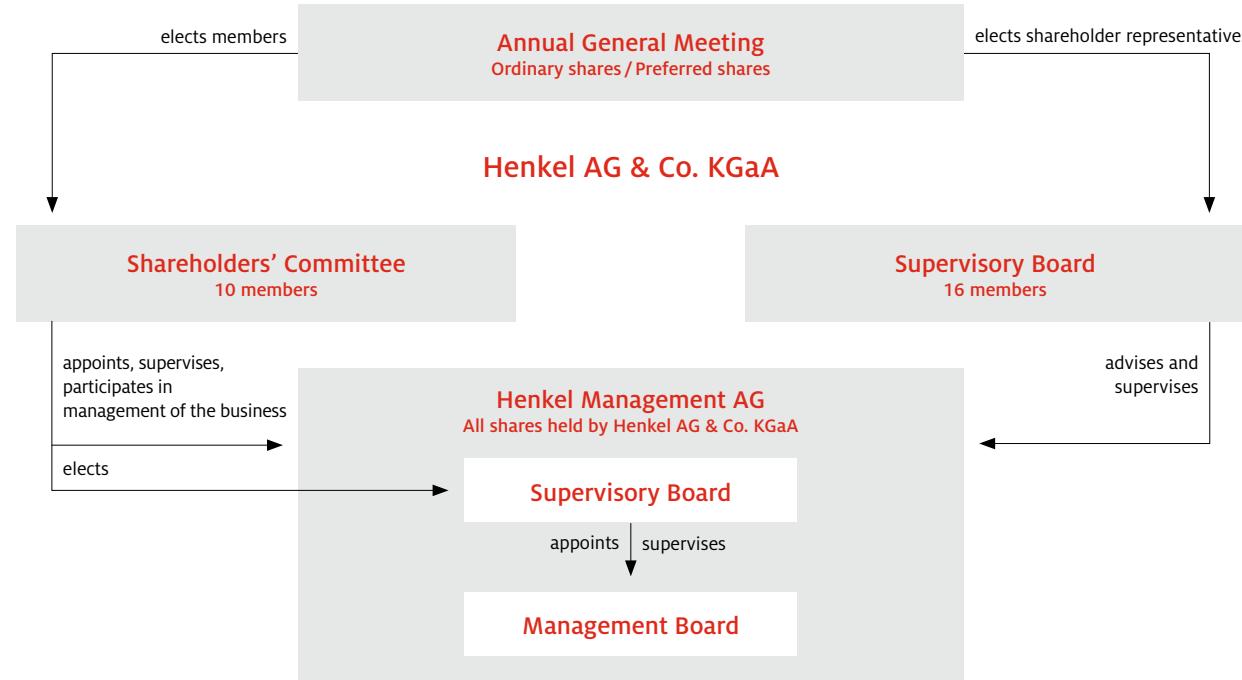
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There were no changes in the Group management and supervisory structure in the year under review. The following chart illustrates the structure of the corporation.

Structure of Henkel AG & Co. KGaA

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Application of the German Corporate Governance Code (GCGC)

Where the GCGC offers recommendations concerning the duties and responsibilities of a Supervisory Board that are performed by the corporation's Shareholders' Committee or the Supervisory Board of Henkel Management AG in compliance with the Articles of Association, those recommendations have been adopted accordingly for the Shareholders' Committee and the Supervisory Board of Henkel Management AG respectively. Such recommendations by the GCGC relate to the composition of the Management Board, succession planning, the length of first terms in office and specification of an age limit, definition of a remuneration system and of total remuneration, specification of the amount of variable remuneration to be paid to the Management Board and of the monetary arrangements upon termination of a contract.

Taking into account the special features arising from its legal form and Articles of Association, the corporation complies with all recommendations ("shall" provisions) of the GCGC as amended on February 7, 2017 (GCGC 2017) and as adopted by the government commission on December 16, 2019 (GCGC 2019), with the following exceptions:

- According to Section 4.2.3 (2) sentence 8 GCGC 2017 and Recommendation G.8 GCGC 2019, any subsequent change in performance targets or the comparison parameters should be precluded in the case of variable remuneration components. Following modifications to the Management Board remuneration in 2019 with regard to the Long Term Incentive (LTI) tranches issued in 2017 and 2018 – of which the three-year performance periods end on December 31, 2019 and December 31, 2020 respectively – the method of performance measurement derogates from this recommendation insofar as the related performance parameters are determined pro rata temporis in accordance with the previously valid conditions for the period up to December 31, 2018, and for the period from January 1, 2019 in accordance with the conditions effective from 2019. This will ensure a cogent

and consistent incentive system of Management Board compensation.

- According to Recommendation G.10 GCGC 2019, the amounts corresponding to the variable components of remuneration awarded to the members of the Management Board should be predominantly invested by them in corporation shares, or be awarded in appropriately share-based form. Long-term variable remuneration awards to Management Board members should be subject to a four-year lock-up period.

In derogation from this recommendation, the portion of the personal investment in Henkel preferred shares (share deferral) to be made under the Short Term Incentive (STI) scheme in relation to the at-target remuneration (target achievement, functional factor 1) amounts to around 25 percent of the total variable remuneration (comprising the STI and the LTI) and around 47 percent of the total long-term remuneration (comprising the share deferral and the Long Term Incentive).

The lock-up period for the Henkel preferred shares expires in each case on December 31 of the fourth year following the remuneration year. This share deferral ensures that the members of the Management Board are required to accumulate a significant share portfolio representing a multiple of their basic remuneration during the rolling lock-up period, and that they participate in the long-term performance of the corporation, whether this be positive or negative. This share portfolio continues to grow due to the fact that shares are sold, if at all, only in exceptional instances once the respective lock-up period has expired.

The performance period for the Long Term Incentive is three years. The LTI is paid in cash once the corporation's annual financial statements for the final year in the performance period have been approved by the Annual General Meeting.

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- In keeping with the objectives of the Management Board remuneration policy, this structure of the STI and LTI not only rewards sustainably profitable growth and thus supports the long-term development of Henkel but also aligns the Management Board remuneration to the interests of the corporation's shareholders.¹
- In derogation from Recommendation D.8 GCGC 2019, individual meeting attendance by Supervisory Board members is disclosed together with individual meeting attendance by the members of the Shareholders' Committee in the remuneration report and not in the report of the Supervisory Board.
- In derogation from Section 4.2.3 GCGC 2017 and Recommendation G.12 GCGC 2019 to refrain from premature payment of variable remuneration components in the event of termination of a Management Board contract, all lock-up periods relating to investments in Henkel preferred shares that are financed by the recipients (share deferral) end if said recipient dies. By the same token, LTI entitlements with regard to outstanding tranches are settled on the basis of budget figures and paid to the heirs.

The suggestion in Section 2.3.3 GCGC 2017 to enable shareholders to follow general meetings online has been adopted to the extent that the Annual General Meeting is broadcast publicly on the internet up to the conclusion of the address by the Chair of the Management Board. The subsequent discussion of the agenda is not broadcast, in keeping with the character of a general meeting as an event that people attend in person.

Notwithstanding the aforementioned exception and the special features arising from its legal form, the corporation has adopted the discretionary suggestions of GCGC 2017 and GCGC 2019 respectively.

In fiscal 2019, Dr. Simone Bagel-Trah again held meetings with investors in selected cases.

The corresponding declarations of compliance together with the reasons for deviations from recommendations can be found on our website: www.henkel.com/ir.

Managers' transactions

In accordance with Article 19 (1) of Regulation (EU) No. 596/2014 of the European Parliament and of the Council on Market Abuse (Market Abuse Regulation), members of the Management Board, the Supervisory Board and the Shareholders' Committee, and parties related to same, are obliged by law to disclose notifiable transactions involving shares in Henkel AG & Co. KGaA or their derivative financial instruments where the value of such transactions by the member, or a party related to the member, attains or exceeds 5,000 euros in a calendar year. The transactions reported to the corporation in the past fiscal year were properly disclosed and can be seen on the website:

www.henkel.com/ir.

Principles of corporate governance / Compliance

The members of the Management Board conduct the corporation's business with the care of a prudent and conscientious business director in accordance with legal requirements, the Articles of Association of Henkel Management AG and the Articles of Association of Henkel AG & Co. KGaA, the rules of procedure governing the actions of the Management Board, the provisions contained in the individual contracts of employment of its members, and also the compliance guidelines and resolutions adopted by and within the Management Board.

Corporate management principles which go beyond the statutory requirements are derived from our purpose, our vision, our mission and our values. For our corporation to be successful, it is essential that we share a common approach to entrepreneurship. We have defined a clear strategic framework with a long-term horizon. It guides us in making the right decisions and helps us to concentrate on our strategic priorities and focus resolutely on our ambition for the future.

¹ For details of Management Board compensation, please refer to the remuneration report starting on page 47.

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We want to create value – for our customers and our consumers, for our people, for our shareholders, as well as for the wider society and communities in which we operate.

Our purpose:

- Creating sustainable value.

Our vision:

- Leading with our innovations, brands and technologies.

Our mission:

- Serving our customers and consumers worldwide as the most trusted partner with leading positions in all relevant markets and categories – as a passionate team united by shared values.

Our values:

- We put our customers and consumers at the center of what we do.
- We value, challenge and reward our people.
- We drive excellent sustainable financial performance.
- We are committed to leadership in sustainability.
- We shape our future with a strong entrepreneurial spirit based on our family business tradition.

The corporate bodies of Henkel and our employees worldwide are guided by this purpose, this vision, this mission, and these values. They reaffirm our ambition to meet the highest ethical standards in everything we do. And they guide our employees in all the day-to-day decisions they make, providing a compass for their conduct and actions.

Henkel is committed to ensuring that all business transactions are conducted in an ethically irreproachable, legal fashion. Consequently, Henkel expects all our employees not only to respect the corporation's internal rules and all relevant laws, but also to avoid conflicts of interest, to protect Henkel's assets and to respect the social values of the countries and cultural

environments in which Henkel does business. The Management Board has therefore issued a series of Group-wide codes and standards with precepts that are binding worldwide. These regulatory instruments are not static, but are periodically reviewed and amended as appropriate, evolving in step with the changing legal and commercial conditions that affect Henkel as a globally active corporation. The Code of Conduct supports our employees in ethical and legal issues. The Leadership Commitments define the principles of management conduct. The Code of Corporate Sustainability describes the principles that drive our sustainable, socially responsible approach to business. This code also enables Henkel to meet the commitments derived from the United Nations Global Compact.

Ensuring compliance with laws and regulations is an integral component of our business processes. Henkel has established a Group-wide compliance organization with locally and regionally responsible compliance officers led by a globally responsible General Counsel & Chief Compliance Officer (CCO). The General Counsel & CCO, supported by the Corporate Compliance Office and the interdisciplinary Compliance & Risk Committee, manages and controls compliance-related activities undertaken at the corporate level, coordinates training courses, oversees fulfillment of both internal and external regulations, and takes appropriate action in the event of compliance violations.

The local and regional compliance officers are responsible for organizing and overseeing the training activities and implementation measures tailored to the specific local and regional requirements. They report to the Corporate Compliance Office. The General Counsel & CCO reports regularly to the Management Board and to the Audit Committee of the Supervisory Board on identified compliance violations.

The issue of compliance is also a permanent item in the target agreements signed by all managerial staff of Henkel. Due to

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their position, it is particularly incumbent on them to set the right example for their subordinates, to effectively communicate the compliance rules and to ensure through the implementation of suitable organizational measures that these are obeyed.

The procedures to be followed in the event of complaints or suspicion of malpractice also constitute an important element of the compliance policy. In addition to our internal reporting system and complaint registration channels, employees and third parties may also, for the purpose of reporting serious violations to the Corporate Compliance Office, anonymously use a compliance hotline operated by an external service provider. The Head of the Corporate Compliance Office is mandated to initiate the necessary follow-up procedures.

Our corporate compliance activities are focused on antitrust law and the fight against corruption. In our Code of Conduct, the corporate guidelines based upon it, and in other publications, the Management Board clearly expresses its rejection of all infringements of the principles of compliance, particularly antitrust violations and corruption. We do not tolerate such violations in any way. For Henkel, bribery, anticompetitive agreements, or any other violations of laws are no way to initiate or conduct business.

A further compliance-relevant area relates to capital market law. Supplementing the legal provisions, internal codes of conduct have been put in place to regulate the treatment of issues and information that have the potential to materially affect share prices. The corporation has an Ad Hoc Committee comprised of representatives from various departments. In order to ensure that potential insider information is handled as required by law, this Committee reviews occurrences for their possible effect on share prices, determining the need to issue reports to the capital markets on an ad hoc basis. The ultimate authority to decide how to handle potential insider information lies with the Management Board. There are also

rules that go beyond the legal requirements, governing the behavior of the members of the Management Board, the Supervisory Board and the Shareholders' Committee, and also employees of the corporation who, due to their function or involvement in projects, have access to potential insider information.

Management and control structure

Management Board

The Management Board is composed of at least two members in accordance with Art. 7 (1) of the Articles of Association of Henkel Management AG. The Supervisory Board of Henkel Management AG is also responsible for determining the number of members on the Management Board; it can appoint a member of the Management Board as Chairperson.

The members of the Management Board are segregated from both the Supervisory Board and the Shareholders' Committee of Henkel AG & Co. KGaA and from the Supervisory Board of Henkel Management AG; no member of the Management Board may also sit on either of the aforementioned Supervisory Boards nor the Shareholders' Committee.

As the executive body of the Group, the Management Board is bound to uphold the interests of the corporation and is responsible for ensuring a sustainable increase in shareholder value. The members of the Management Board are responsible for managing Henkel's business operations in their entirety. The individual Management Board members are assigned, in accordance with a business distribution plan, areas of competence for which they bear lead responsibility. The members of the Management Board cooperate closely as colleagues, informing one another of all major occurrences within their areas of competence and conferring on all actions that may affect several such areas. Further details relating to cooperation and the division of operational responsibilities within the

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Management Board are regulated by the rules of procedure issued by the Supervisory Board of Henkel Management AG.

It is the duty of the Management Board to prepare the annual financial statements of Henkel AG & Co. KGaA, the consolidated financial statements and combined management reports for Henkel AG & Co. KGaA and the Group, and the interim financial reports. The Management Board is responsible for management of the overall business including planning, coordination, allocation of resources, control and risk management. It must also ensure compliance with legal provisions, regulatory requirements and internal company guidelines, and take steps to ensure that Group companies also observe them. To this end, the Management Board has put a comprehensive compliance management system in place that also enables confidential whistleblowing.

The Management Board adopts its resolutions in meetings held at regular intervals or by written procedure. Decisions by the Management Board are taken on the basis of detailed information submitted by the business units and central functions and – to the extent deemed necessary – by external consultants. Wherever possible, Management Board resolutions are adopted unanimously. In the absence of a unanimous vote, the majority decides; in the event of a tie, the Chair of the Management Board has a casting vote. If outvoted, the Chair has a veto right. Exercising the veto right prompts renewed debate of the resolution by the Management Board. If the veto right is exercised again in response to the proposed adoption of a resolution, the matter is forwarded to the Shareholders' Committee for a final decision.

**Supervisory Board and Shareholders' Committee;
(sub)committees****Composition, duties**

The corporation's Supervisory Board is composed of equal numbers of shareholder and employee representatives as specified in the 1976 Codetermination Act, and is made up of 16 members. In keeping with the 1976 Codetermination Act and the relevant voting procedures, the eight employee representatives are elected by the workforce and the eight shareholder representatives by the General Meeting. All members of the Supervisory Board are bound in equal measure to protect the interests of the corporation. Members are appointed for five-year terms unless otherwise specified at election. At the last election of the shareholder representatives by the Annual General Meeting 2016, their term of office was set at four years.

It is the responsibility of the Supervisory Board to advise and supervise the Management Board in the performance of its business management duties. The Supervisory Board regularly discusses business performance and planning with the Management Board. It reviews the annual financial statements of Henkel AG & Co. KGaA and the Group's consolidated financial statements together with the associated combined management reports and the non-financial statement, taking into account the reviews and audit reports submitted by the auditor. It also votes on the proposal of the Management Board regarding the appropriation of profit and submits to the Annual General Meeting a proposal for the appointment of the external auditor.

As a general rule, the Supervisory Board meets four times per year. If deemed necessary, the Management Board does not participate in such meetings. The Supervisory Board reaches its decisions by a simple majority of the votes cast. In the event of a tie, the Chairperson has the casting vote. The Supervisory Board has established an Audit Committee and a Nominations Committee.

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The Audit Committee is made up of three shareholder and three employee representative members of the Supervisory Board. Each member is elected by the Supervisory Board based on nominations of their fellow shareholder or fellow employee representatives on the Board. The Chair of the Audit Committee is elected based on a proposal of the shareholder representative members. As of December 31, 2019, the following were members of the Audit Committee: Prof. Dr. Theo Siegert (Chair), Prof. Dr. Michael Kaschke (Vice Chair) and Dr. Simone Bagel-Trah as shareholder representatives, and Birgit Helten-Kindlein, Edgar Topsch and Michael Vassiliadis as employee representatives. It is a statutory requirement that at least one independent member of the Supervisory Board has expertise in the fields of accounting or auditing. The Chair of the Audit Committee in 2019, Prof. Dr. Theo Siegert, who is not the Chair of the Supervisory Board nor a present or former member of the Management Board, satisfies these requirements. In compliance with Recommendation C.9 GCGC 2019, Prof. Dr. Theo Siegert is, moreover, not dependent on the controlling shareholder in that he is not nor ever was a party to the Henkel family share-pooling agreement.

As a general rule, the Audit Committee meets four times per year. It prepares the proceedings and resolutions of the Supervisory Board relating to the adoption of the annual financial statements and the consolidated financial statements, the review of the non-financial statement and also the auditor appointment proposal to be made to the Annual General Meeting. It issues audit mandates to the auditor and defines the focal areas of the audit, as well as deciding on the fee for the audit and other advisory services provided by the auditor. The Audit Committee specifies a cap on the provision of other advisory services, i.e., non-audit-related services as permitted in the relevant EU regulations, and oversees adherence to same. It also monitors the independence and qualifications of the auditor, requiring the latter to submit a declaration of independence which it then evaluates. Furthermore, the Audit

Committee monitors the accounts and the accounting process and assesses the effectiveness of the Internal Control System, the Risk Management System and the Internal Auditing and Review System. It is likewise involved in compliance issues. The Group's Internal Audit function reports regularly to the Audit Committee. Prior to publication, it discusses the quarterly statements and the financial report for the half year with the Management Board in a meeting that is also attended by the external auditor.

The Nominations Committee comprises the Chairperson of the Supervisory Board and two further shareholder representatives elected by the Supervisory Board based on nominations of the shareholders' representatives. The Chairperson of the Supervisory Board is also Chairperson of the Nominations Committee. The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members to the Supervisory Board (shareholder representatives). As of December 31, 2019, the following were members of the Nominations Committee: Dr. Simone Bagel-Trah (Chair), Dr. Kaspar von Braun and Prof. Dr. Theo Siegert.

According to our Articles of Association, in addition to the Supervisory Board, Henkel also has a standing Shareholders' Committee comprising a minimum of five and a maximum of ten members, all of whom are elected by the Annual General Meeting (Art. 27 of the Articles of Association). Members are appointed for five-year terms unless otherwise specified at election. At the last election by the Annual General Meeting of 2016, the term of office was set at four years. The Shareholders' Committee comprised ten members in the year under review.

As a general rule, the Shareholders' Committee meets six times per year. If deemed necessary, the Management Board does not participate in such meetings. It also holds a joint conference with the Management Board lasting several days. The Share-

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holders' Committee reaches its decisions by a simple majority of the votes cast. It has established Finance and Human Resources subcommittees that likewise meet six times per year, as a general rule. Each subcommittee comprises five of the members of the Shareholders' Committee.

The Finance Subcommittee deals primarily with financial matters, questions of financial strategy, financial position and structure, taxation and accounting policy, as well as risk management within the corporation. It also performs the necessary preparatory work for decisions to be made by the Shareholders' Committee in matters for which decision authority has not been delegated to it. As of December 31, 2019, the following were members of the Finance Subcommittee: Dr. Christoph Henkel (Chair), Stefan Hamelmann (Vice Chair), Prof. Dr. Paul Achleitner, Prof. Dr. Ulrich Lehner and Dr. Dr. Norbert Reithofer.

The Human Resources Subcommittee deals primarily with personnel matters relating to members of the Management Board, with issues pertaining to human resources strategy, and with remuneration. It performs the necessary preparatory work for decisions to be made by the Shareholders' Committee in matters for which decision authority has not been delegated to it. The subcommittee also addresses issues concerned with succession planning and management potential within the individual business units, taking into account relevant diversity aspects. The following are members of the Human Resources Subcommittee: Dr. Simone Bagel-Trah (Chair), Konstantin von Unger (Vice Chair), Johann-Christoph Frey, Jean-François van Boxmeer and Werner Wenning.

Conflicts of interest must be disclosed in an appropriate manner to the Supervisory Board or Shareholders' Committee, particularly those that may arise as the result of a consultancy or committee function performed in the service of customers, suppliers, lenders or other business partners. Members encountering material conflicts of interest that are not of a merely temporary nature are required to resign their mandate.

In an onboarding procedure, newly elected members of the Supervisory Board and Shareholders' Committee are familiarized with our corporate values, applicable codes and standards, the basic organizational structure and strategy of the corporation together with the main initiatives, the corporation's operational performance, and members' rights and obligations, taking into account the special features arising from our legal form and Articles of Association. Some members of the Supervisory Board and of the Shareholders' Committee are or were in past years holders of senior managerial positions in other companies. If and when Henkel pursues business activities with these companies, the same arm's length principles apply as those applicable to transactions with and between unrelated third parties. In our view, such transactions do not affect the impartiality of the members in question.

Activities of the Supervisory Board and Shareholders' Committee in the year under review

For details of the activities of the Supervisory Board and its committees in fiscal 2019, please refer to the Report of the Supervisory Board (pages 11 to 17 of this Annual Report).

The Shareholders' Committee continued to discharge its duties diligently in fiscal 2019 in accordance with the legal statutes and Articles of Association. In compliance with the Articles of Association, the Shareholders' Committee engaged in the management of the corporation and carefully and regularly monitored the work of the Management Board, advising and supporting it in its stewardship and in the strategic development of the corporation. It also discussed and ruled on those transactions that required its approval.

Six scheduled meetings took place in the year under review, together with three extraordinary meetings / telephone conferences and a conference with the Management Board of several days' duration. Likewise, the Human Resources and Finance subcommittees each met six times. Attendance at the meet-

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ings of the Shareholders' Committee and its subcommittees was 93 percent. For details of individual members' attendance at meetings, please refer to the remuneration report (page 74).

At all meetings, the reports submitted by the Management Board were discussed, and the general development of the corporation, the status of acquisitions and divestments, and other matters of strategic importance were analyzed together with the Management Board. The overall economic situation and Henkel's business performance were also discussed. Areas of particular focus included financial reporting, the strategic direction of both the corporation and the business units, overall performance by the business units and in the regions, investments and innovations, sustainability, and the short- and mid-term plans of both the Group and the individual business units.

Business transactions requiring the approval of the Shareholders' Committee were discussed in detail together with the Management Board and appropriate resolutions adopted, some of which required preliminary consultation with the relevant subcommittees. The issues involved focused mainly on strategy and financial planning, major capital expenditures, acquisitions and divestments, fundamental HR issues and Henkel's funding and financing strategy. The Shareholders' Committee and the Human Resources Subcommittee also submitted appropriate recommendations with regard to Management Board matters to the Supervisory Board of Henkel Management AG.

Efficiency audit

Every two years, the Supervisory Board and the Shareholders' Committee hold an internal review to determine the efficiency with which they and their committees/subcommittees carry out their duties. This self-assessment is performed on the basis of an extensive checklist focusing on meeting frequency, duration, preparation and organization, minutes, committee work and information disclosure, reports submitted by the

Management Board, financial control and risk management systems, requests for information, collaboration with the auditor, corporate governance matters and improvement opportunities.

A corresponding efficiency audit performed in the year under review confirmed both the efficiency of the activities of the Supervisory Board and Shareholders' Committee and their respective (sub)committees, and the impartiality of their members.

Interaction between Management Board, Supervisory Board and Shareholders' Committee

The Management Board, Supervisory Board and Shareholders' Committee work in close cooperation for the benefit of the corporation.

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

In keeping with the precepts of good corporate governance, the Management Board informs the Supervisory Board and the Shareholders' Committee regularly, and in a timely and comprehensive fashion, of all relevant issues concerning business policy, corporate planning, profitability, the business development of the corporation and major affiliated companies, and also matters relating to risk exposure and risk management.

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

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Shareholders' Committee and also duly submits to the decision authority of the corporation's Annual General Meeting.

Our Vision and Values, Code of Conduct, Code of Corporate Sustainability and other codes and policies governing our stewardship of the corporation can be found on our website:

 www.henkel.com.

Supervisory Board of Henkel Management AG

The corporation holds all shares in Henkel Management AG. The voting rights to which the corporation is entitled at the general meetings of Henkel Management AG are exercised by the Shareholders' Committee, which therefore also elects the members of the Supervisory Board of Henkel Management AG. Members are appointed for five-year terms unless otherwise specified at election. At the last election by the Annual General Meeting 2016, the term of office was set at four years.

The Supervisory Board of Henkel Management AG consists of three members who are also members of the Shareholders' Committee. At December 31, 2019, the following were members of the Supervisory Board: Dr. Simone Bagel-Trah (Chair), Konstantin von Unger (Vice Chair) and Werner Wenning. Electing certain members to both corporate bodies ensures that the Shareholders' Committee not only appoints Henkel Management AG as the Personally Liable Partner, but also (through the members of the Supervisory Board of Henkel Management AG) appoints its Management Board and therefore the individuals who are responsible for managing the corporation. Effective control of management – i.e. of the Management Board of Henkel Management AG – is therefore also assured:

- The Supervisory Board of Henkel Management AG can oversee and monitor the Management Board in accordance with laws governing joint stock corporations;
- Henkel Management AG as the Personally Liable Partner and therefore (also) its Management Board can also be overseen and monitored

- by the Shareholders' Committee which, in doing so, exercises the powers of the corporation's shareholders, and
- by the Supervisory Board at KGaA level in accordance with laws governing joint stock corporations.

Targets for the proportion of women on the Management Board and in the first two management levels below the Management Board

In accordance with Sections 76 (4) and 111 (5) AktG, targets must be set for the proportion of women on the Management Board and in the first two management levels below the Management Board. If the proportion of women is below 30 percent at the time the targets are set, the targets may not be below the proportion already achieved. Deadlines for achievement of the targets must be established at the same time and must not be longer than five years in each case.

Proportion of women on the Management Board

As part of its responsibility for Management Board composition, the Supervisory Board of Henkel Management AG has established a target, as recommended by the Shareholders' Committee and its Human Resources Subcommittee, for the proportion of women on the Management Board of 17 percent, taking into account the current composition and an appropriate Management Board size for the corporation. This proportion will apply, and the target will be met, in the period through to December 31, 2021.

The proportion of women on the Management Board at December 31, 2019 was 17 percent.

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Proportion of women in the management levels below the Management Board

Based on the current personnel mix, the Management Board has established the following targets for the first two levels of management below the Management Board. These targets are expected to be achieved by December 31, 2021:

- First management level: Proportion of women 25 percent.
- Second management level: Proportion of women 30 percent.

In accordance with the legal requirements, the point of reference for the definition of the management levels was based exclusively on Henkel AG & Co. KGaA and not the Henkel Group – regardless of Henkel's globally aligned management organization. As a result, the figures include only employees of Henkel AG & Co. KGaA with management responsibility who report directly to the Management Board (management level 1) and those who report to management level 1 (management level 2).

Separately from the targets for the first two levels of management below the Management Board of Henkel AG & Co. KGaA – and mindful of our globally aligned management organization – it is our goal to increase our ratio of women at all levels of management at Henkel in the long term. In 2019, we were again able to raise the proportion of women in management worldwide – to 35.7 percent at December 31, 2019.

Statutory gender quota for Supervisory Board composition

Given Henkel's position as a listed corporation subject to Germany's Codetermination Act of 1976, the Supervisory Board of Henkel AG & Co. KGaA must consist of at least 30 percent women and at least 30 percent men (Section 96 (2) AktG).

Throughout the entire year under review, the statutory minimum quota of both women and men was represented among both the shareholder representatives and the employee representatives.

Diversity considerations governing Management Board composition / Succession planning

Notwithstanding the key requirements of qualification, competence and professional excellence for the relevant areas of responsibility on the Management Board, the Supervisory Board of Henkel Management AG has specified the following criteria – after consultation in the Shareholders' Committee and its Human Resources Subcommittee – that must be considered when making Management Board appointments to ensure as broad a spectrum as possible of knowledge, skills and professional experience (diversity) on the Management Board:

- Education/career experience

Overall, the members of the Management Board must demonstrate knowledge, skills and professional experience in the following areas in particular:

- Management/leadership experience: Experience with managing globally operating entities, involvement of employee representative bodies, leading and motivating employees, succession planning.
- Business acumen: Knowledge of/experience in industrial/consumer business areas and key markets in which Henkel operates, including awareness of the social environment, as well as knowledge of/experience in the fields of marketing, selling and distribution, digitalization / eCommerce, research and development, production / engineering and sustainable management.
- Strategic expertise: Ability to develop and implement prospects and strategies for the future.
- Financial expertise: Experience in accounting, auditing financial statements, issues surrounding funding and capital markets.
- Financial control/risk management: Experience in the fields of internal control and risk management systems, as well as internal auditing systems.
- Governance/compliance/ethics: Experience with interaction among corporate bodies (governance) and in compliance with statutory/in-house requirements; modern understanding of corporate ethics and how to implement them.

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- Internationality

The international activities of the corporation in both mature and emerging markets should be appropriately reflected in the composition of the Management Board. Henkel therefore strives to ensure that several members of different nationalities or with international backgrounds (who have spent several years working abroad or supervising foreign business activities, for example) are included on the Management Board.

- Gender

A reasonable proportion of women shall be represented in the Management Board. Henkel therefore strives to ensure that at least one woman is a member of the Management Board.

- Seniority

Change and continuity are two issues that must be taken into reasonable account when composing the Management Board. Henkel therefore aims to include members with different levels of seniority on the Management Board. Irrespective of this requirement, members of the Management Board should generally not be older than 63.

Implementation progress

We believe that these aforementioned requirements were met in full in the reporting period.

Overall, the Management Board, which includes one woman, has the knowledge, skills and professional experience needed to properly and effectively perform its duties. Several members of the Management Board have international business experience with both emerging and mature markets. No individual on the Management Board exceeds the specified maximum age.

Succession planning

Together with the Management Board, the Shareholders' Committee and the Supervisory Board of Henkel Management AG ensure the long-term succession planning with regard to Management Board composition. Although both in-house and

external candidates are considered for future appointment, every effort is made to select candidates from within the organization who have proven their aptitude for such duties.

Long-term succession planning takes account of the corporate strategy and the aforementioned diversity considerations. Key elements of the systematic management development process include:

- Early identification of suitable candidates.
- Systematic development of managers by giving them tasks involving increasing levels of responsibility and in different areas of the corporation, regions and functions, where possible.
- Proven ambition to successfully shape strategy and operations; strong leadership skills.
- Role model in implementing our corporate values.

Each year, the members of the first management level below the Management Board undergo corresponding assessment, during which the issue of potentially taking on Management Board responsibility and measures to secure succession are also discussed. Management potential within the individual business units is also discussed.

Diversity considerations / Objectives governing Supervisory Board composition

Bearing in mind the recommendations of GCGC 2019, and taking into account the specific situation and global reach of the corporation's activities in both industrial and consumer business areas, the Supervisory Board reviewed the objectives governing its composition at its meeting in December 2019, and updated them as described below. When proposing candidates to the Annual General Meeting for both routine re-election and replacement election, the Supervisory Board considers these objectives, whereby the particular regulations of the 1976 Codetermination Act must be observed with regard to the employee representative candidates.

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- Education / Career experience

Overall, the Supervisory Board must demonstrate knowledge, skills and professional experience in the following areas in particular:

- Management/leadership experience: Experience with managing globally operating corporations/companies and with employee management.
- Business acumen: Knowledge of/experience in the fields of research and development, production/engineering, marketing, selling and distribution, digitalization/eCommerce, as well as knowledge of/experience in industrial/consumer business areas, in the key markets in which Henkel operates, and in sustainable management.
- Financial expertise: Experience in the fields of accounting/accounting processes or with auditing financial statements, knowledge of financial instruments and funding strategies.
- Financial control/risk management: Experience in the fields of internal control and risk management systems, as well as internal auditing systems.
- Governance/compliance: Experience with interaction among corporate bodies (governance) and in ensuring compliance with statutory/in-house requirements.
- Impartiality, integrity

To ensure the impartiality of its counseling activities and supervision of the Management Board, the shareholder representatives on the Supervisory Board must include what they believe to be a reasonable number of independent members, bearing in mind the corporation's ownership structure.

According to Recommendations C.6 and C.7 of GCGC 2019, a member of a Supervisory Board is considered independent if they are independent from the corporation and its management board and independent from a controlling shareholder.

More than half the shareholder representatives should be independent from the corporation and the Management Board. Supervisory Board members are considered independent from the corporation and its Management Board if they have no personal or business relationship with the corporation or its Management Board that may cause a material – and not merely temporary – conflict of interest.

Assessing the independence of shareholder representatives from the company and its Management Board requires particular consideration of whether the respective Supervisory Board member or a close family member

- was a member of the company's Management Board in the two years prior to appointment,
- was in the past three years or is a partner of or in the employ of the present or previous external auditors of the corporation,
- receives or has received over the past three years not inconsiderable remuneration of any nature from Henkel AG & Co. KGaA or one of its affiliates (excluding remuneration for Supervisory Board or Shareholders' Committee membership),
- is currently maintaining or has maintained in the year prior to appointment by Henkel AG & Co. KGaA or one of its affiliates a material business relationship – either directly or indirectly – as a partner, shareholder, member of management or in a leading position of the entity maintaining the business relationship (e.g. as customer, supplier, lender or advisor),
- is a close family member of a member of the Management Board or
- has been a member of the Supervisory Board for more than 12 years.

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If one or more of the aforementioned indicators apply and the Supervisory Board member concerned is still considered independent, the reasons for this assessment must be given in the corporate governance statement.

In keeping with the ownership structure and the corporation's tradition as an open family business to which the Henkel family has been committed ever since the company was founded in 1876, possession of a controlling interest or attribution of a controlling interest due to membership in the Henkel family share-pooling agreement is not viewed as a circumstance that creates a substantial and not merely temporary conflict of interest as indicated in the GCGC recommendations. Membership of the Shareholders' Committee or of the Supervisory Board of Henkel Management AG is compatible with Supervisory Board membership. As a rule, however, three, but at least two, of the shareholder representatives on the Supervisory Board or close members of their families should be neither members of the share-pooling agreement nor members of the Shareholders' Committee nor members of the Supervisory Board of Henkel Management AG, and they must be named accordingly in the corporate governance statement.

Moreover, no more than two former members of the Management Board should be elected to the Supervisory Board, nor people

- who – if not members of a management board of a listed company – exercise more than five supervisory board mandates in total for non-Group listed companies or for non-Group companies with similar requirements (chairing a supervisory board counts twice),
- who – if members of a management board of a listed company – exercise more than two supervisory board mandates in total for non-Group listed companies or for non-Group companies with similar requirements, or chair the supervisory board of a non-Group listed company,
- who perform management or advisory tasks for material competitors.

Members of the Supervisory Board should, moreover, be capable of duly upholding Henkel's reputation in the public domain.

- Availability

When proposing new candidates to the Annual General Meeting for election to the Supervisory Board, the Supervisory Board must make sure that the relevant candidates can devote the anticipated time to the task.

- Internationality

The international activities of the corporation should be appropriately reflected in the composition of the Supervisory Board. Henkel therefore strives to ensure that several members with international backgrounds (who have spent several years working abroad or supervising foreign business activities, for example) are included on the Supervisory Board.

- Gender

A reasonable proportion of women shall be appointed to the Supervisory Board. The statutory minimum requirement of 30 percent is deemed to be reasonable. Henkel strives to increase the proportion of women when new or replacement members are elected.

- Age

The Supervisory Board should include representatives from different generations / age groups. Henkel therefore aims to include members from different generations / age groups on the Supervisory Board. Irrespective of the aforementioned, nobody should, as a rule, be proposed to the Annual General Meeting for election to the Supervisory Board who, at the time of the election, has already reached their 70th birthday.

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In addition to the statutory minimum quota, the Supervisory Board believes that these aforementioned requirements were met in full in the reporting period.

Among the 16 members of the Supervisory Board are ten men and six women. Shareholder representatives consist of six men and two women, while the employee representatives consist of four men and four women. This represents an overall ratio on the Supervisory Board of around 62 percent men and 38 percent women.

Overall, the Supervisory Board believes it has the knowledge, skills and professional experience needed to properly and effectively perform its duties. In addition, several shareholder representatives on the Supervisory Board offer international business experience or other international expertise. No shareholder representative exceeded the specified maximum age at the time of their election.

None of the shareholder representatives nor close family members of a shareholder representative is a former Management Board member, or performs board or committee functions or acts as a consultant for major competitors, and none are persons whose business or personal relationship with the corporation or members of the Management Board could give rise to material conflicts of interest that are not of a merely temporary nature. None of the shareholder representatives had been on the Supervisory Board for more than twelve years in the year under review. According to the precepts of the GCGC, therefore, the shareholder representatives are independent from the corporation and the Management Board:

Four of the eight shareholder representatives – Barbara Kux, Timotheus Höttges, Prof. Dr. Michael Kaschke and Prof. Dr. Theo Siegert – are not party to the Henkel family share-pooling agreement; under GCGC 2019, they are therefore also considered independent from the controlling shareholder. Apart from Dr. Simone Bagel-Trah, none of the shareholder representatives in office is a member of the Shareholders' Committee or the Supervisory Board of Henkel Management AG.

Accordingly, the Supervisory Board considers a reasonable number of its members to be independent.

For more details on the composition of the Management Board, Supervisory Board and the Shareholders' Committee or the (sub)committees established by the Supervisory Board and Shareholders' Committee, please refer to pages 245 to 248. Members' vitae can be found on the website: www.henkel.com. Details of the compensation of the Management Board, the Supervisory Board and the Shareholders' Committee can be found in the remuneration report that follows.

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Remuneration report

This remuneration report provides an outline of the objectives, principles and fundamental structure of the compensation system for the Management Board, the Supervisory Board and the Shareholders' Committee of Henkel AG & Co. KGaA, and for Henkel Management AG as the Personally Liable Partner and its own supervisory board; it also explains the level and structure of the remuneration paid.

The report takes into account the recommendations of the German Corporate Governance Code (GCGC) as amended on February 7, 2017 (GCGC 2017) and as adopted by the government commission on December 16, 2019 (GCGC 2019), and contains all disclosures and explanations pursuant to the provisions of the German Commercial Code [HGB] and the appropriate principles of German Accounting Standard No. 17 [DRS 17], and as required by International Financial Reporting Standards (IFRSs). In some parts of the report, the requirements of the German Act implementing the Second Shareholders' Rights Directive [Gesetz zur Umsetzung der zweiten Aktionärsrechtsrichtlinie, ARUG II] have already been taken into account. The remuneration report forms part of the combined management report for Henkel AG & Co. KGaA and the Group, which has been audited by the external auditor; the associated information has not been additionally disclosed in the notes to the consolidated financial statements (Sections 289a (2), 315a (2) HGB).

1. General objectives and principles of the remuneration systems

Henkel is committed to corporate governance that is responsible, transparent and aligned to the sustainable and long-term development of the corporation. We want to create sustainable value – for our customers and consumers, for our people, for our shareholders, as well as for the communities in which we operate.

Accordingly the remuneration system that Henkel has put in place for the Management Board, Supervisory Board and Shareholders' Committee takes account of the relevant duties and responsibilities, and is designed to drive implementation of our corporate strategy and to offer incentives for successful and sustainable business performance over the long term. The following principles play a key role in the definition of the specific relevant remuneration:

General:

- Remuneration and its individual elements must be consistent with regulatory/statutory requirements and the principles of good corporate governance.
- Remuneration must be consistent with market levels, competitive, and commensurate with the size and international nature of the corporation's business, its economic and financial position, its success, and its prospects for the future.

Management Board:

- Total remuneration is aligned to sustainable long-term business performance and corresponding stakeholder targets.
- Remuneration consists of non-performance-related components and a substantial portion of variable, performance-related components.
- A large portion of the variable, performance-related remuneration is tied to future performance spanning several years.
- For the variable, performance-related components of remuneration, challenging financial performance indicators reflecting the corporation's strategy and objectives exist alongside non-financial individual targets. The financial performance indicators are weighted more heavily, and are based on quantitative criteria.
- Reasonable account is taken of the remuneration and employment policy applied to the corporation's staff.
- Individual performance is rewarded appropriately.

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- Overall remuneration is appropriate; reasonable caps on variable components of remuneration and maximum remuneration payable to a Management Board member have been defined.
- The members of the Management Board invest a substantial portion of their remuneration in Henkel shares (Share Ownership Guideline).

Supervisory Board / Shareholders' Committee:

- The remuneration strengthens the impartiality of the members of these corporate bodies.
- The remuneration is appropriate for the relevant duties of the bodies.
- Reasonable account is taken of the roles and functions performed by the relevant members on the respective corporate bodies and their (sub)committees.

2. Remuneration system for members of the Management Board

Regulation, structure and amounts

The legal form of Henkel AG & Co. KGaA as a "Kommanditgesellschaft auf Aktien" with Henkel Management AG as its sole Personally Liable Partner means that, unlike "normal" joint stock corporations, the Supervisory Board of Henkel Management AG is responsible for appointing and dismissing members of the Management Board, the drafting of their contracts, assignment of their business duties, and their remuneration. Regarding Management Board remuneration, the Supervisory Board of Henkel Management AG is responsible, in particular, for:

- Determining and reviewing remuneration policy.
- Specifying the non-performance-related and variable performance-related components of remuneration.
- Defining individual targets each year, and measuring performance with regard to same.

- Determining the extent to which financial targets have been met each year and quantifying annual and multi-year variable, performance-related remuneration.
- Approving the assumption of voluntary duties or supervisory board, advisory board or similar mandates in other companies, as well as other ancillary activities.
- Approving loans and advances.

Corresponding resolutions are adopted by the Supervisory Board of Henkel Management AG, which is comprised of three members of the Shareholders' Committee, after prior consultation in the Shareholders' Committee's Human Resources Subcommittee. If deemed necessary, members of the Management Board do not participate in such consultations and resolutions to avoid conflicts of interest. The Supervisory Board of Henkel Management AG is responsible for engaging external remuneration experts to either develop or modify the remuneration system or to assess whether Management Board remuneration is appropriate. In doing so, it ensures the independence of remuneration experts from both the Management Board and the corporation at large.

The structure and amounts of Management Board remuneration are aligned to the size and international activities of the corporation, its economic and financial position, its performance and future prospects, the normal levels of remuneration encountered in comparable companies, and also the general compensation structure within the corporation. The remuneration paid to Management Board members of companies listed in the Deutscher Aktienindex (DAX 30 share index) substantially represents the external benchmark used to assess whether the remuneration structure is commonplace and whether the target and maximum remuneration levels applied are appropriate. In addition, the Supervisory Board of Henkel Management AG considers the ratio of Management Board remuneration to the compensation paid to senior management (management levels 0 and 1) and to the workforce in Germany, in terms of both total remuneration and progress over time.

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The compensation package is further determined on the basis of the functions, responsibilities and personal performance of the individual officers, and the performance of the Management Board as a whole. The following factors play a key role in measuring individual performance:

- Achievement of the relevant separate targets agreed with each individual.
- The absolute and relative performance of the business unit for which each officer is responsible compared to market/competition performance.
- And their individual contribution to general Henkel objectives.

The variable annual remuneration components have been devised such that they take into account both positive and negative developments. The overall remuneration is designed to be internationally competitive while also providing an incentive for sustainable business development and a sustainable increase in shareholder value in a dynamic environment.

The Supervisory Board of Henkel Management AG regularly reviews the compensation system as well as the appropriateness of the remuneration, based on the aforementioned criteria. The remuneration policy is submitted to the Annual General Meeting of Henkel AG & Co. KGaA for approval, as are any substantial amendments to the remuneration system.

Members of the Management Board receive non-performance-related components and variable, performance-related components consisting of the following three elements: fixed basic remuneration, variable annual cash remuneration (Short Term Incentive, STI), and variable cash remuneration based on the long-term success of the company (Long Term Incentive, LTI). 65 percent of the STI is short-term variable cash remuneration and 35 percent is long-term variable cash remuneration in the form of an investment financed by the recipient in Henkel preferred shares (Share Ownership Guideline, share deferral). Accordingly, the performance-related, long-term, variable components are made up of the share deferral and the LTI. Fringe benefits (other emoluments) are also paid, as are contributions to the company pension scheme. The Supervisory Board of Henkel Management AG has capped the maximum amounts payable both as individual variable components of remuneration and as the total compensation payable in any fiscal year – taking into account the other emoluments and pension contributions.

The Supervisory Board is authorized to apply reasonable caps to the variable components of remuneration in exceptional circumstances, such caps to then also apply to ongoing tranches. In addition, in specific circumstances it may withhold some or all of the variable remuneration or demand the repayment, within specific limits, of variable remuneration that has already been paid (malus and clawback regulations).

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Overall, the remuneration system is structured as follows:

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Non-performance-related components

Basic remuneration

- Chairman of the Management Board: 1,200,000 euros p.a.
- Other Management Board members: 750,000 euros p.a.

Other emoluments

- Insurance, reimbursement of accommodation / relocation costs, provision of a company car, use of a car service, other in-kind benefits; amounts vary dependent on personal needs
- Caps:
 - Chairman of the Management Board: 250,000 euros p.a.
 - Other Management Board members: 175,000 euros p.a.

Performance-related components

Variable annual cash remuneration (Short Term Incentive, STI)

- Target remuneration at 100-percent target achievement:
 - Chairman of the Management Board: 3,500,000 euros
 - Other Management Board members: 1,800,000 to 2,200,000 euros
- One-year performance period: Amount dependent on achievements in the fiscal year ("remuneration year") regarding:
 - Business performance (financial targets, bonus): organic sales growth (OSG), adjusted earnings per preferred share (EPS) at constant exchange rates versus prior year (actual-to-actual comparison); each weighted 50 percent
 - Individual performance: Individual multiplier ranging from 0.8 to 1.2, multiplier applied to the bonus amount
- Cap: 150 percent of the respective target amount
- 65 percent freely disposable (short-term component), 35 percent invested in Henkel preferred shares (long-term component; Share Ownership Guideline, share deferral)

Variable long-term cash remuneration (Long Term Incentive, LTI)

- Target remuneration at 100-percent target achievement:
 - Chairman of the Management Board: 1,400,000 euros
 - Other Management Board members: 720,000 to 880,000 euros
- Three-year prospective performance period: The criterion is the average target achievement of the adjusted return on capital employed (ROCE) in a three-year performance period (remuneration year and the two subsequent fiscal years); target value is set for each year (three yearly tranches)
- Cap: 150 percent of the respective target amount

Functional factors

- General functional factors as multipliers for the STI and LTI payment amounts based on target achievement

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Pension commitments

Defined contribution pension scheme

- Superannuation lump sum comprised of the total annual contributions. Annual contribution (lump-sum contribution):
 - Chairman of the Management Board: 750,000 euros (62.5 percent of basic remuneration)
 - Other Management Board members: 450,000 euros (60.0 percent of basic remuneration)

Other regulations governing remuneration

Malus and clawback regulation

- Authorization of the Supervisory Board of Henkel Management AG – in specific circumstances – to wholly or partially withhold variable remuneration (STI, LTI) or to demand repayment, within specific limits, of variable remuneration that has already been paid

Remuneration cap

- Caps on all variable components of remuneration and on total remuneration (including other emoluments and pension commitments)
 - Chairman of the Management Board: 9,550,000 euros
 - Other Management Board members: 5,155,000 to 5,995,000 euros

Severance pay cap

- Payment limited to maximum two years' compensation but no more than due for the remaining term of the contract

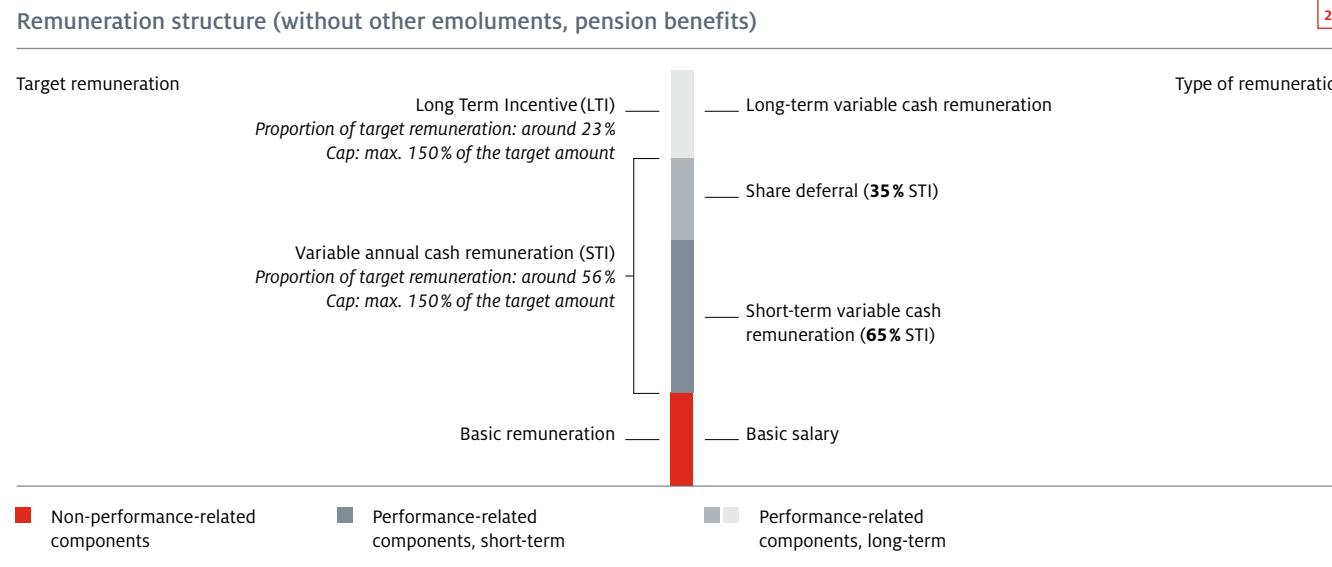
Post-contractual non-competition clause

- Two-year term; discretionary payment totaling 50 percent of the annual compensation, payable in 24 monthly installments

The target remuneration for members of the Management Board (remuneration excluding other emoluments and pension benefits) with a functional factor of 1 and subject to 100-percent target achievement is 3,550,000 euros each year. Of this figure, 750,000 euros is attributable to basic remuneration (around 21 percent of target remuneration), 2,000,000 euros to the STI including share deferral (around 56 percent of target remuneration) and 800,000 euros to the LTI (around 23 percent of target remuneration). Accordingly, some 79 percent of the target remuneration (= 2,800,000 euros) is therefore variable. Of this total, short-term variable target remuneration (STI without share deferral) accounts for around 46 percent (= 1,300,000 euros) and long-term variable target remuneration (share deferral and LTI) for around 54 percent (= 1,500,000 euros). The annual target remuneration for the Chairman of the Management Board totals 6,100,000 euros: 1,200,000 euros basic remuneration (around 20 percent of target remuneration), 3,500,000 euros STI including share deferral (around 57 percent of target remuneration) and 1,400,000 euros LTI (around 23 percent of target remuneration).

Other emoluments are paid to members of the Management Board up to a maximum of 175,000 euros per year, together with annual pension contributions of 450,000 euros. Bearing in mind these amounts, and based on a functional factor of 1 and 100-percent target achievement, members of the Management Board receive total annual remuneration of up to 4,175,000 euros, of which around 71 percent is variable (= 2,975,000 euros: other emoluments, STI and LTI). Other emoluments are paid to the Chairman of the Management Board up to a maximum of 250,000 euros per year, together with annual pension contributions of 750,000 euros. Bearing in mind these amounts, and based on 100-percent target achievement, the Chairman of the Management Board receives total annual remuneration of up to 7,100,000 euros, of which around 73 percent is variable (= 5,150,000 euros: other emoluments, STI and LTI).

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Non-performance-related components

Basic remuneration

The basic remuneration reflects market conditions and serves as a basic salary. It is paid out in monthly installments and amounts to 1,200,000 euros per year for the Chairman of the Management Board and 750,000 euros per year for the other Management Board members. The basic remuneration is regularly reviewed and adjusted where appropriate.

Other emoluments

The members of the Management Board also receive other emoluments, primarily in the form of costs associated with, or the cash value of, in-kind benefits and other fringe benefits such as standard commercial insurance policies, reimburse-

ment of accommodation / relocation costs, provision of a company car that they may also use for private purposes or use of a car service, including any taxes on same, and the costs of precautionary medical examinations. All members of the Management Board are entitled, in principle, to the same emoluments, whereby the amounts vary depending on personal situation. These emoluments are recognized at cost or the equivalent cash value in the case of benefits in kind.

A cap has been set on other emoluments, amounting to 250,000 euros per year for the Chairman of the Management Board and 175,000 euros per year for the other Management Board members.

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Performance-related components

Variable annual cash remuneration (Short Term Incentive, STI)

Overview STI

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Components	Basis for assessment / Parameters	Weighting	Lower threshold	100% target achievement	Upper threshold
Financial targets (bonus)	Organic sales growth ¹ (OSG)	50%	Minimum OSG (50% OSG target amount)	OSG target (100% OSG target amount)	Maximum OSG (150% OSG target amount)
	Adjusted earnings per preferred share (EPS) ²	50%	80% of the prior-year figure (50% EPS target amount)	100% of the prior-year figure (100% EPS target amount)	120% of the prior-year figure (150% EPS target amount)
Individual multiplier	<ul style="list-style-type: none"> • Individually agreed targets • Absolute and relative performance compared to market / competition • Personal contribution to general Henkel goals 			Multiplier ranging from 0.8 to 1.2	
Performance period	Fiscal year (remuneration year)				
Cap ³	150% of the STI target amount (= 3,000,000 euros ⁴)				

¹ Figures derived from financial ambitions.

² At constant exchange rates, versus prior year (actual-to-actual comparison).

³ Including individual multiplier.

⁴ Remuneration paid to a Management Board member, given a functional factor of 1.

The performance parameters for the annual variable cash remuneration (STI) are the achieved financial targets for each fiscal year ("remuneration year") – the so-called bonus – and the individual performance of each Management Board member, to which a multiplier ranging from 0.8 to 1.2 is applied.

Bonuses are determined on the basis of achievement of the following additively linked financial targets in the respective remuneration year, each with a 50-percent weighting: organic sales growth (OSG) (i.e. sales growth adjusted for foreign exchange and acquisitions/divestments) and earnings per preferred share (EPS) adjusted for one-time charges/gains, restructuring expenses and foreign exchange.

The OSG target is derived from our financial ambitions. EPS performance is measured on the basis of actual-to-actual comparison, i.e. the EPS at constant exchange rates in the year of payment is compared to the EPS from the previous year.

An appropriate remuneration scale has been established for both key financials. Thresholds have also been defined; payment is withheld if the minimum targets are not met, and capped if they are exceeded. If adjusted EPS at constant exchange rates in the year of payment is more than 20 percent above or below the comparable prior-year figure as a result of extraordinary events, the Supervisory Board of Henkel Management AG may, at its discretion and after due consideration, decide to adjust the target, or may determine a new reference value for measuring performance in the following year.

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The key financials OSG and EPS are derived from the figures in the consolidated financial statements for the relevant fiscal year as audited without qualification and approved in each case.

Individual target achievement by each member of the Management Board is reflected in the STI using an individual multiplier applied to the total bonus amount assigned in respect of the overall achievement of all financial targets. This individual multiplier ranges from 0.8 to 1.2. STI caps may not, however, be exceeded when applying said multiplier. If the bonus already equals the capped STI amount, any multiplier greater than 1 will have no further effect on the remuneration total.

Measurement of individual performance includes the following factors in particular: achievement of the relevant separate targets agreed with each individual (including sustainability targets) and – as general criteria – the absolute and relative performance of the business unit for which they are responsible compared to market/competition performance, plus their individual contribution to general Henkel goals.

The following benchmark group is used to measure the individual performance of the relevant business unit compared to the market/competition:

Benchmark group		
Adhesive Technologies	Beauty Care	Laundry & Home Care
<ul style="list-style-type: none"> • Sika • H.B. Fuller • RPM • 3M 	<ul style="list-style-type: none"> • P&G (Beauty) • Beiersdorf (Consumer) • Colgate-Palmolive (Oral, Personal and Home Care) • L'Oréal (Group) • KAO (Cosmetics, Skin Care and Hair Care) • Unilever (Beauty & Personal Care) • Coty (Group) 	<ul style="list-style-type: none"> • P&G (Fabric & Home Care) • Reckitt Benckiser (Hygiene Home) • Unilever (Home Care)

In the event of major changes among the relevant competitors, the Supervisory Board will appropriately reconsider the composition of the benchmark group and/or the definition of the relevant competitor parameters.

At the end of a fiscal year, both the achievement of the financial targets and the respective individual performance based on appropriate target agreements will be decided by the Supervisory Board of Henkel Management AG after prior consultation with the Human Resources Subcommittee of the Shareholders' Committee. Here it also decides whether and to what extent adjustments of the key financials to reflect exceptional items are to be taken into consideration when determining the bonus. In determining the STI, the Supervisory Board of Henkel Management AG also gives due consideration to the degree to which financial success and Management Board performance are sustainable beyond the end of a fiscal year.

The total payable STI amount (bonus times individual multiplier) is capped at 150 percent of the target amount, bearing in mind the respective functional factor.

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Share Ownership Guideline / Short-term and long-term components of the variable annual cash remuneration

The full amount of the STI is paid in cash once the corporation's annual financial statements for the remuneration year have been approved by the Annual General Meeting.

The obligation to purchase and hold shares (Share Ownership Guideline) is a key element of Management Board remuneration policy as it ensures that Management Board members invest a multiple of their basic remuneration in Henkel preferred shares over a period of four years which they continue to hold during their period in office. Accordingly, recipients may only dispose of around 65 percent of this payment as they wish (short-term variable cash remuneration). The members of the Management Board must invest the remainder of the relevant payment amount, corresponding to around 35 percent, in Henkel preferred shares (share deferral). These shares are placed in a blocked custody account with a drawing restriction. The company transfers the relevant investment amount of each individual directly to the bank responsible for settling the investment transactions and managing the blocked custody account. On the first trading day of the month following payout, this bank invests the relevant amount on behalf and for the account of the member of the Management Board in

Henkel preferred shares at the price prevailing at the time of purchase on the stock exchange, and credits the acquired shares to the blocked custody account. The lock-up period in each case expires on December 31 of the fourth year following the year of payment. This share deferral ensures that, for the duration of their appointment, the members of the Management Board must accumulate and hold a significant share portfolio during each (rolling) lock-up period of four years, through which they participate in the long-term performance of the corporation, whether this be positive or negative.

Assuming the target for the STI is met, the total amount to be invested under the STI program in shares over a four-year period is 2,450,000 euros for the Chairman of the Management Board and 1,400,000 euros for another Management Board member with a functional factor of 1. As such, the amounts constitute a multiple of about 4 and 3.7 respectively of the annual (net) basic remuneration. This share portfolio continues to grow due to the fact that shares are sold, if at all, only in exceptional instances once the respective four-year lock-up period has expired. This share deferral (in addition to the LTI) complies with German company law (AktG) and GCGC precepts requiring a remuneration policy that focuses on sustainable business development.

Variable long-term cash remuneration (Long Term Incentive, LTI)**Overview LTI**

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Basis for assessment / Parameters	Lower threshold	100% target achievement ¹	Upper threshold
Adjusted return on capital employed (ROCE), average target achievement over the performance period (3 yearly tranches)	Average target achievement 80% (50% target amount)	Average target achievement 100% (100% target amount)	Average target achievement 120% (150% target amount)
Performance period	Three-year period (remuneration year plus two subsequent fiscal years)		
Cap	150% of the target amount (= 1,200,000 euros) ²		

¹ Respective 100% target derived from the budget.

² Remuneration paid to a Management Board member, given a functional factor of 1.

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The LTI represents variable cash remuneration, the amount of which is based on the long-term future performance of the corporation and derived from the average return on capital employed (ROCE) adjusted for one-time charges/gains and restructuring expenses over a period of three years (performance period). The LTI is a rolling program. As such, a new LTI tranche with a three-year performance period is issued every year. For each LTI tranche, the adjusted ROCE is measured in the relevant remuneration year and the two subsequent years (three yearly tranches).

The ROCE targets are derived from our budget and are set for each year of each three-year performance period by the Supervisory Board of Henkel Management AG. At the end of the respective year, target achievement for the year in question is analyzed. The average target achievement for the relevant performance period is then calculated on the basis of the three measurements of relevance for the respective LTI tranche.

Target achievement with regard to adjusted ROCE figures is determined on the basis of the audited and approved consolidated financial statements for the relevant fiscal years.

The LTI is paid in cash once the corporation's annual financial statements for the final year in the performance period have been approved by the Annual General Meeting.

A remuneration scale has been established for the LTI, together with a threshold below which payments are withheld. The total payable LTI amount is capped at 150 percent of the target amount, bearing in mind the respective functional factor.

To ensure cogent and consistent incentivization and efficacy in the structure of Management Board remuneration, the performance values governing the Long Term Incentive tranches issued in 2017 and 2018, whose three-year performance periods do not end until December 31, 2019 and December 31, 2020 respectively, were determined pro rata temporis in accordance

with the previously valid conditions for the periods up to December 31, 2018, while for the periods from January 1, 2019, they will be determined in accordance with the conditions that become effective as of 2019.

Functional factors governing variable remuneration

In order to ensure consideration of the differing requirements of the relevant areas of Management Board responsibility and of the differing levels of complexity and importance of the respective business units, the following general functional factors were defined, starting in fiscal 2019, as multipliers for the STI and LTI payment amounts based on target achievement:

Functional factors	24
Area of responsibility / Business unit	STI / LTI factor
CEO	1.75
Finance	1.10
HR / Infrastructure Services	0.90
Adhesive Technologies	1.10
Beauty Care	0.90
Laundry & Home Care	1.00

A marginally lower factor may be set for newly appointed Management Board members in their first year of office.

These functional factors are regularly reviewed and adjusted, if necessary.

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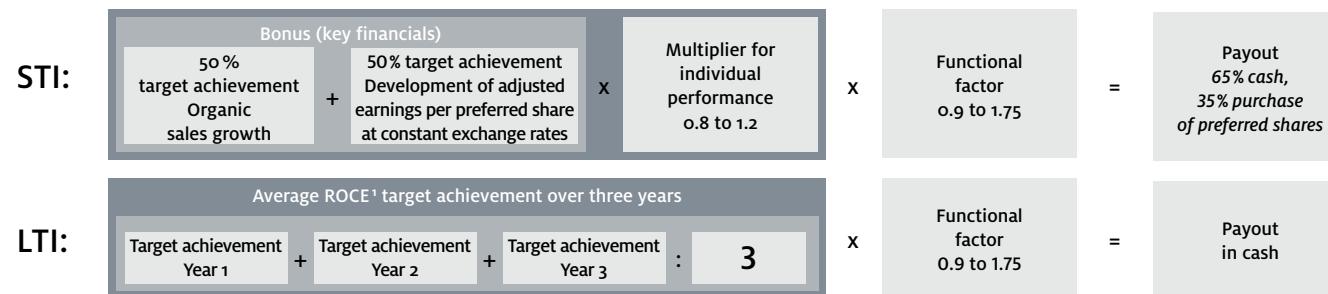
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Overall, the STI and LTI are calculated as follows:

Calculation of STI and LTI



¹ Adjusted return on capital employed.

In keeping with the objectives of the Management Board remuneration policy, this structure of the STI and LTI not only rewards profitable growth and thus supports the long-term development of Henkel but also ensures that Management Board remuneration is aligned to the interests of shareholders.

Special payments / bonuses

No authorization exists to allow the Supervisory Board of Henkel Management AG to exercise its discretionary judgment to award special payments for outstanding performance (known as the "Mannesmann" clause).

Malus and clawback regulations

Malus and clawback regulations have been in place since January 1, 2019. They give the Supervisory Board of Henkel Management AG the authorization – in specific circumstances and, after due consideration, at its discretion – to wholly or partially withhold the variable remuneration (STI, LTI) or to demand the repayment, within specific limits, of variable remuneration that has already been paid. Such circumstances include, in particular, severe breaches of a Management Board member's

duties or material misstatements in financial reports. This regulation is without prejudice to the right to assert further claims on grounds of personal misconduct by a member of the Management Board, and especially to claim damages under Section 93 AktG.

Pursuant to Section 87 (2) AktG, the Supervisory Board can also reduce future remuneration to a reasonable level and / or entirely alter the structure of remuneration and the nature of the components of remuneration in order to ensure appropriate remuneration. In doing so, it must consider the situation of the corporation and its affiliated companies (Group).

Ancillary activities

After consultation with the Supervisory Board of Henkel Management AG, members of the Management Board may accept supervisory board mandates and similar offices in companies in which Henkel AG & Co. KGaA holds a direct or indirect participating interest, or may engage in activities in associations and similar organizations to which Henkel AG & Co. KGaA belongs by virtue of its business activities. Any other paid or

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unpaid ancillary activities must be approved in advance by the Supervisory Board. For details of memberships in statutory supervisory boards and comparable oversight bodies in Germany and abroad, please refer to the list on page 248.

Pension benefits

(retirement pensions and survivors' benefits)

The corporation has been operating a purely defined contribution system since January 1, 2015. Accordingly, members of the Management Board now receive a superannuation lump-sum payment comprised of the total annual contributions to the plan during their time in office. The annual contributions – based on a full fiscal year – are 750,000 euros for the Chairman and 450,000 euros each for the other members of the Management Board.

An entitlement to pension benefits arises on retirement upon reaching the age of 63, on termination of the employment relationship on or after attainment of the statutory retirement age, in the event of death, or in the event of permanent complete incapacity for work. If a member of the Management Board has received no pension benefits prior to their death, the superannuation lump sum accumulated up to time of death is paid out to the surviving spouse or surviving children if they are eligible for orphan benefits.

Caps on total remuneration

After allowing for the aforementioned functional factors and caps for the variable, performance-related components of remuneration as well as for other emoluments and pension benefits (lump-sum contribution), the Supervisory Board of Henkel Management AG has specified the following caps on total remuneration for a full fiscal year:

Caps on annual total remuneration

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in euros	Basic remuneration	Other emoluments	Short-term variable annual cash remunera- tion	Long-term variable annual cash remuneration (share deferral)	Conditional entitlement to Long Term Incentive	Pension lump-sum contribution	Minimum total remuneration	Maximum total remuneration
Chairman of the Management Board (Functional factor STI / LTI 1.75)	1,200,000	0 to 250,000	0 to 3,412,500	0 to 1,837,500	0 to 2,100,000	750,000	1,950,000	9,550,000
Ordinary member of the Management Board (Functional factor STI / LTI 0.9)	750,000	0 to 175,000	0 to 1,755,000	0 to 945,000	0 to 1,080,000	450,000	1,200,000	5,155,000
Ordinary member of the Management Board (Functional factor STI / LTI 1.0)	750,000	0 to 175,000	0 to 1,950,000	0 to 1,050,000	0 to 1,200,000	450,000	1,200,000	5,575,000
Ordinary member of the Management Board (Functional factor STI / LTI 1.1)	750,000	0 to 175,000	0 to 2,145,000	0 to 1,155,000	0 to 1,320,000	450,000	1,200,000	5,995,000

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**Provisions governing termination of position
on the Management Board****Continued payment of basic remuneration**

If an active member of the Management Board who was first appointed prior to 2009 retires, or dies while still in office, payment of their basic remuneration continues for a further six months, but not beyond their 65th birthday. In the event of death in service, the payments are made to the surviving spouse or entitled descendants.

Compensation payment

In the event that a member's position on the Management Board is terminated prematurely without cause and by mutual agreement, the executive contract provides for a compensation settlement amounting to the remuneration for the remaining contractual term (basic remuneration plus variable annual remuneration for single and multiple years). This compensation is limited to a maximum of two years' remuneration ("severance payment cap") and may not extend over a period that exceeds the residual term of the executive contract. Members of the Management Board are not entitled to compensation if an executive contract is terminated by mutual agreement at the request of the individual or because that executive has been dismissed by the corporation for good cause or reason.

In the event that the sphere of responsibility / executive function is altered or restricted to such an extent that it is no longer comparable to the position prior to the change or restriction, the affected members of the Management Board are entitled to resign from office and request premature termination of their contract. In such cases, members are entitled to compensation payments amounting to not more than two years' remuneration.

No entitlements exist in the event of premature termination of executive duties resulting from a change in control.

Payment / forfeiture of variable components of remuneration

Upon an executive's departure from the Management Board, the STI is calculated pro rata and paid out. Unless otherwise agreed individually, LTI entitlements are calculated at the end of the relevant performance period and paid out. However, entitlements from any tranche whose performance period has not yet ended at the date of departure are forfeited without replacement if the departure is based on good cause or reason that would have justified revocation of the appointment or termination of the employment contract. All lock-up periods relating to investments in Henkel preferred shares that are financed by the recipients (share deferral) end if said recipient dies. By the same token, LTI entitlements with regard to outstanding tranches are settled on the basis of budget figures and paid to the heirs.

Post-contractual non-competition clause

Management Board contracts include a post-contractual non-competition clause with a term of two years. Members of the Management Board are entitled to a discretionary payment totaling 50 percent of the annual remuneration, which is payable in 24 monthly installments unless the Supervisory Board of Henkel Management AG waives the non-competition clause. Any compensation payments and any earnings from new extra-contractual activities during the non-competition period are offset against this discretionary payment.

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Miscellaneous

The corporation maintains directors and officers insurance (D&O insurance) for directors and officers of the Henkel Group. For members of the Management Board there is a deductible amounting to 10 percent per loss event, subject to a maximum for the fiscal year of one and a half times their annual basic remuneration.

The company does not grant any loans or advances to members of the Management Board.

Overall, this remuneration system for members of the Management Board reflects internationally and nationally recognized standards of good and responsible corporate governance, as well as complying with GCGC regulations (for details of GCGC compliance, please refer to page 33 ff.) and all German company law (AktG) requirements. The financial performance indicators used to determine the variable, performance-related components of remuneration and the non-financial personal targets agreed with each individual are consistent with our corporate strategy and objectives; as such, the remuneration policy supports both the strategy and the sustainable and long-term development of the corporation.

3. Remuneration of members of the Management Board for fiscal 2019

Excluding pension commitments, the total remuneration paid to members of the Management Board serving in 2019 for the performance of their duties for and on behalf of Henkel AG & Co. KGaA and its subsidiaries during the year under review amounted to 17,247,891 euros (previous year: 21,111,180 euros). Basic remuneration accounted for 4,950,000 euros (previous year: 4,950,000 euros), other emoluments for 431,024 euros (previous year: 362,365 euros), short-term variable cash remuneration for 6,993,808 euros (previous year: 8,393,942 euros), long-term variable cash remuneration – share deferral – for 2,043,252 euros (previous year: 4,519,817 euros), and the 2017 LTI tranche for which the plan term of three years ended at the end of the relevant fiscal year for 2,829,807 euros (previous year: 2016 LTI tranche, 2,885,056 euros). In addition, members of the Management Board serving in 2019 were granted an LTI tranche for 2019 (term: 1/1/2019 – 12/31/2021) that will be paid out after the plan term of three years in 2022, subject to achievement of certain performance targets.

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The basis for assessment/parameters and the target achievement/remuneration for the 2019 STI and the 2019 LTI tranches are listed in the following tables:

Calculation of target achievement / STI remuneration 2019

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Target parameter	Weighting	100 % target	Actual 2019	Target achievement ¹	Bonus amount ²
Financial targets (bonus)	Organic sales growth (OSG)	50%	3.0%	0.0%	50.0%
	Adjusted earnings per preferred share (EPS) ³	50%	5.87 euros ⁴	5.40 euros	79.9% 1,299,830 euros
Personal targets	Focus topics 2019: <ul style="list-style-type: none">• Process standardization• Strategy updates for the business units / Shared Service Centers / supply chain• Financial management, net working capital• Advancements in digitalization• Growth initiatives, innovation pipeline• Sustainability• Succession planning, talent development, leadership commitments, agility, diversity				
	Personal target achievement / Bonus multiplier⁵: Range: 0.90 – 0.95				

¹ Percentage of the relevant bonus target amount.

² Bonus amount, given a personal multiplier and functional factor of 1 in each case.

³ At constant exchange rates versus prior year (actual-to-actual comparison).

⁴ Remuneration-relevant figure.

⁵ Target achievement for Kathrin Menges and Hans Van Bylen paid as a lump sum prior to departure.

STI target parameters (bonus)

The organic sales growth figure representing 100-percent target achievement was 3.0 percent in 2019. The lower and upper thresholds were 0.0 percent and 4.0 percent respectively.

The adjusted EPS figure that is of relevance for the actual-to-actual comparison for remuneration purposes and which represents 100-percent target achievement was 5.87 euros in 2019. The lower and upper thresholds were 4.70 euros and 7.04 euros respectively.

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Calculation of target achievement / LTI remuneration

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LTI tranche	Performance year	100 % target Adjusted ROCE	Actual Adjusted ROCE	Target achievement	Average target achievement over three-year perfor- mance period	Remuneration for LTI tranche ¹
LTI tranche 2019	1. (2019)	16.9%	15.0%	88.9%	-	-
	2. (2020)	-	-	-		
	3. (2021)	-	-	-		

¹ Remuneration paid to a Management Board member, given a functional factor of 1.

LTI target parameters

The adjusted ROCE targets are derived from our budget and are set for each year of each three-year performance period by the Supervisory Board of Henkel Management AG. Target achievement is analyzed at the end of the relevant year. The average target achievement for the respective performance period is then calculated on the basis of the three measurements of relevance for the respective LTI tranche.

The adjusted ROCE figure representing 100-percent target achievement was 16.9 percent in 2019. The resulting target achievement for the yearly tranche 2019 is 88.9 percent.

Caps

The cap on the amount of the variable components of remuneration and, after consideration of other emoluments and pension benefits (lump-sum contribution), the cap on total remuneration payable to the respective members of the Management Board were observed.

The amounts in these and the following tables are rounded up or down to full euros. As a result, rounded figures in some of the lines in the tables may not add up to the indicated total. The same applies for percentage figures.

Remuneration per HGB / DRS 17 for the reporting period granted to members of the Management Board serving in 2019, separated into the above-mentioned components, is shown in the following table. In compliance with the recommendations of GCGC 2017, the table also lists the remuneration figures applicable to fiscal 2019, which is why a further “actual inflow” table listing the awarded amounts as recommended in GCGC 2017 has been omitted.

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Remuneration of Management Board members who served in 2019

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		1. Basic remuneration¹	2. Other emoluments¹	3. Short-term variable cash remuneration²	Single-year remuneration (Total of 1 to 3)	4. Long-term variable cash remuneration (share deferral)²	5. Long Term Incentive³	Multi-year remuneration (Total of 4 and 5)	Total remuneration (Total of 1 to 5)	6. Service cost (per IFRS)	Total remuneration (Total of 1 to 6)
in euros											
Hans Van Bylen (Chairman of the Manage- ment Board)	2019	1,200,000	58,639	2,599,200	3,857,839	0	841,727	841,727	4,699,566	761,893	5,461,459
		22.0%	1.1%	47.6%	70.6%	0.0%	15.4%	15.4%	86.0%	14.0%	100.0%
Board member from 7/1/2005 to 12/31/2019	2018	1,200,000	71,457	2,242,538	3,513,995	1,207,521	721,264	1,928,785	5,442,780	770,220	6,213,000
		19.3%	1.2%	36.1%	56.6%	19.4%	11.6%	31.0%	87.6%	12.4%	100.0%
Jan-Dirk Auris (Adhesive Technologies)	2019	750,000	55,317	882,909	1,688,226	475,413	480,987	956,400	2,644,626	457,722	3,102,348
		24.2%	1.8%	28.5%	54.4%	15.3%	15.5%	30.8%	85.2%	14.8%	100.0%
Board member since 1/1/2011	2018	750,000	56,369	1,373,626	2,179,995	739,645	540,948	1,280,593	3,460,588	462,865	3,923,453
		19.1%	1.4%	35.0%	55.6%	18.9%	13.8%	32.6%	88.2%	11.8%	100.0%
Carsten Knobel (Finance)	2019	750,000	158,666	882,909	1,791,575	475,413	480,987	956,400	2,747,975	458,206	3,206,181
		23.4%	4.9%	27.5%	55.9%	14.8%	15.0%	29.8%	85.7%	14.3%	100.0%
Board member since 7/1/2012	2018	750,000	66,265	1,357,376	2,173,641	730,895	540,948	1,271,843	3,445,484	463,029	3,908,513
		19.2%	1.7%	34.7%	55.6%	18.7%	13.8%	32.5%	88.2%	11.8%	100.0%
Kathrin Menges (Human Resources)	2019	204,545	15,221	600,000	819,766	0	480,987	480,987	1,300,753	157,038	1,457,791
		14.0%	1.0%	41.2%	56.2%	0.0%	33.0%	33.0%	89.2%	10.8%	100.0%
Board member from 10/1/2011 to 4/8/2019	2018	750,000	45,027	1,240,376	2,035,403	667,895	540,948	1,208,843	3,244,246	461,099	3,705,345
		20.2%	1.2%	33.5%	54.9%	18.0%	14.6%	32.6%	87.6%	12.4%	100.0%
Sylvie Nicol (Human Resources)	2019	545,455	33,613	541,785	1,120,853	291,731	0	291,731	1,412,584	369,748	1,782,332
		30.6%	1.9%	30.4%	62.9%	16.4%	0.0%	16.4%	79.3%	20.7%	100.0%
Board member since 4/9/2019	2018	—	—	—	—	—	—	—	—	—	—
Bruno Piacenza (Laundry & Home Care)	2019	750,000	49,707	802,645	1,602,352	432,193	480,987	913,180	2,515,532	456,090	2,971,622
		25.2%	1.7%	27.0%	53.9%	14.5%	16.2%	30.7%	84.7%	15.3%	100.0%
Board member since 1/1/2011	2018	750,000	49,842	1,211,126	2,010,968	652,145	540,948	1,193,093	3,204,061	458,721	3,662,782
		20.5%	1.4%	33.1%	54.9%	17.8%	14.8%	32.6%	87.5%	12.5%	100.0%

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Remuneration of Management Board members who served in 2019

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		1. Basic remuneration¹	2. Other emoluments¹	3. Short-term variable cash remuneration²	Single-year remuneration (Total of 1 to 3)	4. Long-term variable cash remuneration (share deferral)²	5. Long Term Incentive³	Multi-year remuneration (Total of 4 and 5)	Total remuneration (Total of 1 to 5)	6. Service cost (per IFRS)	Total remuneration (Total of 1 to 6)
<i>in euros</i>											
Jens-Martin Schwärzler (Beauty Care)	2019	750,000	59,861	684,360	1,494,221	368,502	64,132	432,634	1,926,855	465,040	2,391,895
Board member since 11/1/2017		31.4%	2.5%	28.6%	62.5%	15.4%	2.7%	18.1%	80.6%	19.4%	100.0%
	2018	750,000	73,405	968,900	1,792,305	521,716	0	521,716	2,314,021	467,400	2,781,421
		27.0%	2.6%	34.8%	64.4%	18.8%	0.0%	18.8%	83.2%	16.8%	100.0%
Total	2019	4,950,000	431,024	6,993,808	12,374,832	2,043,252	2,829,807	4,873,059	17,247,891	3,125,737	20,373,628
		24.3%	2.1%	34.3%	60.7%	10.0%	13.9%	23.9%	84.7%	15.3%	100.0%
	2018	4,950,000	362,365	8,393,942	13,706,307	4,519,817	2,885,056	7,404,873	21,111,180	3,083,334	24,194,514
		20.5%	1.5%	34.7%	56.7%	18.7%	11.9%	30.6%	87.3%	12.7%	100.0%

¹ Payout in the relevant fiscal year.

² Payout in the relevant following fiscal year.

³ Amount paid at relevant fiscal year-end for LTI tranches upon expiry of their respective three-year terms; term of LTI tranche 2017: 1/1/2017 – 12/31/2019; term of LTI tranche 2016: 1/1/2016 – 12/31/2018, payout in the relevant following fiscal year.

Arrangements in connection with termination of position on the Management Board

Kathrin Menges left the corporation by mutual consent at the end of April 8, 2019. A gross amount of 1,305,000 euros was paid to Kathrin Menges in settlement of her contractual entitlement to remuneration (without LTI) for the original remaining term of her contract (September 30, 2019). Her entitlement to LTI tranches for fiscal years 2017 onward based on the original remaining term of her contract will be calculated and paid out at the end of the relevant three-year performance period. The 2017 LTI tranche was valued at 480,987 euros and is due for payment in April 2020.

Hans Van Bylen left the corporation by mutual consent at the end of December 31, 2019. A gross amount of 4,700,000 euros was paid to Hans Van Bylen in settlement of his contractual entitlement to remuneration (without LTI) for the original remaining term of his contract (December 31, 2020). Based on the original remaining term of his contract, Hans Van Bylen also received a special payment into the company pension scheme of 750,000 euros gross. His entitlement to LTI tranches for fiscal years 2017 onward based on the original remaining term of his contract will be calculated and paid out at the end of the relevant three-year performance period. The 2017 LTI tranche was valued at 841,727 euros and is due for payment in April 2020. In addition, Hans Van Bylen is bound by a post-contractual non-competition clause with a term of two years, which entitles him to discretionary compensation of 116,000 euros gross per month for the remaining period not already covered by the settlement amount; other earnings shall be offset against this discretionary compensation.

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Share Ownership Guideline / Own investment under the STI

2019 program (share deferral)

The net amounts to be invested by the members of the Management Board in office at December 31, 2019, in Henkel preferred shares under the STI 2019 program (Share Ownership Guideline; share deferral) are shown in the following table, together with the Henkel preferred shares already held as of December 31, 2019, which were acquired under share deferral programs in earlier years.

Shareholdings and own investments / Share deferral under STI

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Management Board member	Number of shares already purchased as of Dec. 31, 2019	Total value of existing share portfolio ¹	Amount invested under STI 2019 ²
Jan-Dirk Auris	43,789	4,037,345.80 euros	237,706.35 euros
Carsten Knobel	32,704	3,015,308.80 euros	237,706.35 euros
Sylvie Nicol	–	–	145,865.26 euros
Bruno Piacenza	43,705	4,029,601.00 euros	216,096.68 euros
Jens-Martin Schwärzler	3,366	310,345.20 euros	184,250.85 euros

¹ 92.20 euros per share, Xetra closing price on December 30, 2019.

² Net amounts.

In the year under review, no member of the Management Board was granted non-standard benefits by the company in connection with premature termination of their tenure, nor were any such entitlements or arrangements modified. No member of the Management Board was pledged payments from third parties in respect of their duties as executives of the corporation, nor were any such payments granted in the reporting period. No use was made of the option to demand repayment of variable components of remuneration (clawback).

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Pension benefits

The figures calculated in accordance with the German Commercial Code [HGB] and International Accounting Standard (IAS) 19 for service cost for total benefit entitlements acquired in the reporting year and the present value of total pension benefits accruing to the end of the fiscal year are shown in the following table:

For pension obligations to former members of the Management Board and the management of Henkel KGaA, as well as the former management of its legal predecessor and surviving dependents, 105,312,747 euros (previous year: 100,940,669 euros) is deferred. Amounts paid to such recipients during the year under review totaled 7,286,431 euros (previous year: 7,205,023 euros).

31**Service cost / Present value of pension benefits**

in euros	HGB			IAS	
		Service cost for pension benefits in the reporting year	Present value of pension benefits as of December 31		Service cost for pension benefits in the reporting year
Hans Van Bylen ¹ (until 12/31/2019)	2019	761,865	10,530,915	761,893	10,950,472
	2018	770,183	8,051,409	770,220	8,439,095
Jan-Dirk Auris	2019	457,428	5,062,931	457,722	5,180,131
	2018	462,270	4,083,439	462,865	4,187,786
Carsten Knobel	2019	457,468	4,312,944	458,206	4,420,293
	2018	461,558	3,415,383	463,029	3,510,588
Kathrin Menges (until 4/8/2019)	2019	156,740	4,068,298	157,038	4,131,839
	2018	460,602	3,480,289	461,099	3,537,289
Sylvie Nicol (since 4/9/2019)	2019	369,748	669,355	369,748	671,517
	2018	-	-	-	-
Bruno Piacenza	2019	456,047	4,347,510	456,090	4,352,193
	2018	460,013	3,449,136	460,072	3,453,241
Jens-Martin Schwärzler	2019	461,791	2,263,214	465,040	2,364,673
	2018	462,459	1,589,793	467,400	1,680,637
Total	2019	3,121,087	31,255,167	3,125,737	32,071,118
	2018	3,077,085	24,069,449	3,084,685	24,808,636

¹ Based on the original remaining term of his contract, Hans Van Bylen was awarded an additional payment of 750,000 euros (gross) into the company pension scheme.

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Additional disclosures in accordance with the German Corporate Governance Code (GCGC)

The following table complies with the recommendations of GCGC 2017 and lists the benefits granted for fiscal 2019.

According to GCGC 2017, variable remuneration must be quantified as the amount that would be payable upon 100-percent target achievement rather than the payout amount, together with the maximum/minimum potential amounts for variable remuneration components.

For details of payments made in fiscal 2019, pursuant to the recommendations of GCGC 2017, please refer to the table entitled "Remuneration of Management Board members who served in 2019" on pages 63 and 64.

Pursuant to GCGC, payments / benefits granted for the reporting year to members of the Management Board serving in 2019

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		1. Basic remu- neration ¹	2. Other emol- uments ¹	Total (1 and 2)	3. Short-term variable cash remuneration ²	4. Long-term variable cash remuneration (share deferral) ²	5. Long Term Incentive ²	Total (1 to 5)	6. Service cost (per IFRS)	Total remuneration pursuant to GCGC (Total 1 to 6)
in euros										
Hans Van Bylen (Chairman)³ (since 5/1/2016)	2019	1,200,000	58,639	1,258,639	2,275,000	1,225,000	1,400,000	6,158,639	761,893	6,920,532
Board member from 7/1/2005 to 12/31/2019	2019 (min)	1,200,000	58,639	1,258,639	0	0	0	1,258,639	761,893	2,020,532
	2019 (max)	1,200,000	58,639	1,258,639	3,412,500	1,837,500	2,100,000	8,608,639	761,893	9,370,532
	2018	1,200,000	71,457	1,271,457	2,290,882	1,233,552	700,000	5,495,891	770,220	6,266,111
Jan-Dirk Auris (Adhesive Technologies) Board member since 1/1/2011	2019	750,000	55,317	805,317	1,430,000	770,000	880,000	3,885,317	457,722	4,343,039
	2019 (min)	750,000	55,317	805,317	0	0	0	805,317	457,722	1,263,039
	2019 (max)	750,000	55,317	805,317	2,145,000	1,155,000	1,320,000	5,425,317	457,722	5,883,039
	2018	750,000	56,369	806,369	1,347,578	725,619	400,000	3,279,566	462,865	3,742,431
Carsten Knobel (Finance) Board member since 7/1/2012	2019	750,000	158,666	908,666	1,430,000	770,000	880,000	3,988,666	458,206	4,446,872
	2019 (min)	750,000	158,666	908,666	0	0	0	908,666	458,206	1,366,872
	2019 (max)	750,000	158,666	908,666	2,145,000	1,155,000	1,320,000	5,528,666	458,206	5,986,872
	2018	750,000	66,265	816,265	1,347,578	725,619	400,000	3,289,462	463,029	3,752,491
Kathrin Menges (Human Resources)³ Board member from 10/1/2011 to 4/8/2019	2019	204,545	15,221	219,766	390,000	210,000	240,000	1,059,766	157,038	1,216,804
	2019 (min)	204,545	15,221	219,766	0	0	0	219,766	157,038	376,804
	2019 (max)	204,545	15,221	219,766	585,000	315,000	360,000	1,479,766	157,038	1,636,804
	2018	750,000	45,027	795,027	1,347,578	725,619	400,000	3,268,224	461,099	3,729,323

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Pursuant to GCGC, payments / benefits granted for the reporting year to members of the Management Board serving in 2019

		1. Basic remu- neration ¹	2. Other emol- uments ¹	Total (1 and 2)	3. Short-term variable cash remuneration	4. Long-term variable cash remuneration (share deferral) ²	5. Long Term Incentive ²	Total (1 to 5)	6. Service cost (per IFRS)	Total remuneration pursuant to GCGC (Total 1 to 6)
in euros										
Sylvie Nicol (Human Resources)	2019	545,455	33,613	579,068	877,500	472,500	540,000	2,469,068	369,748	2,838,816
Board member since 4/9/2019	2019 (min)	545,455	33,613	579,068	0	0	0	579,068	369,748	948,816
	2019 (max)	545,455	33,613	579,068	1,316,250	708,750	810,000	3,414,068	369,748	3,783,816
	2018	—	—	—	—	—	—	—	—	—
Bruno Piacenza (Laundry & Home Care)	2019	750,000	49,707	799,707	1,300,000	700,000	800,000	3,599,707	456,090	4,055,797
Board member since 1/1/2011	2019 (min)	750,000	49,707	799,707	0	0	0	799,707	456,090	1,255,797
	2019 (max)	750,000	49,707	799,707	1,950,000	1,050,000	1,200,000	4,999,707	456,090	5,455,797
	2018	750,000	49,842	799,842	1,347,578	725,619	400,000	3,273,039	460,072	3,733,111
Jens-Martin Schwärzler (Beauty Care)	2019	750,000	59,861	809,861	1,170,000	630,000	720,000	3,329,861	465,040	3,794,901
Board member since 11/1/2017	2019 (min)	750,000	59,861	809,861	0	0	0	809,861	465,040	1,274,901
	2019 (max)	750,000	59,861	809,861	1,755,000	945,000	1,080,000	4,589,861	465,040	5,054,901
	2018	750,000	73,405	823,405	1,078,062	580,495	320,000	2,801,962	467,400	3,269,362

¹ Payout in the relevant fiscal year.

² Figures for 2019 reflect the target amounts payable upon 100-percent target achievement / LTI tranche 2019: payout in 2022; LTI tranche 2018: payout in 2021. Target amount applies to yearly tranches from 2019 onward.

³ For details of the benefits paid upon departure from the Management Board, please refer to page 64.

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4. Remuneration policy for members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA

Regulation, structure and amounts

The Annual General Meeting has defined the remuneration for the Supervisory Board and the Shareholders' Committee in provisions contained in Art. 17 and 33 of the Articles of Association.

Remuneration is of a purely fixed nature to strengthen impartiality and to avoid conflicts of interest for corporate body members performing their supervisory function. In accordance with GCGC recommendations, remuneration is increased or additional remuneration paid to take account of the responsibility and scope of duties associated with being Chair, Vice Chair or member of a (sub)committee.

The components in detail:

Each member of the Supervisory Board and of the Shareholders' Committee receives a fixed fee of 70,000 euros and 100,000 euros per year respectively. The Chair of the Supervisory Board and the Shareholders' Committee receives double this amount, and the Vice Chair in each case one and a half times the aforementioned amounts.

Members of the Supervisory Board who are also members of one or more committees each receive additional remuneration of 35,000 euros; if they chair one or more committees, they receive 70,000 euros. Activity in the Nominations Committee is not remunerated separately.

Members of the Shareholders' Committee who are also members of one or more subcommittees of the Shareholders' Committee each receive additional remuneration of 100,000 euros; if they chair one or more subcommittees, they receive 200,000 euros.

The higher remuneration allocated to the members of the Shareholders' Committee as compared to the Supervisory Board reflects the fact that, under the Articles of Association, the Shareholders' Committee participates in the management of the corporation.

Miscellaneous

The members of the Supervisory Board or a committee receive an attendance fee amounting to 1,000 euros for each meeting in which they participate. If several meetings take place on one day, the attendance fee is only paid once. In addition, the members of the Supervisory Board and of the Shareholders' Committee are reimbursed expenses incurred in connection with their positions. The members of the Supervisory Board are also reimbursed the value-added tax (VAT) payable on their total remunerations and reimbursed expenses.

The corporation maintains directors and officers insurance for members of the corporate bodies of the Henkel Group. For members of the Supervisory Board and Shareholders' Committee there is a deductible amounting to 10 percent per loss event, subject to a maximum for the fiscal year of one and a half times their annual fixed remuneration.

The Chairwoman of the Supervisory Board and of the Shareholders' Committee is provided with an office and secretarial support to enable her to perform these duties.

The corporation does not grant any loans or advances to members of the Supervisory Board or the Shareholders' Committee.

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5. Remuneration of members of the Supervisory Board and of the Shareholders' Committee for fiscal 2019

Total remuneration paid to the members of the Supervisory Board for the year under review (fixed fee, attendance fee, remuneration for committee activity) amounted to 1,565,000 euros plus VAT (previous year: 1,559,000 euros plus VAT). Of this amount, fixed fees accounted for 1,225,000 euros, attendance fees for 95,000 euros, and remuneration for committee activity (including associated attendance fees) for 245,000 euros.

Total remuneration paid to the members of the Shareholders' Committee for the year under review (fixed fee and remuneration for subcommittee activity) amounted to 2,350,000 euros (previous year: 2,295,206 euros). Of this amount, fixed fees were 1,150,000 euros and remuneration for subcommittee activity 1,200,000 euros.

In the year under review, no compensation or benefits were paid or granted for personally performed services, including in particular advisory, brokerage or (inter)mediation services.

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

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Supervisory Board remuneration

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in euros	Components of total remuneration												Total remuneration¹	
	Fixed remuneration (Share of total remuneration in %)				Remuneration for Audit Committee membership (Share of total remuneration in %)				Attendance fee (Share of total remuneration in %)					
	2018	in %	2019	in %	2018	in %	2019	in %	2018	in %	2019	in %		
Dr. Simone Bagel-Trah ² , Chair	140,000	77	140,000	77	35,000	19	35,000	19	7,000	4	8,000	4	182,000	183,000
Birgit Helten-Kindlein ² , Vice Chair	95,507	69	105,000	71	35,000	25	35,000	24	8,000	6	8,000	5	138,507	148,000
Winfried Zander ² , Vice Chair (until 4/9/2018)	28,479	71			9,493	24			2,000	5			39,972	
Jutta Bernicke	70,000	93	70,000	93					5,000	7	5,000	7	75,000	75,000
Dr. Kaspar von Braun	70,000	93	70,000	93					5,000	7	5,000	7	75,000	75,000
Peter Emmerich (since 4/9/2018)	51,014	96	70,000	93					2,000	4	5,000	7	53,014	75,000
Johann-Christoph Frey (until 4/9/2018)	18,986	90							2,000	10			20,986	
Peter Hausmann ² (until 4/9/2018)	18,986	62			9,493	31			2,000	7			30,479	
Benedikt-Richard Freiherr von Herman	70,000	95	70,000	93					4,000	5	5,000	7	74,000	75,000
Timotheus Höttges	70,000	96	70,000	93					3,000	4	5,000	7	73,000	75,000
Prof. Dr. Michael Kaschke ²	70,000	64	70,000	63	35,000	32	35,000	31	5,000	5	7,000	6	110,000	112,000
Angelika Keller (until 4/9/2018)	18,986	90							2,000	10			20,986	
Barbara Kux	70,000	93	70,000	93					5,000	7	5,000	7	75,000	75,000
Andrea Pichottka	70,000	95	70,000	93					4,000	5	5,000	7	74,000	75,000
Philipp Scholz (since 4/9/2018)	51,014	94	70,000	93					3,000	6	5,000	7	54,014	75,000
Dr. Martina Seiler	70,000	93	70,000	93					5,000	7	5,000	7	75,000	75,000
Prof. Dr. Theo Siegert ²	70,000	47	70,000	47	70,000	47	70,000	47	8,000	5	8,000	5	148,000	148,000
Dirk Thiede (since 4/9/2018)	51,014	94	70,000	95					3,000	6	4,000	5	54,014	74,000
Edgar Topsch ²	70,000	68	70,000	62	25,507	25	35,000	31	8,000	8	8,000	7	103,507	113,000
Michael Vassiliadis ² (since 4/9/2018)	51,014	62	70,000	63	25,507	31	35,000	31	6,000	7	7,000	6	82,521	112,000
Total	1,225,000	79	1,225,000	78	245,000	16	245,000	16	89,000	5	95,000	6	1,559,000	1,565,000

¹ Figures do not include VAT.² Member of the Audit Committee. Audit Committee Chair: Prof. Dr. Theo Siegert.

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Individual meeting attendance Supervisory Board 2019

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Supervisory Board member	Supervisory Board and committee meetings ¹	Attendance	Presence
Dr. Simone Bagel-Trah Chair	9	9	100%
Birgit Helten-Kindlein Vice Chair	9	9	100%
Jutta Bernicke	5	5	100%
Dr. Kaspar von Braun	5	5	100%
Peter Emmerich	5	5	100%
Benedikt-Richard Freiherr von Herman	5	5	100%
Timotheus Höttges	5	5	100%
Prof. Dr. Michael Kaschke	9	8	89%
Barbara Kux	5	5	100%
Andrea Pichottka	5	5	100%
Philipp Scholz	5	5	100%
Dr. Martina Seiler	5	5	100%
Prof. Dr. Theo Siegert	9	9	100%
Dirk Thiede	5	4	80%
Edgar Topsch	9	9	100%
Michael Vassiliadis	9	8	89%

¹ Number of meetings of relevance for the respective member.

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Shareholders' Committee remuneration 2019

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in euros	Components of total remuneration								Total remuneration	
	Fixed remuneration (Share of total remuneration in %)				Fee for subcommittee activity (Share of total remuneration in %)					
	2018	in %	2019	in %	2018	in %	2019	in %	2018	2019
Dr. Simone Bagel-Trah, Chair (Chair Human Resources Subcommittee)	200,000	50	200,000	50	200,000	50	200,000	50	400,000	400,000
Dr. Christoph Henkel, Vice Chair (Chair Finance Subcommittee)	150,000	43	150,000	43	200,000	57	200,000	57	350,000	350,000
Prof. Dr. Paul Achleitner (Member Finance Subcommittee)	100,000	50	100,000	50	100,000	50	100,000	50	200,000	200,000
Johann-Christoph Frey (since 4/9/2018) (Member HR Subcommittee)	72,603	50	100,000	50	72,603	50	100,000	50	145,206	200,000
Stefan Hamelmann (Vice Chair Finance Subcommittee)	100,000	50	100,000	50	100,000	50	100,000	50	200,000	200,000
Prof. Dr. Ulrich Lehner (Member Finance Subcommittee)	100,000	50	100,000	50	100,000	50	100,000	50	200,000	200,000
Dr. Dr. Norbert Reithofer (Member Finance Subcommittee)	100,000	50	100,000	50	100,000	50	100,000	50	200,000	200,000
Konstantin von Unger (Vice Chair HR Subcommittee)	100,000	50	100,000	50	100,000	50	100,000	50	200,000	200,000
Jean-François van Boxmeer (Member HR Subcommittee)	100,000	50	100,000	50	100,000	50	100,000	50	200,000	200,000
Werner Wenning (Member HR Subcommittee)	100,000	50	100,000	50	100,000	50	100,000	50	200,000	200,000
Total	1,122,603	49	1,150,000	49	1,172,603	51	1,200,000	51	2,295,206	2,350,000

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Member of Shareholders' Committee	Meetings of the Shareholders' Committee and of the Finance and Human Resources Subcommittees¹	Attendance		Presence
		36	16	
Dr. Simone Bagel-Trah, Chair	16	16	100%	
Dr. Christoph Henkel, Vice Chair	16	16	100%	
Prof. Dr. Paul Achleitner	16	16	100%	
Johann-Christoph Frey	16	16	100%	
Stefan Hamelmann	16	16	100%	
Prof. Dr. Ulrich Lehner	16	16	100%	
Dr. Dr. Norbert Reithofer	16	13	81%	
Konstantin von Unger	16	16	100%	
Jean-François van Boxmeer	16	12	75%	
Werner Wenning	16	14	88%	

¹ Number of meetings of relevance for the respective member.

7. Remuneration of the members of the Supervisory Board of Henkel Management AG

According to Art. 14 of the Articles of Association of Henkel Management AG, the members of the Supervisory Board of Henkel Management AG are each entitled to receive annual remuneration of 10,000 euros. However, those members of said Supervisory Board who are also and simultaneously members of the Supervisory Board or the Shareholders' Committee of Henkel AG & Co. KGaA do not receive this remuneration. As the Supervisory Board of Henkel Management AG is only comprised of members who also belong to the Shareholders' Committee, no remuneration was paid in respect of this Supervisory Board in the year under review.

6. Remuneration of Henkel Management AG for assumption of personal liability, and reimbursement of expenses to same

For assumption of personal liability and management responsibility, Henkel Management AG in its function as Personally Liable Partner receives an annual payment of 50,000 euros (= 5 percent of its capital stock) plus any value-added tax (VAT) due, said fee being payable irrespective of any profit or loss made.

Henkel Management AG may also claim reimbursement from or payment by the corporation of all expenses incurred in connection with the management of the corporation's business, including the remuneration and pensions paid to its corporate bodies.

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Operational activities

Overview

Henkel was founded in 1876. Therefore, the year under review marks the 143rd in our corporate history. At the end of 2019, Henkel's workforce worldwide numbered around 52,450. We occupy globally leading market positions in our consumer and industrial businesses.

Our purpose is to create sustainable value – for our customers and consumers, for our people and for our shareholders, as well as for the wider society and communities in which we operate.

Organization and business units

Henkel AG & Co. KGaA is operationally active as well as being the parent company of the Henkel Group. As such, it is responsible for defining and pursuing Henkel's corporate objectives and also for the management, control and monitoring of Group-wide activities, including risk management and the allocation of resources. Henkel AG & Co. KGaA performs its tasks within the legal scope afforded to it as part of the Henkel Group, with the affiliated companies otherwise operating as legally independent entities.

Operational management and control is the responsibility of the Management Board of Henkel Management AG in its function as sole Personally Liable Partner. The Management Board is supported in this by the central, corporate functions.

Henkel is organized into three operational business units: Adhesive Technologies, Beauty Care and Laundry & Home Care. The Adhesive Technologies business unit leads the global market in the field of adhesives. In our Beauty Care and Laundry & Home Care consumer businesses, we also hold top positions in numerous markets and categories.

Adhesive Technologies offers a broad and globally leading portfolio of high-impact solutions in adhesives, sealants and functional coatings for both its Industry and its Consumers, Craftsmen and Building businesses.

Our Industry business encompasses four areas. In the Packaging and Consumer Goods Adhesives business area, we work with major brand manufacturers and international customers to develop innovative and sustainable solutions for food packaging, timber construction and furniture, as well as numerous consumer goods. In the Transport and Metal business area, we provide our customers in the automotive, aircraft and aerospace, and metal processing industries with advanced system solutions along the entire value chain, together with an extensive technology portfolio and specialized technical services. In the General Industry business area, we offer a comprehensive range of products for the manufacture, development, optimization, maintenance, repair and overhaul of durable goods, complemented by innovative 3D printing solutions. Our customers range from manufacturers of industrial equipment and

1876

year of foundation.

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household appliances through to operators of large-scale industrial facilities, and service specialists operating in all branches of industry. Our Electronics business area offers customers a specialized portfolio of innovative high-technology adhesives and materials for the manufacture of microchips and electronic assemblies. Our product solutions are also used to expand digital infrastructure and in the automotive sector.

Our Adhesives for Consumers, Craftsmen and Building business area markets an extensive range of sustainable brand-name products for private, trade and construction users.

The **Beauty Care** business unit is globally active in the Branded Consumer Goods business area with Hair Cosmetics, Body Care, Skin Care and Oral Care, as well as in the professional Hair Salon business. In both business areas, we hold top positions in numerous markets and categories. Both our Branded Consumer Goods and Hair Salon businesses offer focused brand portfolios featuring consumer-relevant innovations that create added value for our customers and consumers. Our products are sold both in brick-and-mortar stores and online.

The **Laundry & Home Care** business unit occupies leading market positions in both its Laundry Care and Home Care business areas. Our strong brands and consumer-relevant innovations – such as our Persil 4-in-1 Discs – play a key role in the everyday lives of our consumers. Our product portfolio ranges from heavy-duty and specialty detergents, laundry additives, dishwashing products, hard surface and WC cleaners, to air fresheners and insect control products. Our products are sold mainly in brick-and-mortar stores, but also increasingly via TV-based and online retailing.

Henkel around the world: Regional Centers



The business activities of our **three business units** are supported by the central functions of Henkel AG & Co. KGaA, our Shared Service Centers, and our Global Supply Chain organization in order to ensure optimum utilization of corporate network synergies.

Implementation of the business activities at the country and regional level is the responsibility of the national affiliated companies whose operations are supported and coordinated by Regional Centers. The executive bodies of these national affiliates manage their businesses in line with the relevant statutory regulations, supplemented by their own articles of association, internal procedural rules and the principles incorporated in our globally applicable management standards, codes and guidelines.

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Our ambitions and strategic priorities

Our ambitions

In a volatile market environment characterized by increasing globalization, accelerating digitalization, rapidly changing markets, increasing resource scarcity and the growing relevance of social responsibility, we have defined our ambitions as follows.

We want to become more customer- and consumer-focused and make the company even more innovative, agile and digital, in both our internal processes and our customer-facing activities. In addition, we are further promoting sustainability in all our business activities.

Henkel's continued commitment to generate sustainable profitable growth and attractive returns is underpinned by our mid-to long-term financial ambitions:

- We are aiming to achieve organic sales growth of 2 to 4 percent.
- For adjusted earnings per preferred share at constant exchange rates we are targeting growth in the mid- to high single-digit percentage range.
- We are aiming to further expand our free cash flow.

We also want to pursue compelling growth opportunities while maintaining our focus on strict cost discipline and margin development.

Alongside organic growth, acquisitions will continue to be an integral part of our strategy. Our assessment of potential acquisitions is based on whether the targets are available, fit Henkel's strategy, and are financially attractive. The focus in the Adhesive Technologies business unit is on expanding technology leadership, whereas in the Beauty Care and Laundry & Home Care business units, we are striving to strengthen our categories in the relevant countries.

Acquisitions in fiscal 2019

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Business	Key countries	Contract signed on	Completion on	Annual sales in million euros ¹	Purchase price in million euros	For further information, see pages
Molecule Corp., 3D printing and industrial inkjet solutions	USA	4/26/2019	5/1/2019	~10	19	96, 111, 147–149
eSalon.com LLC (acquisition of 51 percent of the shares), personalized hair colorants	USA	7/2/2019	8/5/2019	~30	90	96, 147–149
Deva Parent Holdings, Inc., premium professional hair care	USA	11/8/2019	12/6/2019	~85	457	96, 112, 147–149

¹ Proforma sales 2019.

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Progress in fiscal 2019

At the end of 2016, we presented our four strategic priorities: drive growth, accelerate digitalization, increase agility and fund growth. We consistently drove the implementation of these priorities in fiscal 2019.

To drive growth, we forged ahead with the increased investments of 300 million euros in brands, technologies, innovations and digitalization that we announced at the beginning of 2019. Targeted product and service innovations have enabled us to acquire new customers and consumer target groups. Nevertheless, this additional funding was not fully utilized in the year under review. In 2019, we also continued our venture capital activities, through which we strengthened our digital and technological expertise and further expanded our network. Business was, moreover, further strengthened in the year under review by acquisitions in our consumer and industrial businesses (see table on page 78). Integration of our acquired businesses is proceeding successfully.

The digital transformation of the company continues to make good progress, as demonstrated by our decision in 2019 to bring together the activities of Integrated Business Solutions and digital technologies under a newly created role of Chief Digital & Information Officer. Also we launched the first global Digital Upskilling initiative for all employees, offering personalized digital-specific training sessions that are proving to be very popular.

To strengthen our leadership culture, we introduced new Leadership Commitments in 2019 that apply to all employees within the Group. Building on Henkel's values, they fortify our leadership standards. To put the concept into action, we conducted workshops with more than 30,000 employees during

the first year. To foster the feedback culture we also introduced digital pulse checks, an employee survey method that reaches a large number of employees within a short space of time.

We aim to fund growth. For this, we have optimized resource allocation, strengthened our focus on Net Revenue Management, further increased efficiency in our structures, and continued to expand our Global Supply Chain organization. We continued to drive the implementation of our "Fund growth" initiatives in 2019 to good effect.

Future direction

At the time of publication of this Annual Report 2019 on March 5, 2020, we will also provide information on Henkel's future direction. It is not part of this Annual Report, since final approval was still pending as of January 30, 2020, the date of adoption of the combined management report. The details on our future direction are available at www.henkel.com.

Sustainability strategy

Sustainability as one of our corporate values

Our commitment to leadership in sustainability is anchored in our corporate values. We want to create more value – for our customers and consumers, for the communities we operate in, and for our company – while, at the same time, reducing our environmental footprint. We aim to pioneer new solutions for sustainable development while continuing to shape our business responsibly and increasing our economic success. Our sustainability strategy provides a clear framework for this aim and reflects the high expectations of our stakeholders.

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Our focal areas

We are concentrating our activities on six focal areas that reflect the key challenges of sustainable development as they relate to our operations. Three of them describe how we want to add value – for our customers and consumers, our shareholders and our company – for example, by enhancing occupational health and safety, and encouraging social progress. The three other focal areas describe the ways in which we want to reduce our environmental footprint, for instance through reduced water and energy use and less waste.

Implementation along the value chain

We are convinced that our focus on sustainability is more important than ever before, and that it supports our growth, improves our cost efficiency and reduces risks. We already have a strong foundation on which to build, and can demonstrate a successful track record. In response to the growing importance of sustainability for our stakeholders and for our long-term commercial success, we have defined strategies and objectives in our focal areas along the value chain, where we intend to add value and reduce our environmental footprint.

More details and background reading on the subject of sustainability can be found in our Sustainability Report:

 www.henkel.com/sustainabilityreport

Management system and performance indicators

Our management system and key performance indicators are derived from our ambition to generate sustainable profitable growth. The key performance indicators are organic sales growth, development of adjusted return on sales, and growth in adjusted earnings per preferred share at constant exchange rates.

Medium to long term, Henkel is aiming to achieve organic sales growth of 2 to 4 percent. For adjusted earnings per preferred share at constant exchange rates, Henkel is targeting growth in the mid- to high single-digit percentage range.

The key performance indicators are represented in both our year and our medium-term plans. A regular comparison of these plans with current developments and the regular reporting of expected figures enables focused management of the company based on the described performance indicators.

Moreover, we report further key performance indicators, such as adjusted earnings per preferred share, net working capital as a percentage of sales, return on capital employed (ROCE), and free cash flow, which we are aiming to further expand, as described in our mid- to long-term financial ambitions.



 [www.henkel.com/
sustainabilityreport](http://www.henkel.com/sustainabilityreport)

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Cost of capital

The cost of capital is calculated as a weighted average of the cost of equity and debt capital (WACC).

We regularly review our cost of capital in order to reflect changing market conditions. In addition, we apply different WACC rates depending on the business unit involved. These are based on business-unit-specific beta factors determined from a peer group benchmark.

The following two tables indicate the WACC rates before and after tax for the Henkel Group and each business unit.

WACC before tax by business unit		
in percent	2019	2020
Adhesive Technologies	10.00	9.00
Beauty Care	8.00	7.25
Laundry & Home Care	8.00	7.25
Henkel Group	7.75	7.25

Takeover-relevant information, corporate governance statement, remuneration report

With regard to the disclosures and explanations

- pursuant to Sections 289a (1) and 315a (1) German Commercial Code [HGB] – takeover-relevant information – please refer to pages 26 to 30,
- pursuant to Sections 289f and 315d HGB – corporate governance statement – please refer to pages 30 to 46, and
- pursuant to Sections 289a (2) and 315a (2) HGB – Remuneration report – please refer to pages 47 to 74, which duly constitute integral parts of the combined management report.

Pursuant to Section 317 (2) sentence 6 HGB, any audit of the disclosures pursuant to Sections 289f and 315d HGB – Corporate governance statement – is limited to the auditor ensuring the relevant information has actually been disclosed.

7.75 %

Group WACC before tax in fiscal 2019.

WACC after tax by business unit		
in percent	2019	2020
Adhesive Technologies	7.25	6.75
Beauty Care	6.00	5.25
Laundry & Home Care	6.00	5.25
Henkel Group	5.75	5.25

Separate non-financial report

With regard to the explanations pursuant to Sections 289b and 315b German Commercial Code [HGB], please refer to our Sustainability Report 2019. This constitutes the separate, combined non-financial corporate report for the Henkel Group and Henkel AG & Co. KGaA for fiscal 2019 as required in Sections 315b and 315c HGB in conjunction with Sections 289b to 289e HGB, and is made publicly available through publication on the website:

□ www.henkel.com/sustainabilityreport

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Macroeconomic development

The general economic conditions described in this section are based on data published by IHS Markit.

Overview:

Slowdown of the global economy

2019 marked a slowdown in the pace of global economic growth. Gross domestic product increased by approximately 2.5 percent worldwide, which was below the rate of the previous year. The mature markets grew by approximately 1.5 percent, while the emerging markets saw an increase of approximately 4 percent.

For the year as a whole, economic growth was around 2 percent in North America and approximately 1 percent in Western Europe. The Japanese economy also expanded by approximately 1 percent. Economic growth in Asia (excluding Japan) was approximately 5 percent, with China coming in slightly above this level at approximately 6 percent. The Africa / Middle East region recorded an increase of approximately 1 percent. Eastern Europe posted growth of around 2 percent, with Russia lagging slightly behind with growth of approximately 1 percent. Growth in Latin America was around 1 percent during the period under review.

Unemployment:

Slight decline globally

Global unemployment was slightly down year on year at approximately 6.5 percent. The unemployment rates in both North America and Western Europe were unchanged at approximately 4 percent and around 7 percent respectively year on year. Unemployment also remained unchanged at approximately 9 percent in Latin America. The unemployment rate was approximately

6 percent in Eastern Europe and approximately 5.5 percent in Asia (excluding Japan). At around 9 percent, unemployment in Africa / Middle East was down year on year.

Inflation:

Moderate rise in global price levels

Global inflation was approximately 2.5 percent and thus slightly lower year on year. The inflation rate in the mature markets increased by approximately 1.5 percent. The inflation rates in Western Europe, North America and Japan were all lower year on year. In emerging markets, the inflation rate was about 4 percent. The inflation rate was higher year on year in Latin America, and below the prior-year level in Africa / Middle East. Inflation was approximately on a par with the prior-year level in Eastern Europe and Asia (excluding Japan).

Direct materials:

Moderately higher than prior-year level

As expected, prices for direct materials (raw materials, packaging, and purchased goods and services) increased in the low single-digit percentage range in 2019 compared to the level of the previous year. This development resulted from price increases both for specialty raw materials and in certain emerging markets.

Currencies:

Mainly positive trend in currencies

Apart from the Turkish lira, most of the currencies in the emerging markets of relevance to Henkel appreciated as an average over the year.

The US dollar closed at 1.12 US dollars to the euro at year-end. Averaged out over the year, the US dollar appreciated versus the euro.

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Changes in the average exchange rates of the currencies of relevance to Henkel are indicated in the following table:

Average rates of exchange versus the euro	2018	2019
Chinese yuan	7.81	7.74
Mexican peso	22.71	21.56
Polish zloty	4.26	4.30
Russian ruble	74.04	72.48
Turkish lira	5.71	6.36
US dollar	1.18	1.12

Source: ECB daily foreign exchange reference rates.

Development by sector**Moderate rise in global consumption**

Private consumer spending across all segments grew moderately at a rate of approximately 2.5 percent. Consumer spending in mature markets increased by approximately 2 percent year on year. Consumers in North America increased their spending by approximately 2.5 percent. In Western Europe, consumer spending grew by approximately 1 percent compared to the previous year. Consumers in emerging markets spent approximately 4 percent more.

Slowdown in industrial production

At approximately 1 percent globally, the industrial production index (IPX) was significantly lower than in the previous year. Growth in the mature markets was flat, while the emerging markets grew at a moderate rate of approximately 2 percent.

Review of overall business performance

2019 proved to be a challenging year for Henkel. Business performance varied in an increasingly difficult economic environment.

Sales totaled 20.1 billion euros in the year under review. Organic sales growth was flat at 0.0 percent. The emerging markets achieved good organic sales growth of 2.5 percent, while the organic sales development of our businesses in the mature markets was negative at -1.6 percent.

Year on year, adjusted¹ gross margin decreased by -0.2 percentage points to 46.3 percent. Ongoing measures to reduce costs and enhance production and supply chain efficiency, together with selective price increases, enabled us to offset much of the impact exerted by higher prices for direct materials (raw materials, packaging, and purchased goods and services), declining volumes and negative mix effects.

The profitability of the Group was negatively impacted both by the increased investments in brands, technologies, innovations and digitalization announced at the start of 2019, and by declining volumes. Our continued focus on cost management, strict implementation of our "Fund growth" initiatives, and the adjustment of our structures to our markets and customers, served to only partially offset the negative factors encountered. Adjusted¹ return on sales in the year under review decreased by -1.6 percentage points year on year to 16.0 percent (2018: 17.6 percent).

Adjusted¹ earnings per preferred share declined to 5.43 euros, equivalent to a decrease of -9.7 percent versus 2018 (6.01 euros). At constant exchange rates, adjusted earnings per preferred share decreased by -10.1 percent. Net working capital as a percentage of sales improved to 3.9 percentage points, down -1.2 percent compared to the previous year. Free cash flow

0.0 %

organic sales growth.

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

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climbed to a new high of 2,471 million euros. Our net financial position came in at -2,045 million euros (December 31, 2018: -2,895 million euros).

Results of operations of the Group

Sales

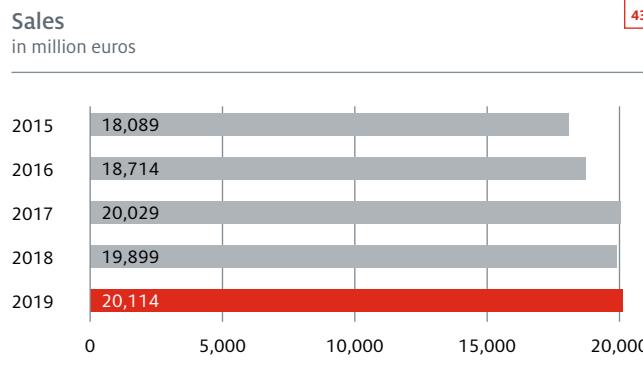
Sales in fiscal 2019 increased nominally by 1.1 percent to 20,114 million euros. Foreign exchange developments had a positive effect on sales of 0.6 percent. Adjusted for these foreign exchange effects, sales grew by 0.5 percent. Acquisitions/divestments accounted for 0.5 percent of the increase in sales.

Organic sales growth, i.e. adjusted for foreign exchange and acquisitions/divestments, was flat at 0.0 percent. We were able to raise prices by 1.8 percent, while volumes declined to the same extent. Organic sales development was -1.5 percent in the Adhesive Technologies business unit and decreased by -2.1 percent in the Beauty Care business unit compared to 2018.

The Laundry & Home Care business unit generated organic sales growth of 3.7 percent.

Sales development¹

Sales
in million euros

**Sales****0.0 %**

organic sales growth.

EBIT**16.0 %**adjusted¹ return on sales
(EBIT): down 1.6 percentage
points.**EPS****5.43 €**adjusted¹ earnings per
preferred share (EPS):
down 9.7 percent.**EPS development****-10.1 %**at constant
exchange rates.**Dividend****1.85 €**dividend per preferred share².**Price and volume effects**

in percent	Organic sales growth	of which price	of which volume
Adhesive Technologies	-1.5	1.8	-3.3
Beauty Care	-2.1	-0.6	-1.5
Laundry & Home Care	3.7	3.2	0.5
Henkel Group	0.0	1.8	-1.8

In a persistently competitive market environment, sales in the Western Europe region decreased to 6,017 million euros. Organic sales development was slightly negative at -1.2 percent. At 30 percent, the share of sales from the region was slightly below the prior-year level.

In the Eastern Europe region, we achieved sales of 2,999 million euros. Organically, sales grew by 6.5 percent. The share of sales from the region increased slightly to 15 percent.

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

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

² Proposal to shareholders for the Annual General Meeting on April 20, 2020.

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Our sales in the Africa / Middle East region increased to 1,302 million euros. Sales grew organically by 13.3 percent. At 7 percent, the share of sales from the region increased slightly year on year.

Sales in the North America region increased to 5,276 million euros. Organic sales development was negative at -2.3 percent. The share of sales from the region increased slightly to 26 percent compared to 2018.

In the Latin America region, we achieved sales of 1,295 million euros. Organic sales growth was 4.9 percent. The share of sales from the region remained unchanged at 6 percent.

Sales in the Asia-Pacific region were down year on year at 3,105 million euros. Organic sales development in the region was negative at -6.5 percent. The share of sales from the Asia-Pacific region decreased slightly to 15 percent.

Sales in the emerging markets of Eastern Europe, Africa / Middle East, Latin America and Asia (excluding Japan) were slightly higher year on year at 8,133 million euros. Organic sales growth was 2.5 percent. Our emerging markets were thus the main drivers of organic sales development. At 40 percent, the share of sales from emerging markets was unchanged year on year.

Key financials by region¹

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in million euros	Western Europe	Eastern Europe	Africa / Middle East	North America	Latin America	Asia-Pacific	Total Regions	Corporate	Henkel Group
Sales² 2019	6,017	2,999	1,302	5,276	1,295	3,105	19,994	121	20,114
Sales ² 2018	6,107	2,843	1,286	5,040	1,181	3,314	19,771	128	19,899
Change from previous year	-1.5 %	5.5 %	1.2 %	4.7 %	9.6 %	-6.3 %	1.1 %	-	1.1 %
Organic	-1.2 %	6.5 %	13.3 %	-2.3 %	4.9 %	-6.5 %	0.0 %	-	0.0 %
Proportion of Group sales 2019	30%	15%	7%	26%	6%	15%	99%	1%	100%
Proportion of Group sales 2018	31%	14%	6%	25%	6%	17%	99%	1%	100%
Operating profit (EBIT) 2019	1,725	278	106	337	145	431	3,022	-123	2,899
Operating profit (EBIT) 2018	1,810	280	35	406	136	561	3,228	-112	3,116
Change from previous year	-4.7 %	-0.6 %	200.3 %	-16.8 %	6.6 %	-23.1 %	-6.4 %	-	-7.0 %
Adjusted for foreign exchange	-4.8 %	-0.1 %	260.7 %	-25.1 %	9.9 %	-25.6 %	-7.0 %	-	-7.8 %
Return on sales (EBIT) 2019	28.7%	9.3%	8.1%	6.4%	11.2%	13.9%	15.1%	-	14.4%
Return on sales (EBIT) 2018	29.6 %	9.8 %	2.7 %	8.0 %	11.5 %	16.9 %	16.3 %	-	15.7 %

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

² By location of company.

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Operating profit

The following explanations relate to results adjusted for one-time charges/gains and restructuring expenses so as to present operational performance before exceptional items.

Adjusted operating profit (EBIT)

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in million euros	2018	2019	+/-
EBIT (as reported)	3,116	2,899	-7.0%
One-time gains	-11	-7	
One-time charges	129	34	
Restructuring expenses	262	294	
Adjusted EBIT	3,496	3,220	-7.9%

In order to adapt our structures to our markets and customers, we spent 294 million euros on restructuring (previous year: 262 million euros). A significant portion of this amount is attributable to the optimization of our sales, administration and production structures. Please refer to page 228 for more details on our restructuring expenses and an explanation of the one-time charges and gains.

The profitability of the Group was negatively impacted both by the increased investments in brands, technologies, innovations and digitalization announced at the start of 2019, and by declining volumes. Our continued focus on cost management, strict implementation of our “Fund growth” initiatives, and the adjustment of our structures to our markets and customers, served to only partially offset the negative factors encountered.

Adjusted operating profit (adjusted EBIT) totaled 3,220 million euros, a decrease of -7.9 percent compared to the prior-year figure of 3,496 million euros. Adjusted return on sales (adjusted EBIT margin) for the Group was -1.6 percentage points down year on year at 16.0 percent.

Adjusted return on sales for the Adhesive Technologies business unit decreased to 18.1 percent (previous year: 18.7 percent). Adjusted return on sales for the Beauty Care business unit also declined year on year to 13.4 percent. Adjusted return on sales for the Laundry & Home Care business unit likewise decreased year on year, from 18.1 percent to 16.5 percent.

First-time application of IFRS 16 Leases did not have any major impact on the results of operations of the Group, nor of the business units in fiscal 2019.

Expense items

The following explanations relate to our operating expenses adjusted for one-time charges/gains and restructuring expenses. The reconciliation statement and the allocation of the restructuring expenses between the various expense items of the consolidated statement of income can be found on page 228.

Cost of sales was 1.6 percent higher year on year at 10,811 million euros. Gross profit increased by 0.5 percent to 9,303 million euros. Adjusted gross margin decreased by -0.2 percentage points to 46.3 percent. Ongoing measures to reduce costs and enhance production and supply chain efficiency, together with selective price increases, enabled us to offset much of the impact exerted by higher prices for direct materials (raw materials, packaging, and purchased goods and services), declining volumes and negative mix effects.

At 4,793 million euros, marketing, selling and distribution expenses were above the prior-year figure of 4,513 million euros. Compared to fiscal 2018, the ratio to sales increased by 1.3 percentage points to 23.9 percent. We spent a total of 487 million euros for research and development. The ratio to sales, at 2.4 percent, was on a par with the prior year. Administrative expenses totaled 895 million euros – up from 875 million euros in the previous year. At 4.4 percent, administrative expenses as a percentage of sales were stable year on year.

16.0 %

adjusted return on sales:
down 1.6 percentage points.

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Reconciliation from sales to adjusted operating profit

47

in million euros	2018	%	2019	%	Change
Sales	19,899	100.0	20,114	100.0	1.1%
Cost of sales	-10,641	-53.5	-10,811	-53.7	1.6%
Gross profit	9,258	46.5	9,303	46.3	0.5%
Marketing, selling and distribution expenses	-4,513	-22.6	-4,793	-23.9	6.2%
Research and development expenses	-471	-2.4	-487	-2.4	3.4%
Administrative expenses	-875	-4.4	-895	-4.4	2.3%
Other operating income / expenses	97	0.5	92	0.4	-
Adjusted operating profit (EBIT)	3,496	17.6	3,220	16.0	-7.9%

Other operating income and expenses

At 92 million euros, the balance of adjusted other operating income and expenses decreased year on year (2018: 97 million euros).

Financial result

The financial result decreased from -65 million euros in 2018 to -88 million euros in the reporting year, due mainly to the increased interest expense from lease commitments of -16 million euros following first-time application of IFRS 16 as of January 1, 2019. At the same time, EBIT improved due to said first-time application by 16 million euros. The financial result was also impacted by higher financing costs for acquisitions.

Net income and earnings per share (EPS)

Income before tax decreased from 3,051 million euros in 2018 to 2,811 million euros. Taxes on income amounted to 708 million euros. At 25.2 percent, the tax rate was above the level of the previous year (2018: 23.6 percent). The adjusted tax rate increased year on year by 0.8 percentage points to 24.3 percent. Net income declined by -9.7 percent from 2,330 million euros to 2,103 million euros. After allowing for 18 million euros attributable to non-controlling interests, net income attributable to shareholders of Henkel AG & Co. KGaA amounted to 2,085 million euros, -9.9 percent lower than the prior-year figure (2018: 2,314 million euros¹). Adjusted net income after deducting non-controlling interests was 2,353 million euros compared to 2,603 million euros in fiscal 2018. A condensed version of the annual financial statements of the parent company of the Henkel Group – Henkel AG & Co. KGaA – can be found on pages 116 to 119.

€ 2,103 m
net income.

Earnings per preferred share (EPS) decreased from 5.34 euros¹ to 4.81 euros. Earnings per ordinary share decreased from 5.32 euros¹ to 4.79 euros.

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

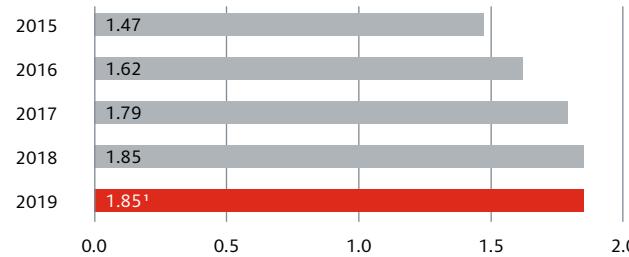
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Adjusted earnings per preferred share decreased by – 9.7 percent to 5.43 euros (previous year: 6.01 euros). At constant exchange rates, adjusted earnings per preferred share decreased by – 10.1 percent. In calculating adjusted earnings per preferred share, figures are adjusted for one-time charges/gains and restructuring expenses.

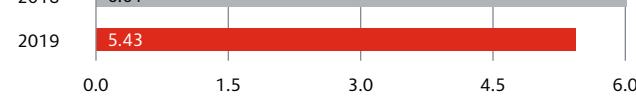
Adjusted earnings per preferred share
in euros

Preferred share dividend in euros

49



^¹ Proposal to shareholders for the Annual General Meeting on April 20, 2020.



Dividend

According to our dividend policy, dividend payouts of Henkel AG & Co. KGaA shall, depending on the company's asset and profit positions and its financial requirements, be in the range of 30 to 40 percent of net income – adjusted for exceptional items – after non-controlling interests. We will propose to the Annual General Meeting the same dividend as in the previous year, namely 1.85 euros per preferred share and 1.83 euros per ordinary share. The payout ratio would then be 34.2 percent.

Return on capital employed (ROCE)

At 13.5 percent, return on capital employed (ROCE) was below the prior-year figure of 15.5 percent.

Economic Value Added (EVA®)

Economic Value Added (EVA®) decreased from 1,510 million euros to 1,236 million euros.

Comparison between actual business performance and guidance

In August 2019, we updated our guidance for the Henkel Group and our business units for fiscal 2019:

We expected the Henkel Group to generate organic sales growth of 0 to 2 percent. For the Adhesive Technologies business unit, we expected organic sales development of –1 to 1 percent. For the Beauty Care business unit, we anticipated organic sales development in the range of –2 to 0 percent. For the Laundry & Home Care business unit, we expected growth in the range of 2 to 4 percent.

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We forecasted adjusted return on sales (EBIT) for the Henkel Group of 16 to 17 percent in fiscal 2019. We expected adjusted return on sales (EBIT) of between 18 and 19 percent for the Adhesive Technologies business unit. We anticipated adjusted return on sales (EBIT) of between 13 and 14 percent for the Beauty Care business unit and between 16.5 and 17.5 percent for the Laundry & Home Care business unit.

We predicted adjusted earnings per preferred share at constant exchange rates in the mid- to high single-digit percentage range below prior year.

At 0.0 percent, organic sales development was at the lower end of the guidance range of 0 to 2 percent for the Henkel Group. Sales development in the Adhesive Technologies and Beauty Care business units was just below the guidance ranges in each case. By contrast, organic sales growth in the Laundry & Home Care business unit was in the upper range of the indicated bandwidth.

Adjusted return on sales (EBIT) for the Henkel Group decreased by –1.6 percentage points to 16.0 percent, which was at the lower end of the forecast range. Adjusted return on sales (EBIT) was also at the lower end of the expected bandwidth for the Adhesive Technologies business unit. Beauty Care came in at the mid-range and Laundry & Home Care at the lower end of its forecast range.

Adjusted earnings per preferred share at constant exchange rates declined by –10.1 percent and was therefore slightly below our guidance.

In November 2019, we revised our expected restructuring expenses to between 250 million and 300 million euros, and cash outflows from investments in property, plant and equipment and intangible assets to between 650 million and 700 million euros. Both figures were within the forecast range, with restructuring expenses of 294 million euros and cash outflows from investments in property, plant and equipment and intangible assets of 662 million euros.

Guidance versus performance 2019**50**

	Guidance for 2019	Updated guidance for 2019¹	Performance in 2019
Organic sales growth	Henkel Group: 2 to 4 percent All business units within this range	Henkel Group: 0 to 2 percent Adhesive Technologies: –1 to 1 percent Beauty Care: –2 to 0 percent Laundry & Home Care: 2 to 4 percent	Henkel Group: 0.0 percent Adhesive Technologies: –1.5 percent Beauty Care: –2.1 percent Laundry & Home Care: 3.7 percent
Adjusted ² return on sales (EBIT)	Henkel Group: 16 to 17 percent Adhesive Technologies: 18 to 19 percent Beauty Care: 15 to 16 percent Laundry & Home Care: 16.5 to 17.5 percent	Henkel Group: 16 to 17 percent Adhesive Technologies: 18 to 19 percent Beauty Care: 13 to 14 percent Laundry & Home Care: 16.5 to 17.5 percent	Henkel Group: 16.0 percent Adhesive Technologies: 18.1 percent Beauty Care: 13.4 percent Laundry & Home Care: 16.5 percent
Development in adjusted ² earnings per preferred share at constant exchange rates	Mid-single-digit percentage range below prior year	Mid- to high single-digit percentage range below prior year	–10.1 percent

¹ Updated on August 13, 2019.² Adjusted for one-time charges / gains and restructuring expenses.

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The economic environment of the Adhesive Technologies business unit was characterized by persisting economic and geopolitical risks and, as a consequence, a decline – in some cases significant – in global demand from major industries. Although the global industrial production index (IPX) was marginally up overall, the rate of increase was significantly lower year on year.

Within these challenging economic conditions, the organic sales performance and the adjusted return on sales of the Adhesive Technologies business unit declined.

Sales

Sales generated by the Adhesive Technologies business unit rose nominally by 0.6 percent to 9,461 million euros in the year under review. Foreign exchange effects increased sales growth by 1.5 percent. Acquisitions / divestments accounted for 0.6 percent of the growth.

Organically (i.e. adjusted for foreign exchange and acquisitions / divestments), sales decreased by -1.5 percent. Price increases implemented were unable to fully offset lower sales volumes.

In the following, we comment on our organic sales performance in the regions. Sales in the emerging markets were flat. This was particularly due to very strong sales growth in Eastern Europe and Latin America, while sales development was negative in the Africa / Middle East and Asia (excluding Japan) regions.

Sales growth**- 1.5 %**

organic sales growth.

**Adjusted¹
operating profit****€ 1,712 m**adjusted¹ operating profit
(EBIT): down 2.8 percent.**Key financials²****51**

in million euros	2018	2019	+/-
Sales	9,403	9,461	0.6%
Proportion of Henkel sales	47%	47%	-
Operating profit (EBIT)	1,669	1,631	-2.3%
Adjusted operating profit (EBIT)	1,761	1,712	-2.8%
Return on sales (EBIT)	17.7%	17.2%	-0.5 pp
Adjusted return on sales (EBIT)	18.7%	18.1%	-0.6 pp
Return on capital employed (ROCE)	19.3%	17.2%	-2.1 pp
Economic Value Added (EVA®)	762	685	-10.2%

Sales development³**52**

in percent	2019
Change versus previous year	0.6
Foreign exchange	1.5
Adjusted for foreign exchange	-0.9
Acquisitions / divestments	0.6
Organic	-1.5
of which price	1.8
of which volume	-3.3

¹ Adjusted for one-time charges / gains and restructuring expenses.² Calculated on the basis of units of 1,000 euros; figures commercially rounded.³ Calculated on the basis of units of 1,000 euros.

pp = percentage points

**Adjusted¹
return on sales****18.1 %**adjusted¹ return on sales
(EBIT): down 0.6 percentage
points.

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In North America, Western Europe and the mature markets of the Asia-Pacific region, sales declined. Overall, therefore, sales in the mature markets were lower year on year.

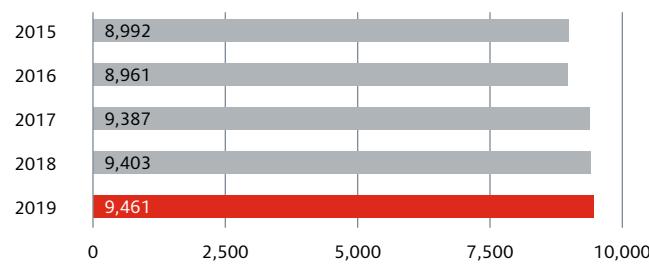
In 2019, we generated more than 80 percent of all sales with our five technology-based brand clusters in the industrial business and our four strong brands in the consumer business. The proportion of sales from products successfully launched onto the market in the last five years was unchanged at around 30 percent.

Operating profit

Adjusted operating profit was down year on year at 1,712 million euros. Adjusted return on sales came in at 18.1 percent, adversely affected by declining volumes. Gross margin was above the prior-year level. By raising prices and continuing our ongoing measures to reduce costs and enhance production and supply chain efficiency, we were able to more than offset the effects of declining volumes.

At 11.5 percent, net working capital as a percentage of sales was down compared to the prior year. Return on capital employed (ROCE) was lower year on year at 17.2 percent. At 685 million euros, Economic Value Added (EVA®) decreased year on year.

Sales Adhesive Technologies
in million euros



Business areas

In the following, we comment on the organic sales performance of our business areas. For details of the activities of the individual business areas, please refer to pages 76 and 77.

Industrial business

Sales in the Packaging and Consumer Goods Adhesives business area were flat versus the previous year. The robust performance was substantially driven by our growing portfolio of safe and sustainable packaging solutions as used predominantly in the food and beverage sectors. In the Transport and Metal business area, sales were down year on year, due mainly to the decline in global automotive production. The growth of our businesses with innovative and sustainable aircraft and aerospace solutions and our metal packaging businesses only partially offset this decline. Sales decreased in the General Industry business area. Subdued global economic development in key manufacturing industry segments had a negative impact on demand. By contrast, the performance of our automotive maintenance, repair and overhaul solutions was flat. Sales in the Electronics business area were lower versus prior year. Innovative solutions to meet the infrastructure requirements for implementation of the future 5G mobile communications standard were only able to partially offset declining demand from the global electronics industry.

Adhesives for Consumers, Craftsmen and Building

Sales development in the Adhesives for Consumers, Craftsmen and Building business area was positive. Drivers of this performance included our innovations for the construction industry and our high-impact and sustainable brand-name products for private users and craftsmen.

Top brands

LOCTITE

TECHNOMELT

BONDERITE

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Beauty Care

Overview

The global cosmetics markets and categories of relevance for the Beauty Care business unit recorded further growth in 2019. Apart from the global Styling category, market growth was, at least, positive in most of the relevant categories.

In Beauty Care's Branded Consumer Goods business, performance in the mature markets was positive overall, although market development was negative in some categories. The North America region registered good market growth. Growth in the Western European market was positive, despite persistent promotional activity and severe price and trade pressures. Market growth was very strong in Eastern Europe and strong in Latin America. The Asia-Pacific region recorded double-digit market growth.

Global growth in the professional hair salon market was due particularly to growth in the North America and Asia-Pacific

regions, while the hair salon market in Western Europe continued to be characterized by intense competition.

Overall, organic sales development was negative in the Beauty Care business unit in 2019. Organic sales development in our Branded Consumer Goods business area was negative. In our Hair Salon business, organic growth was strong. Adjusted return on sales in the Beauty Care business unit was lower year on year.

Sales

Sales generated by the Beauty Care business unit decreased nominally by -1.8 percent to 3,877 million euros in the year under review. Acquisitions/divestments increased sales by 0.3 percent while foreign exchange effects overall had a neutral impact on sales.

Sales growth**- 2.1 %**

organic sales growth.

**Adjusted¹
operating profit****€ 519 m**adjusted¹ operating profit
(EBIT): down 23.1 percent.**Key financials²****54**

in million euros	2018	2019	+/-
Sales	3,950	3,877	-1.8%
Proportion of Henkel sales	20%	19%	-
Operating profit (EBIT)	589	418	-29.0%
Adjusted operating profit (EBIT)	675	519	-23.1%
Return on sales (EBIT)	14.9%	10.8%	-4.1 pp
Adjusted return on sales (EBIT)	17.1%	13.4%	-3.7 pp
Return on capital employed (ROCE)	14.8%	10.1%	-4.7 pp
Economic Value Added (EVA®)	230	88	-61.9%

Sales development³**55**

in percent	2019
Change versus previous year	-1.8
Foreign exchange	0.0
Adjusted for foreign exchange	-1.8
Acquisitions / divestments	0.3
Organic	-2.1
of which price	-0.6
of which volume	-1.5

¹ Adjusted for one-time charges/gains and restructuring expenses.² Calculated on the basis of units of 1,000 euros; figures commercially rounded.³ Calculated on the basis of units of 1,000 euros.

pp = percentage points

13.4 %adjusted¹ return on sales
(EBIT): down 3.7 percentage
points.

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Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales development was negative at -2.1 percent, mainly due to lower volumes.

In the following, we comment on our organic sales performance in the regions. From a regional perspective, business performance was negative in the emerging markets, mainly as a result of negative organic sales development in Asia (excluding Japan). By contrast, the business unit achieved very strong organic sales growth in the Eastern Europe and Latin America regions. Sales declined slightly in the Africa/Middle East region. Organic sales development was also slightly negative in the mature markets. Sales development was negative in the Western Europe region but strong in the mature markets of the Asia-Pacific region. Sales development in the North America region was slightly negative.

In 2019, we generated around 85 percent of our sales with our top 10 brands. The proportion of sales from products successfully launched onto the market in the last three years was around 45 percent.

Sales Beauty Care
in million euros

Operating profit

Adjusted operating profit came in at 519 million euros, down -23.1 percent versus prior year. Adjusted return on sales decreased year on year to 13.4 percent, due mainly to a declining gross margin and increased investments in brands, technologies, innovations and digitalization. Our ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to partially offset the negative effects on gross margin exerted by higher prices for direct materials, declining volumes and persistently high promotional intensity.

At 1.9 percent, net working capital as a percentage of sales was significantly lower versus prior year. Return on capital employed (ROCE) was lower year on year at 10.1 percent. At 88 million euros, Economic Value Added (EVA®) declined.

Business areas

In the following, we comment on the organic sales performance of our two business areas. For details of the activities of the individual business areas, please refer to page 77.

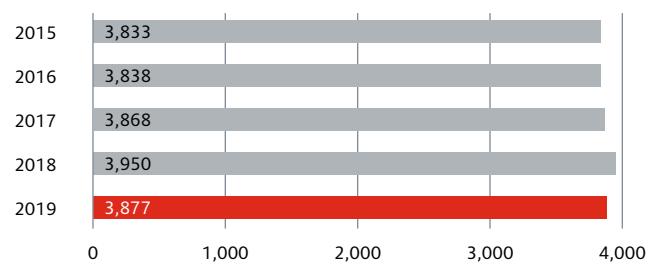
Branded Consumer Goods

Sales development in our Branded Consumer Goods business area was negative overall in 2019, mainly as a result of the performance of our businesses in Western Europe and Asia (excluding Japan). By contrast, our global brands got2b and Palette, and our nature brands Nature Box and N.A.E. all made a positive contribution.

Hair Salon business

Our Hair Salon business continued its strong widespread growth in 2019, supported by our Schwarzkopf Professional brand with innovations in the Igora and BlondMe lines, by our new brands Authentic Beauty Concept and tbh, and by our North American brand Joico.

Top brands



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Laundry & Home Care

Overview

In 2019, growth in the relevant world market for laundry and home care products was good.

Market development in the mature markets was good, with corresponding performance in the relevant market for laundry detergents and household cleaners in North America. Market growth in Western Europe and in the mature markets of the Asia-Pacific region was positive and good respectively.

The emerging markets recorded very strong growth, with the market in Africa/Middle East achieving double-digit growth. Growth was very strong in the relevant Eastern European and Latin American markets, and slightly negative in Asia (excluding Japan).

Although our relevant markets continued to be characterized by intense price and promotional competition, we were able

to generate further growth in 2019. Both the sustained success of our strong brands and the successful introduction of our innovations contributed to this good performance. Adjusted return on sales was lower year on year, due mainly to increased investments in brands, technologies, innovations and digitalization.

Sales

Sales generated by the Laundry & Home Care business unit increased nominally by 3.7 percent to 6,656 million euros in the year under review. Foreign exchange effects reduced sales growth by -0.3 percent. Acquisitions/divestments contributed 0.3 percent to sales development.

Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales increased by 3.7 percent. Sales growth was mainly price-driven.

Sales growth**+3.7 %**

organic sales growth.

Adjusted¹
operating profit**€ 1,096 m**adjusted¹ operating profit
(EBIT): down 5.7 percent.**Key financials²****57**

in million euros	2018	2019	+/-
Sales	6,419	6,656	3.7%
Proportion of Henkel sales	32 %	33 %	-
Operating profit (EBIT)	970	973	0.3 %
Adjusted operating profit (EBIT)	1,162	1,096	-5.7 %
Return on sales (EBIT)	15.1 %	14.6 %	-0.5 pp
Adjusted return on sales (EBIT)	18.1 %	16.5 %	-1.6 pp
Return on capital employed (ROCE)	13.1 %	12.6 %	-0.5 pp
Economic Value Added (EVA®)	306	356	16.2 %

Sales development³**58**

in percent	2019
Change versus previous year	3.7
Foreign exchange	-0.3
Adjusted for foreign exchange	4.0
Acquisitions / divestments	0.3
Organic	3.7
of which price	3.2
of which volume	0.5

¹ Adjusted for one-time charges/gains and restructuring expenses.² Calculated on the basis of units of 1,000 euros; figures commercially rounded.³ Calculated on the basis of units of 1,000 euros.

pp = percentage points

Adjusted¹
return on sales**16.5 %**adjusted¹ return on sales
(EBIT): down 1.6 percentage
points.

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In the following, we comment on our organic sales performance in the regions. The emerging markets registered a double-digit increase in sales and were once again the primary driver of organic growth in Laundry & Home Care. The Africa/Middle East region also contributed to this growth with a double-digit increase in sales. Sales growth in the Eastern Europe and Latin America regions was significant and very strong respectively, but lower year on year in the Asia (excluding Japan) region. The mature markets were characterized by slightly declining organic sales development. This was due to the North America region, which declined in particular as a consequence of ongoing price and promotional competition. Sales development was flat in both the Western Europe region and the mature markets of the Asia-Pacific region.

In 2019, we generated around 65 percent of our sales with our top 10 brand clusters. A brand cluster comprises individual global and local brands that share a common brand positioning internationally. The proportion of sales from products successfully launched onto the market in the last three years was around 45 percent.

Operating profit

Adjusted operating profit was down year on year at 1,096 million euros. Adjusted return on sales in the Laundry & Home Care business unit declined to 16.5 percent, due mainly to increased investments in brands, technologies, innovations and digitalization. Gross margin remained at the prior-year level. Our ongoing measures to reduce costs and enhance production and supply chain efficiency, together with selective price increases, enabled us to offset the negative effects on gross margin exerted by higher prices for direct materials and persistently high promotional intensity.

At -5.3 percent, net working capital as a percentage of sales was significantly lower versus prior year. Return on capital employed (ROCE) was lower year on year at 12.6 percent. At 356 million euros, Economic Value Added (EVA[®]) was significantly above the prior-year level.

Business areas

In the following, we comment on the organic sales performance of our two business areas, Laundry Care and Home Care. For details of the activities of the individual business areas, please refer to page 77.

Laundry Care

Sales performance in our Laundry Care business area was good, supported in particular by the introduction of successful innovations such as our Persil 4-in-1 Discs. Our core brand Persil and our specialty detergents business were the primary contributors to growth.

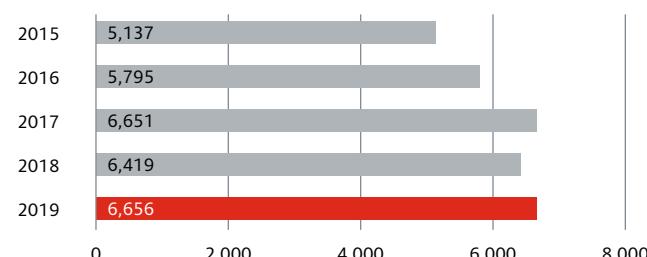
Home Care

Sales growth in the Home Care business area was very strong in fiscal 2019. Hand dishwashing products and WC products were the biggest drivers of growth.

Top brands**Persil****Bref**

Sales Laundry & Home Care
in million euros

59



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Acquisitions and divestments

Effective May 1, 2019, Henkel completed the acquisition of all shares in Molecule Corp. based in Concord, USA. The acquisition complements and strengthens the Adhesive Technologies business unit's technology portfolio in the fields of 3D printing and industrial inkjet solutions.

In fiscal 2019, the Henkel Group also acquired 51 percent of the shares in eSalon.com LLC, Los Angeles, USA, effective August 5, 2019. The acquisition strengthens the Beauty Care business unit's leading Hair Colorants portfolio and expands its digital business. The acquisition is part of our strategy to further drive digitalization in our business units.

Effective December 6, 2019, the Henkel Group completed the acquisition of all shares in Deva Parent Holdings, Inc., New York City, USA. This acquisition is part of our strategy to strengthen Henkel's position in attractive markets and categories. The acquisition particularly expands Beauty Care's Hair Salon business in the USA, which is the world's largest single hairdressing market.

Additional disclosures relating to our acquisitions and divestments can be found on pages 147 to 149 of the notes to the consolidated financial statements.

Neither the acquisitions and divestments nor other measures undertaken in the year under review resulted in any material changes in the business and organizational structure of the Henkel Group. For detailed information on our organization and business activities, please refer to the disclosures on pages 76 and 77.

Our long-term ratings remain at "A flat" (Standard & Poor's) and "A2" (Moody's). We intend to maintain a solid "A" rating to ensure our continued unrestricted access to the money and capital markets and to favorable financing terms and conditions.

Capital expenditures

In the reporting period, capital expenditures (excluding acquisitions) amounted to 662 million euros. Investments in property, plant and equipment for existing operations totaled 594 million euros, following 576 million euros in 2018. Capital expenditures on property, plant and equipment totaled 277 million euros (previous year: 240 million euros) in the Adhesive Technologies business unit, 89 million euros (previous year: 74 million euros) in Beauty Care, and 217 million euros (previous year: 252 million euros) in Laundry & Home Care. We invested 68 million euros in intangible assets (previous year: 277 million euros).

Around two-thirds of these expenditures were channeled into expansion projects, innovations and streamlining measures, which for example included expanding our production capacity and our IT infrastructure, and also implementation of our innovation strategy.

The major projects of 2019 were as follows:

- Construction of an Innovation Center in Düsseldorf (Adhesive Technologies).
- Expansion of innovative detergent capsule production in the USA and Hungary (Laundry & Home Care).
- Construction of a new production site for electronic adhesives in Seoul, South Korea (Adhesive Technologies).
- Global optimization of our supply chain and consolidation and optimization of our IT system architecture for managing business processes.
- Optimization of our production structure in Bowling Green, USA (Laundry & Home Care).

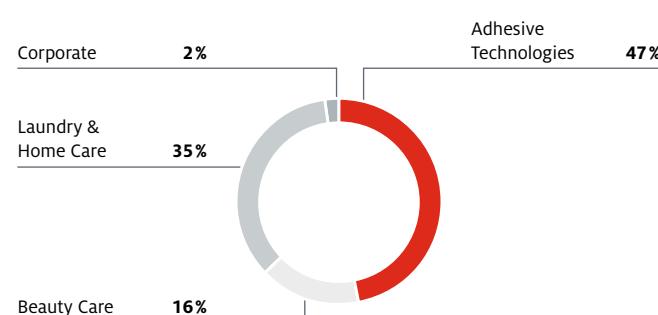
€ 662 m

investments in property,
plant and equipment and
intangible assets.

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In regional terms, capital expenditures focused primarily on Western and Eastern Europe and North America.

The acquisitions resulted in additions to intangible assets and property, plant and equipment (including right-of-use assets) in the amount of 600 million euros. Details of these additions can be found on pages 162 to 171 of the notes to the consolidated financial statements.

Capital expenditures by business unit¹

¹ Existing operations.

Capital expenditures 2019

in million euros	Existing operations	Acquisitions	Total
Intangible assets	68	576	644
Property, plant and equipment	594	24	618
Total	662	600	1,262

Right-of-use assets

In the course of its business operations, Henkel enters into various lease agreements as a lessee. In fiscal 2019, the Henkel Group recognized additions to right-of-use assets totaling 139 million euros under property, plant and equipment in accordance with IFRS 16. Acquisitions added 15 million euros. For further disclosures regarding IFRS 16 Leases, please refer to pages 158 to 160 and pages 162 to 171 in the notes to the consolidated financial statements.

Net assets

Compared to year-end 2018, total assets rose by 1.8 billion euros to 31.4 billion euros.

Under **non-current assets**, intangible assets increased by 710 million euros in total, mainly as a result of acquisitions and currency effects. Property, plant and equipment increased by 650 million euros. Investments of 594 million euros in property, plant and equipment and additions of 139 million euros in right-of-use assets (excluding acquisitions) were offset by scheduled depreciation of 717 million euros, of which 133 million euros is attributable to right-of-use assets.

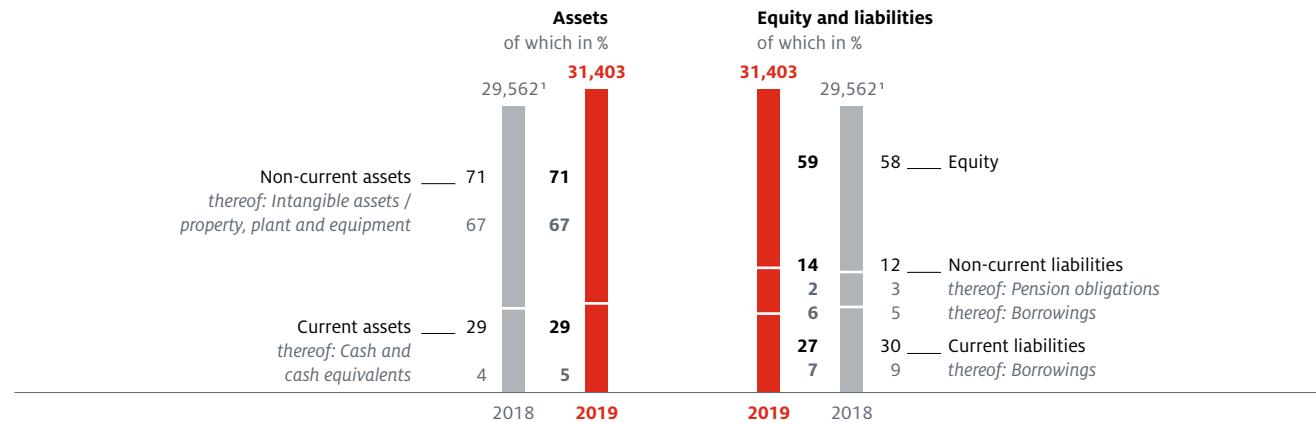
Current assets increased from 8.7 billion euros to 9.1 billion euros, due mainly to higher cash and cash equivalents, which increased by 0.4 billion euros.

Compared to year-end 2018, **equity** including non-controlling interests increased by 1.6 billion euros to 18.6 billion euros. The addition of net income amounting to 2,103 million euros had the effect of increasing equity, while the dividend distribution of April 2019 in particular had the countervailing effect of reducing equity by 798 million euros. The individual components influencing equity development are shown in the table on page 140. By year-end 2019, the equity ratio had increased by 1.8 percentage points to 59.3 percent.

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Financial structure
in million euros

62

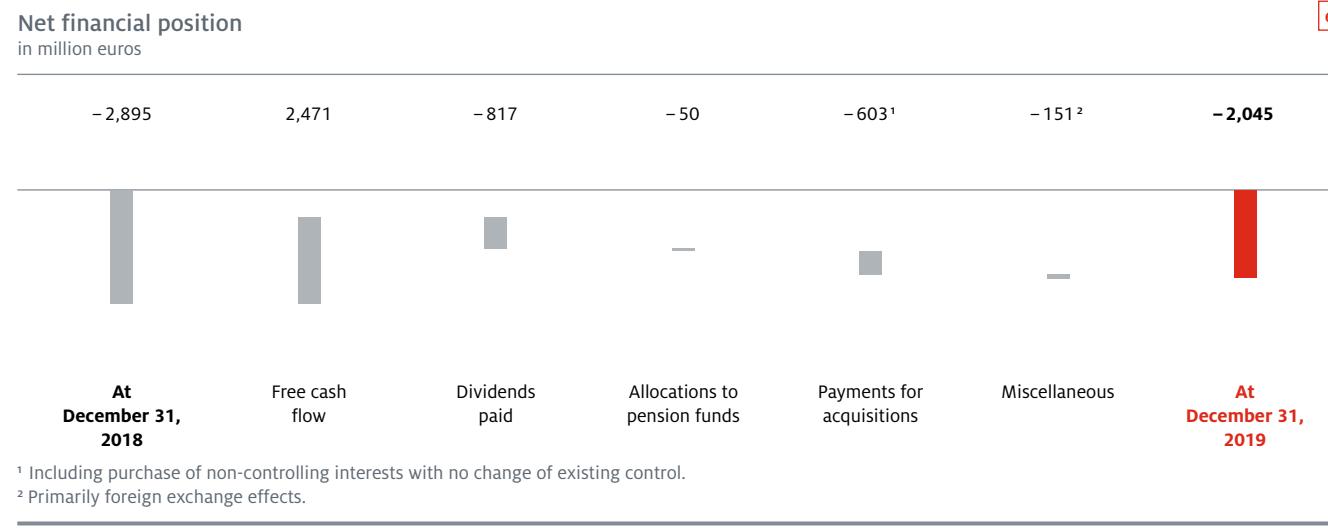


¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

Non-current liabilities increased by 742 million euros to 4.3 billion euros, due to recognition of 423 million euros in respect of non-current lease liabilities under other financial liabilities upon first-time application of IFRS 16 as of December 31, 2019. Non-current borrowings also increased as a result of the issuance of two bonds with a total nominal volume of 750 million British pounds, countervailed by the decrease resulting from reclassification of a bond with a nominal volume of 600 million US dollars to current borrowings.

Current liabilities as of December 31, 2019 amounted to 8.5 billion euros, a decrease of –513 million euros compared to year-end 2018, due largely to the repayment of a bond with a nominal volume of 750 million US dollars. This was countervailed by an increase in current borrowings on reclassification of a bond with a nominal volume of 600 million US dollars. In addition, other financial liabilities increased by 128 million euros following the recognition of current lease liabilities.

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Effective December 31, 2019, our **net financial position**¹ amounted to –2,045 million euros (December 31, 2018: –2,895 million euros). The change compared to the end of the previous year was primarily due to the strong free cash flow.

Net financial position 2015 to 2019	
in million euros	64
2015	335
2016	-2,301
2017	-3,222
2018	-2,895
2019	-2,045

¹ The net financial position is defined as cash and cash equivalents plus readily monetizable securities and time deposits and financial collateral provided, less borrowings, plus positive and minus negative fair values of derivative financial instruments.

Financial position

Cash flow from operating activities in fiscal 2019 came in at 3,241 million euros, representing an increase versus the previous year (2,698 million euros). While operating profit decreased slightly year on year, amortization / depreciation was higher – mainly due to first-time application of IFRS 16. The development of inventories and trade accounts receivable had a positive effect on cash flow from operating activities in the year under review. In the previous year, the effect had been negative.

Year on year, the ratio of net working capital² to sales improved by 1.2 percentage points to 3.9 percent (prior-year level: 5.1 percent).

€ **–2,045 m**

net financial position.

² Inventories plus payments on account, receivables from suppliers and trade accounts receivable, less trade accounts payable, liabilities to customers, and current sales provisions.

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The cash outflow in **cash flow from investing activities** (–1,191 million euros) was slightly below the figure of the prior-year period (–1,208 million euros).

Cash outflow in **cash flow from financing activities** was –1,665 million euros in the year under review and thus higher year on year (previous year: –1,330 million euros). The figure for fiscal 2019 was substantially affected by interest payments and the repayment of lease liabilities in accordance with IFRS 16, as well as by money market investments. The previous year had been characterized by the premature repayment of our syndicated bank loan of 1.1 billion US dollars and by the expansion of our commercial paper program.

Cash and cash equivalents increased compared to December 31, 2018, by 399 million euros to 1,462 million euros.

The increase in **free cash flow** from 1,917 million euros in the previous year to 2,471 million euros in 2019 resulted from higher cash flow from operating activities and lower capital expenditures on intangible assets and property, plant and equipment including payments on account. First-time application of IFRS 16 did not have any effect on the amount of free cash flow. It merely resulted in a shift between cash flow from operating activities and cash flow from financing activities.

Financing and capital management

Financing of the Group is centrally managed by Henkel AG & Co. KGaA. Funds are, as a general rule, obtained centrally and distributed within the Group. Our financial management is based on the financial ratios defined in our financial strategy (see table of key financial ratios on the following page). We pursue a conservative and flexible investment and borrowings policy with a balanced investment and financing portfolio. The primary goals of our financial management are to secure the liquidity and creditworthiness of the Group, together with ensuring access at all times to the capital market, and to generate a sustainable increase in shareholder value.

Measures deployed in order to achieve these aims include optimization of our capital structure, adoption of an appropriate dividend policy, equity management and debt reduction. Our capital needs and capital procurement activities are coordinated to ensure that requirements with respect to earnings, liquidity, security and independence are taken into account and properly balanced.

In fiscal 2019, Henkel paid a higher dividend for both ordinary and preferred shares compared to 2018. Cash flows not required for capital expenditures, dividends and interest payments were used to reduce our net debt and to fund acquisitions. We covered our short-term financing requirement primarily through commercial paper. Our multi-currency commercial paper program is additionally secured by a syndicated credit facility.

Our credit rating is regularly reviewed by the two rating agencies Standard & Poor's and Moody's. As in previous years, our ratings remain within the "single A" target corridor, at A/A-1 (Standard & Poor's) and A2/P1 (Moody's). This is a good rating in the prime investment grade segment.

Credit ratings

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

At December 31, 2019

As of December 31, 2019, our borrowings totaled 3,958 million euros and mainly comprised bonds issued and commercial paper.

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Henkel's financial risk management activities are explained in the risks and opportunities report on pages 120 to 131. Further detailed information on our financial instruments can be found in the financial instruments report on pages 195 to 220 of the notes to the consolidated financial statements.

Key financial ratios

Our operating debt coverage in the reporting period was above the minimum of 50 percent, as it was at year-end 2018. Year on year, the interest coverage ratio decreased to 41.5, due in large measure to the higher interest expense from lease commitments following first-time application of IFRS 16. As was also the case at year-end 2018, the interest coverage ratio is still above the minimum of 9.

Key financial ratios**66****2018¹****2019²****Operating debt coverage**

(net income + amortization and depreciation,
impairment and write-ups + interest element of
pension obligations)/net borrowings and pension
and lease obligations

79.0% **88.6%****Interest coverage ratio**

(EBITDA / interest result)

56.0 **41.5****Equity ratio**

(equity / total assets)

57.5% **59.3%**

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

² IFRS 16 Leases included for the first time.

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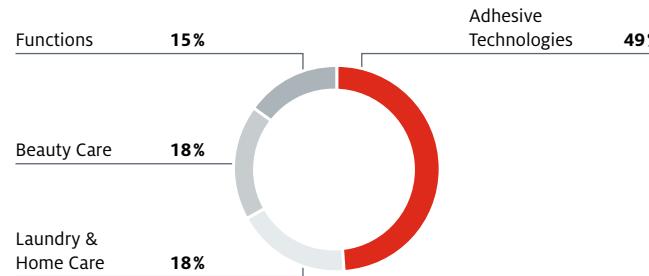
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Employees

Our employees shape our company through their commitment, knowledge and skills. They are instrumental in driving our long-term success. We strive to foster a corporate culture that is agile, motivating and performance-driven, to enable us to drive our strategic priorities together. To achieve this goal, we create a modern and inspiring working environment where team spirit plays a key role – all of which builds on an open and appreciative leadership culture. We strengthen the loyalty of our employees through motivating and specific upskilling activities while also supporting them in their personal development. To reinforce the importance of this leadership culture, we have further developed our Leadership Principles and formulated new Leadership Commitments that apply to all Henkel employees, regardless of whether or not they lead a team. This new understanding of leadership culture forms the basis for collaboration both within the teams and at the level of each individual. We therefore place high expectations on our employees in terms of leadership behavior, agility and collaboration. At the same time, we are aware that this cultural change offers the opportunity to challenge and improve the status quo. The Leadership Commitments were introduced globally in January 2019. Leadership Activation Sessions have been ongoing since February 2019, aimed at involving all employees in active dialog relating to our Leadership Commitments. To obtain a first impression of the impact and understanding of our Leadership Commitments, an employee

Payroll cost and average employee numbers**67**

	2018	2019
Payroll cost in million euros	3,128	3,195
Average employee numbers	53,450	52,650

Employees by organizational unit**68**

At December 31, 2019

survey was conducted on this topic in July, revealing an overall positive response. Our goal is to anchor the Leadership Commitments firmly in our world of work and to successfully align our actions to them.

What makes Henkel special

Everyone who works at Henkel moves in an environment characterized by its international nature and diversity. We are represented by around 52,450 employees (as at year-end 2019) with 120 different nationalities operating in 78 different countries. At December 31, 2019, the number of employees had thus decreased compared to around 53,000 as of year-end 2018. The slight decline was due to synergies resulting from our acquisitions and ongoing adjustments in all business units.

Women in management**69**

in percent	2015	2016	2017	2018	2019
Henkel	33.6	33.1	34.3	34.4	35.5
Managers	33.1	34.3	34.5	34.7	35.7
Top managers ¹	21.1	22.5	23.2	22.9	24.3

¹ Corporate Senior Vice Presidents, management circles I and IIa.

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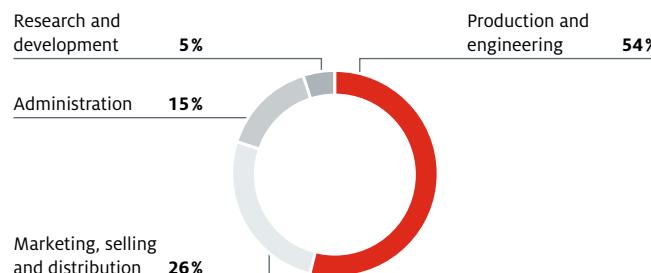
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As an international company with numerous sites and three business units in the industrial and consumer business sectors, we offer a wide variety of career opportunities. Job rotations that transcend departmental and country boundaries give our managers the chance to gain a wealth of experience, to strengthen their intercultural skills and to build a broad network of contacts.

We value diversity in our workforce. Women account for 35.7 percent of the managers in our company. The key to diversity is to create the necessary framework conditions to enable our employees, male and female, to reconcile their careers with their personal lives. For years, the age structure of our employees has remained constant and well balanced. We equally promote all generations at Henkel and take into consideration different life phases. For example, we actively help families to achieve a balance between career and home life by offering childcare facilities and social services. Three kindergartens at our head office in Düsseldorf can accommodate 240 children. In 2015, Henkel's first kindergarten outside Germany opened in Bratislava, Slovakia. We want to actively shape demographic change at Henkel through the implementation of various partial retirement models. At the same time, we encourage the targeted, cross-generational training of qualified newcomers by having their experienced colleagues coach them in direct preparation for a specific role. This ensures that we keep many years of knowledge passed on within Henkel and enhances the company's future viability. We also offer events focusing on social law and psychosocial topics for all Henkel employees regardless of age. The formats differ, with Lunch & Learn sessions, informative events, seminars and workshops all part of the mix. We want the diversity in our workforce to reflect the diversity in our customer structure.

Employees by activity**70**

At December 31, 2019

Energized and empowered teams

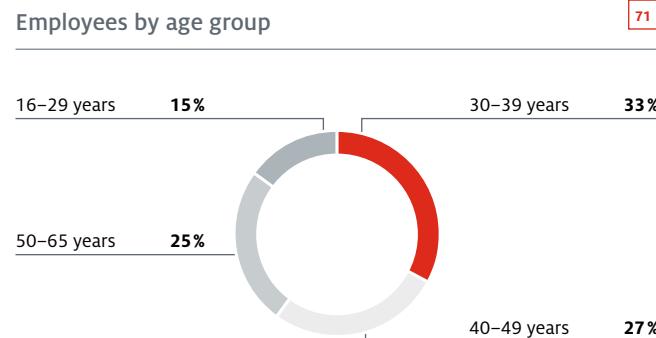
The great importance we attach to our employees is firmly anchored in Henkel's strategic priorities and values. We hold regular assessment meetings and provide open feedback to specifically promote the development of our people. Our globally standardized assessment process includes an annual evaluation of the potential of our employees and, independently of this, an appraisal of their performance against pre-agreed role expectations. In 2019, we separated the process stages governing performance and potential assessments for the first time. They had previously been combined into one step. We are convinced that this procedure helps us to specifically support the long-term career plans of our employees while building a workforce that is fit for the future and able to actively embrace challenges and changes going forward. Individual training programs and potential career moves are also discussed. We support our line managers in these activities by providing digital HR systems that are also being increasingly enabled for mobile use.

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Our employees also embrace the opportunities offered by digitalization. As a means of highlighting and demystifying the changes and opportunities likely to be encountered, we have launched our first Digital Upskilling initiative for all employees around the globe, offering personalized digital training sessions. Digitalization is also increasingly enabling flexible work models and simplifying daily work processes. In addition, we have created flexible office landscapes, enabling employees to select where they want to work when performing specific assignments.

Recruiting, developing and retaining talents

We constantly strive to recruit talents for Henkel that best fit our culture and objectives. Our local recruitment partners advise our departments and respond individually to all our applicants. We continue to focus particularly on actively addressing potential candidates and digital talents through targeted participation at trade fairs and through social networks. Our employees post aspects of their day-to-day work and share their experiences of working for Henkel on our social media channels under #MyStory@Henkel, #JobOfTheMonth and #FollowMeAround. Such posts offer even better insights into our company.

Employees by age group

At December 31, 2019

We place great importance on in-house training and professional development, giving due consideration to locally different training paths. Henkel provides 27 apprenticeship and dual-track study programs in Germany. In 2019, we welcomed 158 new apprentices and students as they embarked on the road toward a professional qualification at Henkel in Germany. In selected emerging markets, we offer a range of trainee programs tailored specifically to the needs of the relevant country.

Employees

(At December 31)	2015	%	2016	%	2017	%	2018	%	2019	%
Western Europe	14,900	30.2	14,450	28.1	14,750	27.5	14,750	27.8	14,750	28.1
Eastern Europe	9,800	19.8	9,500	18.5	9,950	18.5	9,800	18.5	9,800	18.7
Africa / Middle East	4,700	9.4	5,250	10.2	4,750	8.8	4,200	7.9	3,900	7.4
North America	6,250	12.7	8,300	16.2	9,050	16.9	9,000	17.0	8,950	17.1
Latin America	3,500	7.1	3,550	6.9	5,500	10.2	5,800	11.0	5,900	11.3
Asia-Pacific	10,300	20.8	10,300	20.1	9,700	18.1	9,450	17.8	9,150	17.4
Total	49,450	100.0	51,350	100.0	53,700	100.0	53,000	100.0	52,450	100.0

Basis: permanent employees excluding apprentices; figures rounded.

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Procurement

We use externally sourced materials (raw materials, packaging and purchased goods) and services to produce our finished products. These items all fall under the general category of direct materials. Examples include washing-active substances (surfactants), adhesive components, cardboard boxes and external filling services.

Aside from supply and demand, the prices of **direct materials** are mainly determined by the prices of the input materials used to manufacture them.

Fiscal 2019 was characterized by the effects of continuing trade tensions together with weaker global economic growth and, as a result, slower demand on global procurement markets. Accordingly, prices for crude oil, petrochemicals, natural oils such as palm kernel oil, as well as corrugated paper and cardboard were lower on average year on year. As a consequence, commodity prices ranged from stable to lower, especially in the markets for standard materials. By contrast, prices for specialty raw materials, and in certain emerging markets, increased – significantly in some cases. With these trends prevailing, prices in 2019 for direct materials increased in the low single-digit percentage range overall versus the previous year.

Direct material expenditures amounted to 8.4 billion euros, almost matching the prior-year level. Savings from our global procurement strategy and cost reduction measures coupled with improvements in production and supply chain efficiency, as well as effects deriving from lower sales volumes, compensated for both the higher material prices and the effects of acquisitions.

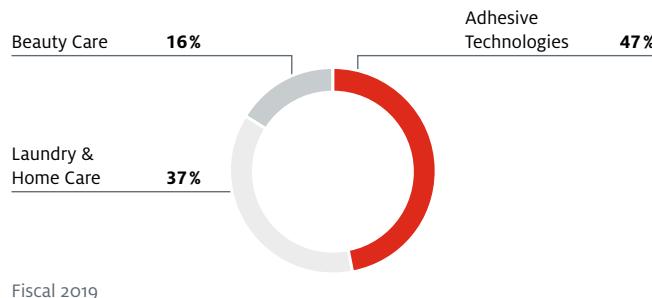
Our five most important categories of direct materials are washing-active substances (surfactants), raw materials for use in hotmelt adhesives, water- and acrylic-based adhesive raw materials, raw materials for polyurethane-based adhesives, and plastic packaging. These account for 35 percent of our total direct material expenditures. Our five largest suppliers represent 13 percent of purchasing volume in direct materials.

Within the category of **indirect materials and services** we procure items and inputs that are not directly used in the production of our finished products. Examples include maintenance materials, logistics, marketing and IT services. At 5.4 billion euros, expenditure on indirect materials and services in 2019 was above the level of the previous year.

In order to improve efficiency and secure material supplies, we continuously optimize our value chain while ensuring that we maintain or improve our level of quality. In addition to negotiating new, competitive contract terms, our ongoing initiative to lower total procurement expenses is a major factor in the success of our global purchasing strategy. We enter into long-term business relationships with selected suppliers to foster the development of innovations, and to optimize manufacturing costs and logistics processes. At the same time, we ensure the risk of supply shortages is reduced. We also agree

Material expenditures by business unit

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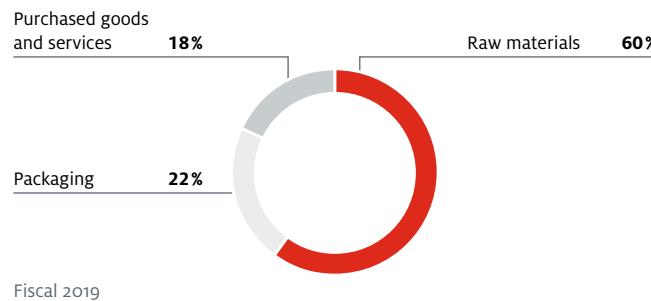
and implement individual targets with our strategic suppliers aimed at optimizing the supply of direct and indirect materials. Given the importance we place on sustainability, we subject our strategic suppliers to regular assessment by EcoVadis, an external sustainability management platform.

We were able to once again increase the efficiency of our purchasing activities by further standardizing, automating and centralizing our procurement processes. In addition to making use of eSourcing tools to support our purchasing operations, we have pooled large portions of our purchasing administration activities – such as order and invoice processing, price data maintenance and reporting activities – within our Shared Service Centers. We are also continuously progressing the digitalization of our purchasing activities. Through our communication platforms, we continuously optimize the cooperation with our strategic suppliers and increase transparency along the value chain by means of new digital applications. In addition, we increasingly use new technologies such as robotics and artificial intelligence to further improve our processes. Furthermore, we continued to consolidate our production, logistics and purchasing activities across all divisions into a Global Supply Chain organization. This organization is managed from our headquarters in Amsterdam and a branch office in Singapore.

Risk management is an important component of our purchasing strategy, especially against the backdrop of uncertainties with regard to supply security on the procurement markets and movements in raw material prices. The emphasis here is on reducing price and supply risks while maintaining consistently high quality. As part of our active price management approach, we employ a mix of strategies to safeguard prices over the longer term. These include both the use of contracts and, where appropriate and possible, financial hedging instruments. In order to minimize the risk of supplier default, we perform detailed risk assessments of suppliers to determine their financial stability, and stipulate supplier default clauses. With the aid of an external, independent financial services provider, we continuously monitor important suppliers whose financial situation is regarded as critical. If a high risk of supplier default is identified, we systematically prepare back-up plans in order to ensure uninterrupted supply.

Material expenditures by type

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Production

In 2019, Henkel manufactured products at 184 sites in 56 countries. Our largest production facilities are located in Bowling Green, USA, and in Düsseldorf, Germany. We manufacture laundry detergents and household cleaners in Bowling Green. In Düsseldorf, we produce not only laundry detergents and household cleaners but also adhesives for consumers and craftsmen, and products for our industrial customers.

Cooperation with toll manufacturers is an integral component of our production strategy, enabling us to optimize our production and logistics structures when entering new markets or where volumes are still small. We purchase around 10 percent in additional production tonnage from toll manufacturers each year.

Number of production sites	2018	2019
Adhesive Technologies	141	138
Beauty Care	11	13
Laundry & Home Care	33	33
Total	185	184

The **Adhesive Technologies** business unit continued to optimize its global production network in 2019, with manufacturing shared between 138 production sites around the world (previous year: 141). In both emerging and mature markets, we invest in the continuous optimization of production and plants that are tailored to the needs of our customers. In addition to cutting-edge technologies and the leveraging of additional cost and quality advantages in the manufacture of our products, we are also focusing on the further development of our production and warehousing network aligned to specific requirements.

Following successful implementation at our site in Shanghai, China, we are taking our multi-technology structure to other new production sites. Various manufacturing technologies are combined at one site to produce cost synergies. In 2019, we put such plants into service in India and Turkey to ensure supply efficiency in our emerging markets.

We are also focusing on the application of Industry 4.0 technologies and integrated sustainability concepts. Our new production facility for aviation solutions in Montornès del Vallès, Spain, is equipped with state-of-the art systems that afford customers maximum transparency and traceability, while also facilitating a joint approach to development work. The extensive use of renewable energy and intelligent equipment and infrastructure technology earned the plant a Gold Certificate from the German Sustainable Building Council [DGNB] – the first production building ever to receive the award in Spain. Our new plant for electronics solutions currently being built in Songdo, South Korea, is being strictly aligned to the needs of smart, networked production technologies in a design concept that complies with high standards of sustainability.

We are also continuing to drive the digitalization of existing production facilities to further improve service quality and raise manufacturing efficiency. At various production sites, we have expanded the recording of operating parameters, enabling us to link important data for better control of the entire logistics and production process from supplier through to the customer.

The number of production sites in our **Beauty Care** business unit has increased to 13. To ensure long-term growth, we are investing in capacities and technologies – especially in emerging markets – based on our supply chain strategy. In Latin America and Russia, particularly, we have further expanded both our existing sites and facilities from acquisitions, thus

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further increasing production capacity in all three key technologies – hair colorants, liquid products and aerosols. We have also specifically expanded our capacities in North America.

Another focal point of the business unit is the further improvement of our delivery service to customers in a volatile and innovative market environment. By integrating our planning processes along the entire supply chain – from suppliers to production to the interface with our customers – we have improved our ability to predict customer needs. The implementation of various Industry 4.0 initiatives has also further increased process transparency. Our ability to rapidly analyze big data has enabled us to both speed up the decision-making process and make it more efficient. Further focus has been placed on enhancing the agility of the supply chain in response to the requirements of new eBusiness sales channels and the demand for greater individualization.

The production network in our **Laundry & Home Care** business encompassed 33 sites, with the number unchanged from the previous year. In 2019, we continued the successful integration of the production sites in North America acquired in previous years. We also continued to focus on raising efficiency. Targeted investments enabled us to expand production capacities for our growth categories, particularly in Eastern Europe and North America. This development was supported by our real-time production parameter reporting system implemented worldwide in 2018.

In anticipation of increasingly growing customer and consumer requirements, we launched further programs aligned to digitalizing our production and distribution processes as part of our Industry 4.0 initiative. In January 2020, Henkel was acknowledged as an Industry 4.0 pioneer. The World Economic Forum awarded our laundry detergent and household cleaners production in Düsseldorf the accolade “Advanced 4th Industrial Revolution Lighthouse.” In addition, all processes and structures along the entire supply chain are permanently monitored to ensure they are efficient and to achieve – through pro-active management – high levels of quality, agility and utilization of our production and warehouse capacities.

Pooling the purchasing, production and logistics activities of **all business units** in one Global Supply Chain organization enables us to develop our global processes more quickly.

For all business units, we have the environmental management systems at numerous sites externally certified. By the end of 2019, around 80 percent of our production volume was from sites certified to ISO 14001, the internationally recognized standard for environmental management systems.

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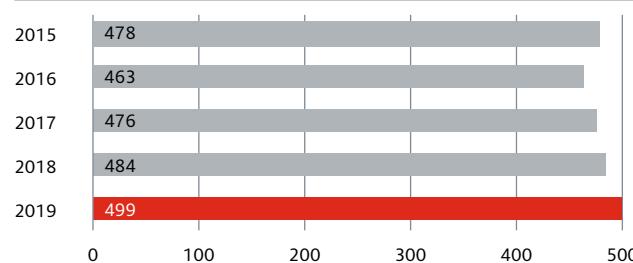
Research and development

Expenditures by the Henkel Group for research and development (R&D) in fiscal 2019 increased year on year from 484 million euros to 499 million euros. The ratio of R&D expenses to sales amounted to 2.5 percent (previous year: 2.4 percent). Adjusted R&D expenditures totaled 487 million euros, following 471 million euros the year before. The ratio of adjusted expenses to sales was 2.4 percent (previous year: 2.4 percent).

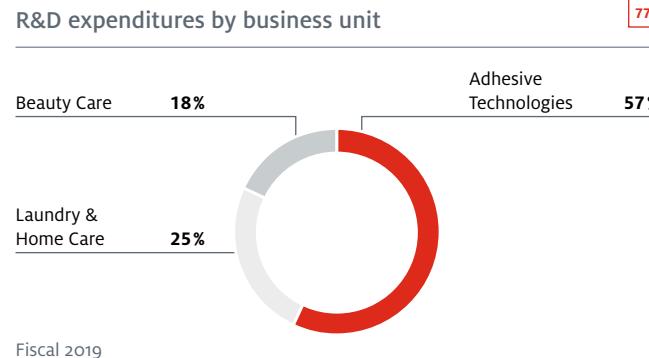
In 2019, internal personnel expenses accounted for around 60 percent of total R&D spending. Our research and development costs were fully expensed; no product- or technology-related development costs were capitalized in accordance with International Financial Reporting Standards (IFRSs).

On an annual average, around 2,650 employees worked in research and development (2018: around 2,750). This corresponds to approximately 5 percent of the total workforce. Our teams are composed of natural scientists – predominantly chemists – as well as material scientists, engineers and technicians.

R&D expenditures¹
in million euros



¹ Including restructuring expenses of 14 million euros (2015), 3 million euros (2016), 7 million euros (2017), 13 million euros (2018), 12 million euros (2019).

R&D expenditures by business unit

Fiscal 2019

Together with the capabilities of our employees, our investments form the foundation on which the success of our R&D activities is built. We continue to focus on developing high-impact innovations, while steadily reducing our resource consumption and maintaining or improving performance. Our open innovation approach ensures the successful integration of external partners in our project delivery. We are also further expanding our corporate venture capital activities. A further focus lies on increasing the use of digitalization in research and development.

Key R&D figures

	2015	2016	2017	2018	2019
R&D expenditures ¹ (in million euros)	464	460	469	471	487
R&D expenditures ¹ (in percent of sales)	2.6	2.5	2.3	2.4	2.4
Employees ² (annual average)	2,800	2,700	2,700	2,750	2,650

¹ Adjusted for restructuring expenses.

² Figures rounded.

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Strengthening research and development together

The research and development experts in the three business units align their project portfolios to the specific needs of their individual businesses. They work together on fundamental processes, basic innovations, evaluation of partners for innovation, and on sustainability. The Research and Development Committee is responsible for Group-wide coordination.

The business units continually exchange on innovations in common areas of knowledge. As in the previous year, activities in 2019 focused on digitalization, especially digital methods for acceleration, improving efficiency and optimization within product development, and on specific applications of digitalization for leveraging product and service innovations.

Open innovation

As our innovations come from both internal and external sources, the concept of open innovation holds great significance for us. Accordingly, we continue to intensify our efforts to involve external partners such as universities, research institutes and suppliers in many of our development projects.

Corporate venture capital

Henkel is striving to gain access to strategically relevant new technologies, applications and business models by partnering with, and investing in, startups with digital or technological expertise.

In 2019, we further expanded our venture capital activities and strengthened our expertise by investing in startup companies.

Henkel is continuing to drive its efforts to establish a circular economy by investing in recycling startup Saperatec; this company has developed a patented innovative technology that can separate and recycle flexible composite packaging containing disparate materials, including aluminum. We also further expanded our investment in the strategic growth area of laundry and dry cleaning services. We strengthened our technology portfolio for sustainable packaging concepts by investing in startup Truman's. In addition, by investing in the startup companies Purish and Youtiful, we have strengthened our expertise in the areas of eCommerce and social selling in order to develop novel sales concepts and relevant digital skills.

Research and development worldwide

In addition to its central research laboratories, Henkel maintains research and development sites in all regions around the world as hubs for innovative problem-solving. Worldwide research and development activities are managed globally by the business units. Research-intensive base technologies are developed at a central location with optimal access to external resources. These basic technologies are then applied in the regional research and development sites in the creation of customer- and market-specific innovations. At the same time, the research and development staff in the regional sites obtain information about specific problems for the next generation of innovations while working in close contact with customers and consumers. The new base technologies needed for the relevant solutions are, in turn, developed centrally.

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The **Adhesive Technologies** business unit supports its customers around the globe with customized solutions based on a comprehensive portfolio of products, applications and services. The success of Adhesive Technologies is founded in particular on its broad technology portfolio, the outstanding expertise of its global innovation team, and its proximity to its customers as the reward from years of working in close collaboration with them. In 2019, the business unit focused its innovation activities and resources on technology development and expanding its partnerships with companies engaging with the three key megatrends mobility, connectivity and sustainability. In the field of mobility, Henkel and RLE International have formed "The Mobility Alliance" to pool their materials competence and engineering expertise in order to develop new lightweight construction concepts focusing on electromobility for the automotive industry. In the area of connectivity, Henkel offers product innovations such as dual-cure

adhesive solutions for camera modules used in mobile communication devices. In the area of sustainability, we launched Loctite Liofol RE, for example, a product based on renewable raw materials which has been developed for the market for flexible food packaging. The acquisition of startup Molecule Corp. has enabled Adhesive Technologies to strengthen its portfolio with innovative technologies for 3D printing and inkjet applications and to expand its digital development capacities.

At its Competence Center in Europe, the **Beauty Care** business unit develops base technologies for product innovations in both its Hair Salon and Branded Consumer Goods businesses. These innovative formulation platforms are then adapted to local requirements and specific customer needs in regional test and development centers. Beauty Care operates such test and development centers in the USA, Mexico, Colombia,

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China, Japan, South Africa and the United Arab Emirates with a view to taking the best possible advantage of regional growth opportunities. Proprietary innovation projects and targeted investments in startups enable the business unit to build technical expertise in the fields of personalized hair cosmetics and augmented reality. And through the acquisition of Deva Parent Holdings, Inc., our expertise in the research and development of hair care and styling products for curly and textured hair has been strengthened.

In the year under review, research and development activities in the global network of the **Laundry & Home Care** business unit focused on sustainable innovations in the fields of raw materials, formulations, packaging concepts and manufacturing methods. In the Laundry Care business area, our new disc technology for dispensing pre-measured detergent in water-soluble film packages with four separate chambers was rolled out in the North American and European markets. The Home Care business area completed its development of a protease with improved performance properties for use in automatic dishwashing detergents, which Henkel has earmarked for exclusive integration within its premium products. The packaging development team has devised a new software tool, known as Easy D4R, which serves to quickly and reliably determine the recyclability of new packaging. As part of our sustainable packaging strategy, we are making this evaluation tool available for use free of charge on our website. By the end of 2019, the tool had been requested more than 2,000 times. In addition, we have been working with supply chain partners to develop packaging made up to 100 percent from mechanically recycled plastic. Moreover, a pilot detergent bottle production project has succeeded in using chemically recycled plastic. Within the innovation process, increasingly agile methods of collaboration are being used, such as design thinking, lean startup and scrum, which greatly promote cooperation among multifunctional teams from the Research and Development, Production, Marketing and New Businesses departments.

Contributing to sustainability

Worldwide, growth and quality of life need to be decoupled from resource use and emissions. Our contribution here lies in the development of innovative products and processes that consume ever less resources while offering the same or better performance. It is therefore our ambition to ensure that all new products contribute to sustainable development in at least one of our six defined focal areas. These are systematically integrated within our innovation process. Early on, our researchers must demonstrate the specific advantages of their project in regard to product performance, added value for our customers and consumers, resource efficiency, and social criteria. We thus aim to combine product performance and quality with social and environmental responsibility. Our focus in this respect is on three goals: The first is to continuously improve, in collaboration with our suppliers, the sustainability profile of the raw materials we use. The second is to help our customers and consumers reduce their energy use and carbon dioxide emissions through our innovations. The third is to ensure that our packaging fulfills consumers' performance expectations yet uses the least possible quantity of materials and the most sustainable solutions, and that it can be recycled once the product has been used.

Life cycle analyses, profiles of potential raw materials and packaging materials, and our many years of experience in sustainable development help us to identify and evaluate improvement opportunities right from the start of the product development process. A key tool in this respect is our Henkel Sustainability#Master®. This evaluation system centers around a matrix based on the individual steps in our value chain and on our six focal areas. It shows which areas are most relevant from a sustainability perspective, and allows a transparent and quantifiable comparison to be made between two products or processes.

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Patents and registered designs

We hold a good 9,300 patents to protect our technologies around the world. Nearly 5,550 patents are currently pending. And we have registered nearly 1,350 design patents to protect our intellectual property.

Further information on our research and development activities can be found on our website:

 www.henkel.com/brands-and-businesses

Marketing and distribution

We put our customers and consumers at the center of what we do. We offer them maximum benefit, quality and service, together with attractive innovations of our brands and technologies. With this we create sustainable value.

The **Adhesive Technologies** business unit holds global leadership in the specialized markets for adhesives, sealants and functional coatings, offering a comprehensive portfolio featuring groundbreaking innovations, tailor-made products and strong brands. Working in close partnership with our customers, we combine innovation and technology leadership to create high-impact solutions that are essential components in innumerable industrial and consumer goods around the world.

We develop the marketing strategies for our brands and technologies at both the global and regional level. The measures derived from our planning are then implemented locally. Within our branding strategy, we consistently leverage our five global technology cluster brands in the industrial markets and our four strong brands in the consumer business.

Our customer base of around 130,000 direct industry and retail customers is managed primarily by our own sales teams, while our retail customers and distributors service the needs of private users, craftsmen and smaller industrial customers.

Our team of more than 6,500 experts fosters the long-term relationships with our customers and partners from more than 800 manufacturing sectors. In the process, we gain an in-depth understanding of an exceptionally wide range of applications across all markets. Since many of our solutions and technologies are integrated into technically highly complex processes and products, first-class technical customer service and thorough user training worldwide are of key importance.

To further expand our innovation leadership, we are currently building a new global innovation center on the site of our corporate headquarters in Düsseldorf. From the end of 2020, more than 350 experts will be housed there, developing specific solutions together with our customers and bringing our entire range of technologies to life for customers and partners throughout the world.

Not only in personal exchange but also in digital interaction, we aim to ensure a positive customer experience at all contact points around the globe. Our further developed website

 henkel-adhesives.com is closely aligned to customer needs and is available in numerous languages. Customers in more than 50 countries can now make use of our extensive digital ordering platform, the Henkel Adhesives e-Shop, which we are steadily expanding. We support our global sales experts with a networked customer relationship management (CRM) platform designed to ensure that plans, data and communication remain available around the clock. This enables us to respond even faster and more efficiently to our customers' needs and to leverage synergies between our business areas.

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In addition to digital communications, we strive to optimize our approach to consumers and craftsmen through the continued use of classic advertising coupled with measures to attract target groups at the point of sale. Leveraging our close customer relationships and our comprehensive technical expertise, we continue to offer tailored solutions and innovative branded products that provide sustainable added value for our customers.

Within the **Beauty Care** business unit, our focused portfolio of brands with unique, distinct brand equities forms the basis for leading, consumer-relevant innovations in our Branded Consumer Goods and Hair Salon businesses. In future, we will increasingly develop our innovations and market launch strategies in the regions for the regions, thus bringing us closer to consumers and customers. Digital consumer research tools, our Consumer Insight Center and joint developments with customers and consumers enable us to identify global and regional trends early on and to respond quickly and individually with innovative products. At the same time, managing our businesses and brands globally allows us to leverage economies of scale.

Corporate venture capital investments and partnerships support our efforts in the innovation process to identify and develop new business models, marketing strategies and digital skills. By making use of new technologies, such as the Internet of Things or augmented reality, we are also driving the further development of our brands in the digital environment; one example is Choicify, our digital hair colorant consultant.

Advanced digitalization significantly increases media efficiency when interacting with consumers. With personalized 1:1 experiences, we target the right consumer group with the right message in the right environment, while also accelerating efficient re-targeting with customized content. We are capable of producing tailored digital content quickly in our own content factories and making it available to consumers in real time.

We not only specifically choose which consumers to communicate with and by what means, but also which sales channels are of strategic relevance for us. We leverage our category leadership positions in brick-and-mortar retail, in eCommerce and through direct-to-consumer channels, also adding value for our online customers through our shopper expertise.

Having already hosted more than 450 visits in our Beauty Care Lighthouse, which opened in Düsseldorf in 2012, we have been able to consistently intensify our customer focus. The Lighthouse offers our trade partners from around the world an interactive experience of all our competences in the field of Beauty Care, with a growing focus on digitalization and sustainability.

We are also committed to close cooperation with our customers in our Hair Salon business. In our globally established Schwarzkopf Academies, we offer hairdressers value-adding services in the form of customer-focused seminars and continuous professional upskilling programs. Our focus is on ensuring a positive experience for our customers, both personally and when they engage digitally with us. Our efforts range from the further expansion of our B2B eShop to digital salon services, such as our SalonLab ecosystem.

In the **Laundry & Home Care** business unit, we develop global marketing strategies and product innovations for our strong laundry detergent and household cleaner brands. We then adapt these strategies and innovations to regional consumer needs and market conditions, and implement them at the local level. We thus ensure central, efficient management of our brands aimed at strengthening their core equities and responding to our consumers' desire for both functional benefits and emotional added value. We focus on an innovation process that enables us to systematically identify global consumer trends early on especially through digital data analysis,

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and to translate them quickly into new products. In the field of consumer research, for example, we use social media listening, a digital method for early identification of consumer needs in social media that forms the basis for developing new products and services.

Digitalization is also an issue of key importance in our other marketing processes, as reflected in the ongoing implementation of digital transformation measures in the business unit. One example of this is the growing use of new technologies such as the Internet of Things, or the integration of digitally supported services such as our Persil Service in the brand ecosystem. Further points of digital contact with our consumers are provided by the chatbots of our Persil brand, which provide consumers with extensive advice on stain removal, and our new consumer platform in Germany known as "Frag-Team-Clean" or Ask the Clean Team. With these new technologies, we plan to drive the further development of our brands in the digital world and thus enhance the consumer benefit derived. Collaboration with startups forms part of our strategic approach in this regard. For example, in the year under review, we invested in Truman's, a direct-to-consumer startup that offers household cleaners in reusable bottles and concentrate cartridges that help reduce plastic waste.

Laundry & Home Care enters into strategic partnerships with its top customers with a view to delivering long-term and mutually profitable growth. The business unit focuses on six areas: innovation, shopper marketing, digitalization, eCommerce, sustainability, and supply chain. Surveys to examine digital shopping behaviors, for example, are one way of gaining a better understanding of the various shopping channels and their interaction, and of helping our partners to create an active and seamless shopping experience. This then serves as the basis for developing customized solutions for the specific requirements of our partners, for identifying shared value-adding potential, and for advising our partners on the development of strategies across all the various sales channels.

The Global Experience Centers – our customer centers – in Düsseldorf and Stamford help us to further deepen our relationships with customers both in brick-and-mortar retail and in the field of eCommerce. More than 320 customers have already visited the Centers, using all their senses to explore the latest trends, products and sustainability concepts in the field of Laundry & Home Care.

The importance of sustainability in our relationships with customers and consumers continues to grow in **all three business units**. Our customers expect their suppliers – and that includes Henkel – to ensure compliance with global environmental, safety, and social standards. Our standards and management systems, our many years of experience in sustainability reporting, and excellent appraisals by external rating agencies all help us to convince our audience of our credentials in this domain. Moreover, the credible implementation of our sustainability strategy strengthens both our brands and the reputation of our company in the marketplace. With decades of experience in aligning our activities to sustainable development, we are able to position ourselves as a leader in the field and as a partner that is capable of providing its customers with solutions that are fit for the future. Here again, we cooperate closely with our customers in trade and industry.

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The annual financial statements of Henkel AG & Co. KGaA have been prepared in accordance with the rules and regulations of the German Commercial Code [HGB] and the German Stock Corporation Act [AktG]. Deviations from the International Financial Reporting Standards (IFRSs) applicable to the Group arise particularly with respect to the methods of recognition and measurement of intangible assets, financial instruments and provisions.

Operational activities

Henkel AG & Co. KGaA is operationally active in the three business units Adhesive Technologies, Beauty Care and Laundry & Home Care, as well as being the parent company of the Henkel Group. As such, it is responsible for defining and pursuing Henkel's corporate objectives and also for the management, control and monitoring of Group-wide activities, including risk management and the allocation of resources. As of year-end 2019, some 8,400 people were employed at Henkel AG & Co. KGaA.

The operating business of Henkel AG & Co. KGaA represents only a portion of the business activity of the entire Henkel Group and is managed across the Group by the business units, particularly on the basis of the performance indicators: organic sales growth, development of adjusted return on sales (EBIT), and growth in adjusted earnings per preferred share at constant exchange rates. Only the Group approach can provide complete insight into these key financials (see the discussion of the management system and performance indicators applicable to the Henkel Group on page 80).

The net assets, financial position and results of operations of Henkel AG & Co. KGaA are influenced both by its own operating activity and by the operating activity of its subsidiaries on the basis of their dividend distributions. Thus the financial situation of Henkel AG & Co. KGaA generally corresponds to that of the Group as a whole, which is discussed in the section "Review of overall business performance" on pages 83 and 84.

Results of operations

Sales and profits

At 3,625 million euros, sales of Henkel AG & Co. KGaA in 2019 were on a par with the previous year. This figure is consistent with our guidance for 2019. Factors including an improved financial result enabled Henkel AG & Co. KGaA to significantly increase unappropriated profit and thus to exceed its forecast of a flat result. The improved financial result was mainly attributable to higher income generated with the plan assets funding our pension obligations.

The Adhesive Technologies business unit achieved sales of 1,045 million euros in 2019, thus remaining constant versus prior year. The Industrial Adhesives business area benefited in 2019 from the merger of a German subsidiary with Henkel AG & Co. KGaA.

*The full financial statements of Henkel AG & Co. KGaA with the auditor's unqualified opinion are filed with the commercial register and accessible on the internet at www.henkel.com/reports.

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in million euros	2018	2019
Sales	3,641	3,625
Cost of sales	-2,636	-2,682
Gross profit	1,005	943
Marketing, selling, distribution and administrative expenses	-793	-894
Research and development expenses	-336	-339
Other operating income / expenses	210	246
Operating profit	86	-44
Financial result	903	991
Income before tax	989	947
Taxes on income	-64	-26
Net income	925	921
Profit brought forward	664	791
Unappropriated profit	1,589	1,712

The Beauty Care business unit achieved sales of 498 million euros in 2019. The slight decrease year on year was due in particular to persistently high competitive and price pressures in its Branded Consumer Goods business.

The Laundry & Home Care business unit generated sales of 972 million euros in 2019, which was on a par with the figure for 2018. The market remains highly competitive.

Sales in the Corporate segment decreased from 1,116 million euros in 2018 to 1,110 million euros in 2019, mainly due to declining license fee income from affiliated companies.

The operating profit of Henkel AG & Co. KGaA decreased year on year by 130 million euros to -44 million euros. This decrease was mainly attributable to costs reimbursed to a foreign subsidiary and to higher expenditures in connection with digitalization and other IT projects.

Expense items

Compared to 2018, cost of sales increased by 46 million euros to 2,682 million euros. A major contributory factor in this regard were higher license fee expenses payable to affiliated companies. Gross margin decreased by 1.6 percentage points to 26.0 percent.

At 616 million euros, marketing, selling and distribution expenses were above the prior-year figure of 541 million euros. The proportion of sales was 17.0 percent, which was 2.2 percentage points up compared to the level of 2018. The increase was partly due to higher expenditures on IT projects, higher expenses for advertising campaigns, and increased restructuring expenses.

Compared to 2018, administrative expenses increased by 26 million euros to 278 million euros. Their ratio to sales increased by 0.8 percentage points to 7.7 percent.

Expenditures for research and development in the reporting period increased by 3 million euros to 339 million euros. The proportion of sales increased accordingly compared to 2018, by 0.2 percentage points to 9.4 percent.

Restructuring expenses of 53 million euros, included in the expense items mentioned, were higher compared to 2018 (40 million euros).

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Other operating income / expenses

At 246 million euros, the balance of other operating income and expenses (other operating result) was higher compared to the prior-year period (210 million euros).

Year on year, other operating income increased by 51 million euros to 348 million euros in 2019, mainly as a result of higher income generated from recharging costs to affiliated companies.

At 102 million euros, other operating expenses in 2019 were above the prior-year figure (87 million euros), due to a credit note to a foreign subsidiary that related to the prior year.

Financial result

The financial result increased from 903 million euros in 2018 to 991 million euros in 2019. The increase is substantially attributable to higher securities prices and the resulting higher returns on financial investments held as plan assets.

Taxes on income

Taxes on income amounted to – 26 million euros in 2019, compared to – 64 million euros in 2018.

Net income

Net income amounted to 921 million euros and was therefore slightly below the prior-year result of 925 million euros. The decrease was attributable to the lower operating profit in 2019.

Condensed balance sheet in accordance with
the German Commercial Code [HGB]

in million euros	12/31/2018	12/31/2019
Intangible assets and property, plant and equipment	1,378	1,397
Financial assets	13,190	11,405
Non-current assets	14,568	12,802
Inventories	13	15
Receivables and miscellaneous assets	1,660	3,037
Marketable securities	4	4
Liquid funds	335	500
Current assets	2,012	3,556
Deferred income	40	44
Assets arising from the overfunding of pension obligations	107	303
Total assets	16,727	16,705
Equity	6,956	7,084
Special accounts with reserve element	79	75
Provisions	589	542
Liabilities / deferred charges	9,103	9,004
Total equity and liabilities	16,727	16,705

Net assets and financial position

As of December 31, 2019, the total assets of Henkel AG & Co. KGaA decreased compared to year-end 2018 by 22 million euros to 16,705 million euros.

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Non-current assets decreased to 12,802 million euros, down 1,766 million euros compared to 2018. The decline was due to changes in financial assets; these decreased mainly as a result of payment of a loan by a US-American subsidiary.

Current assets increased in 2019 from 2,012 million euros to 3,556 million euros, mainly as a result of a loan to a US-American subsidiary.

At 303 million euros, overfunding from offsetting the plan assets against pension obligations was higher year on year. The increase was mainly due to the positive performance of the pension plan assets.

Equity increased from 6,956 million euros to 7,084 million euros. Provisions decreased by 47 million euros to 542 million euros. The balance of pension obligations and plan assets is reported in assets due to overfunding.

For details of issued capital and treasury stock, please refer to the disclosures in the notes to the statutory financial statements of Henkel AG & Co. KGaA.

Year on year, liabilities and deferred charges decreased overall to 99 million euros in 2019, mainly due to the repayment of commercial paper and a US dollar-denominated bond. The issuance of two British pound-denominated bonds had a partially countervailing effect.

For an overview of the financing and capital management of Henkel AG & Co. KGaA, please refer to the information relating to the Henkel Group on pages 100 and 101.

Risks and opportunities

The business performance of Henkel AG & Co. KGaA is essentially subject to the same risks and opportunities as that of the Henkel Group. With respect to the risks affecting its subsidiaries, Henkel AG & Co. KGaA is generally exposed in proportion to its shareholding in each case.

Due to the different discount rates for pension obligations under the German Commercial Code [HGB] and IFRS, the conclusion drawn from the risk assessment for the separate financial statements of Henkel AG & Co. KGaA differs from that of the Group. We assess the potential financial impact of this risk for Henkel AG & Co. KGaA as "major."

Additional information regarding risks and opportunities and the risk management system can be found on the following pages 120 to 131.

Forecast

The performance of Henkel AG & Co. KGaA in its function as an operating holding company is influenced primarily by the development and dividend distributions of the companies in which it has shareholdings. We expect sales in 2020 to be on a par with the figure for 2019. The performance reported for the Group also impacts Henkel AG & Co. KGaA through dividend payments from subsidiaries. Assuming steady development of the financial result, we expect the unappropriated profit generated in 2020 by Henkel AG & Co. KGaA to be flat. This will enable our shareholders to participate to a reasonable extent in the Group's net income, with retained earnings also available for utilization if necessary.

The forecast for the Henkel Group can be found on pages 132 and 133.

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In the pursuit of our business activities, Henkel is exposed to multiple risks inherent in the global market economy. We deploy an array of effective monitoring and control systems aligned to identifying risks at an early stage, evaluating the exposure, and introducing effective countermeasures. We have incorporated these instruments within a risk management system as described below.

Entrepreneurial activity also involves identifying and exploiting opportunities as means of securing and extending the corporation's competitiveness. The reporting aspect of our risk management system, however, does not encompass entrepreneurial opportunities. Early and regular identification, analysis and exploitation of opportunities are performed at the Group level and within the individual business units. This is a fundamental component of our strategy. We perform in-depth analysis of the markets and our competitors, and study the relevant cost variables and key success factors.

Risk management system

The risk management system at Henkel is integrated into the comprehensive planning, controlling, and reporting systems used in the subsidiaries, in the business units, and at Group level. Our early warning system and Internal Audit function are also important components of our risk management system. Within the corporate governance framework, our internal control and compliance management systems support our risk management capability. The risk reporting system encompasses the systematic identification, evaluation, documentation and communication of risks. We have defined the principles, processes and responsibilities relating to risk management in a corporate standard that is binding on the Henkel Group. With the continuous development of our corporate standards and systems, we take into account updated findings.

Within our risk strategy framework, the assumption of calculated risk is an intrinsic part of our business. However, risks that endanger the existence of the corporation must be avoided. When it is not possible to avoid these critical risks, they must be reduced or transferred, for example through insurance. Risks are controlled and monitored at the level of the subsidiaries, the business units, and the Group. Risk management is thus performed with a holistic, integrative approach to the systematic handling of risks.

We understand risks as potential future developments or events that could lead to negative deviations from our guidance. Risks with a probability of occurrence of over 50 percent are taken into account in our guidance and short-term planning. As a rule, we estimate risks for the one-year forecast period.

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The annual risk reporting process begins with identifying material risks using checklists based on defined operating (for example procurement and production) and functional (for example information technology and human resources) risk categories. We evaluate the risks in a two-stage process according to the probability of occurrence and potential loss. Included in the risk report are risks with a loss potential of at least 1 million euros or 10 percent of the net external sales of a country, where the probability of occurrence is considered greater than zero.

The first step entails determining gross risk to the extent that this is possible. We then calculate the net risk, taking countermeasures into account. Initially, risks are compiled on a decentralized, per-country basis, with the assistance of regional coordinators. The locally collated risks are then analyzed by experts in the business units and corporate functions. In particular areas such as Corporate Treasury, risks are determined with the support of sensitivity analyses including value-at-risk computations. Risk analyses are then prepared for the respective executive committees of the business units and corporate functions, and finally assigned to an area-specific risk inventory. The risk situation is subsequently reported to our Compliance & Risk Committee, the Management Board and the various oversight boards. Material unforeseen changes are reported immediately to the CFO and the Compliance & Risk Committee. Corporate Accounting is responsible for coordinating the overall process and analyzing the inventoried exposures.

The risk reporting process is supported by internet-based software which ensures transparent communication throughout the entire Group. Our Internal Audit function regularly reviews the quality and efficiency of our risk management system. Within the framework of the 2019 audit of our annual financial statements, our external auditor examined the structure and function of our risk early warning system in accordance with Section 317 (4) German Commercial Code [HGB], and confirmed its compliance.

The following describes the main features of the internal control and risk management system in relation to our accounting processes, in accordance with Section 315 (2) No. 5 HGB. Corresponding with the definition of our risk management system, the objective of our accounting processes lies in the identification, evaluation and management of all risks that jeopardize the regulatory preparation of our annual and consolidated financial statements. Accordingly, the internal control system's function is to implement relevant principles, procedures and controls so as to ensure the financial statement closing process is regulatory compliant. Within the organization of the internal control system, the Management Board assumes overriding responsibility at Group level. The duly coordinated subsystems of the internal control system lie within the responsibility of the Corporate Accounting, Controlling, Corporate Treasury, Compliance and Regional Finance functions. Within these functions, there are a number of integrated monitoring and control levels. These are assessed by regular and comprehensive effectiveness tests performed by our Internal Audit function. Of the multifaceted control processes incorporated into the accounting process, several are important to highlight.

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The basis for all our accounting processes is provided by our corporate standard “Accounting,” which contains detailed accounting and reporting instructions covering all material circumstances, including clear procedures for inventory valuation or how transfer prices applicable for intra-group transactions should be determined. This corporate standard is binding on the entire Group and is regularly updated and approved by the CFO. The local Presidents and Heads of Finance of all consolidated subsidiaries must confirm their compliance with this corporate standard on an annual basis.

Further globally binding procedural instructions affecting our accounting practice are contained in our corporate standards “Treasury” and “Investments.” Through appropriate organizational measures in conjunction with restrictive access to our information systems, we ensure segregation of duties in our accounting systems between transaction entry on the one hand, and checking and approval on the other. Documentation relating to the operational accounting and closing processes ensures that important tasks – such as the reconciliation of receivables and payables on the basis of account balance confirmations – are clearly assigned. Additionally, binding authorization regulations exist governing the approval of contracts, credit notes and the like, with strict adherence to the principle of dual control as a mandatory requirement. This is also stipulated in our Group-wide corporate standards.

The significant risks for Henkel and the corresponding controls with respect to the regulatory preparation of our annual and consolidated financial statements are collated in a central documentation pack. This documentation is reviewed and updated annually by the respective process owners. The established systems are also regularly reviewed to determine their improvement and optimization potential. We consider these systems to be appropriate and effective.

The accounting activities for subsidiaries included in the consolidated financial statements are performed either locally by the subsidiary or through a Shared Service Center, taking the aforementioned corporate standards into account. The individual subsidiaries’ financial statements are transferred to our central consolidation system and checked at corporate level for correctness. After all consolidation steps have been completed, the consolidated financial statements are prepared by Corporate Accounting in consultation with the specialist departments. Preparation of the combined management report is coordinated by Investor Relations in cooperation with each business unit and corporate function. The Management Board then compiles the consolidated financial statements and annual financial statements of Henkel AG & Co. KGaA, and the combined management report for Henkel AG & Co. KGaA and the Group, and subsequently presents these documents to the Supervisory Board for approval.

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Major risk categories

Risks are presented from a net perspective, i.e. with their respective mitigation measures taken into account.

Overview of major risk categories

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Risk category	Probability	Potential financial impact
Operating risks		
Procurement market risks	Low	Major
Production risks	Moderate	Major
Macroeconomic and sector-specific risks	High	Major
Functional risks		
Financial risks		
Credit risk	Low	Major
Liquidity risk	Low	Minor
Currency risk	Moderate	Major
Interest rate risk	Moderate	Minor
Risks from pension obligations	Moderate	Minor
Legal risks	Low	Major
IT and cyber risks	Low	Major
Personnel risks	Low	Minor
Risks in connection with the company's reputation and its brands	Low	Major
Environmental and safety risks	Low	Major
Business strategy risks		
	Moderate	Moderate

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Low	1 – 9%
Moderate	10 – 24%
High	≥ 25%

Potential financial impact

Minor	1 – 49 million euros
Moderate	50 – 99 million euros
Major	≥ 100 million euros

Operating risks**Procurement market risks**

Description of risk: We expect year-on-year price increases for direct materials in our procurement markets to be in a low single-digit range in 2020. Due to geopolitical, global economic, and climatic uncertainties, we expect prices to fluctuate in the course of the year. This may lead to raw material price trends that are unfavorable for Henkel but cannot always be passed on in full. We therefore see risks arising beyond the forecasted increase in the low single-digit range in relation to important raw materials, packaging materials and purchased goods.

The segments in the industrial goods sector are affected to a greater extent by price risks inherent in the performance of the global raw materials markets than the individual segments in the consumer goods sector. Additional price and supply risks exist due to possible demand- or production-related shortages in the procurement markets. Furthermore, continued major volatility and uncertainty can be expected from global economic, geopolitical and climate risks, which could lead to rising material prices and supply shortages.

Measures: The measures taken include active supplier portfolio management through our globally engaged, cross-divisional sourcing capability, together with strategies aimed at securing price and volume both through contracts and, where appropriate and possible, through financial hedging instruments (for more information about financial hedging instruments, please refer to the notes to the consolidated financial statements, page 220). Furthermore, we work in interdisciplinary teams within Research and Development, Supply Chain Management and Purchasing on devising alternative formulations and packaging forms so as to be able to respond flexibly to unforeseen fluctuations in raw material prices. We also avoid becoming dependent on individual suppliers to better secure the constant supply of the goods and services that we require. Finally, close collaboration with our strategic suppliers plays an exceptionally important role in our risk management. Further details regarding the assessment of supplier financial stability can be found in the section on "Procurement" on pages 105 and 106. The basis for our risk management approach is provided by a comprehensive procurement information system aimed at ensuring permanent transparency with respect to our purchasing volumes.

Impact: Low probability rating, possible major impact on our earnings guidance.

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Production risks

Description of risk: Henkel faces production risks in the event of low capacity utilization due to volume decreases and unplanned operational interruptions, especially at our single-source sites.

Measures: We can offset the negative effects of possible production outages through flexible production control and, where economically viable, insurance policies. Such production risks are minimized by ensuring high employee qualification, clearly defined safety standards, and regular plant and equipment maintenance. Capital expenditure decisions on property, plant and equipment are made in accordance with defined, differentiated responsibility procedures and approval processes. They incorporate all relevant specialist functions and are regulated in an internal corporate standard. Investments are analyzed in advance on the basis of detailed risk aspects. Further audits accompanying projects provide the foundation for project management and risk reduction.

Impact: Moderate probability rating, possible major impact on our earnings guidance.

Macroeconomic and sector-specific risks

Description of risk: We remain exposed to macroeconomic risks emanating from the uncertainties of the current geopolitical and economic environment. We currently see geopolitical risk arising in connection with a further increase in the number of conflict zones. The forthcoming departure of the United Kingdom from the European Union (Brexit) poses risks to our business, for example through a potential weakening of the economy. The impacts of the global trade conflicts are also jeopardizing the global economic climate. A decline in the macroeconomic environment poses a risk to the industrial sector in particular. A downturn in consumer spending is relevant for the consumer goods segments. A further significant risk is posed by an increasingly competitive environment, as

this could result in stronger price and promotional pressures in the consumer goods sector. As consolidation in the retail sector continues and private labels occupy a growing share of the market, crowding-out competition in the consumer goods sector could further intensify. The risk of product substitution inherent in this could, in principle, affect all business units. Technological change associated with digitalization may involve risks for the success of our products and processes.

Measures: We focus on continuously strengthening our brands (see separate risk description on page 129) and consistently developing further innovations. We consider innovative products and processes to be a significant success factor for our company, enabling us to differentiate ourselves from the competition. We also pursue specific marketing and sales initiatives, for example advertising and promotional activities. Here, again, driving digitalization is of key importance. One example of this is the specific marketing of our products on a dedicated eCommerce platform for our industry customers (further details can be found in the section on marketing and distribution on pages 113 to 115). In addition, we have the capability to react quickly to potential sales declines through flexible production control. Moreover, we have formed interdisciplinary task forces – in connection with Brexit, for example – to enable early identification and specific mitigation of the risks.

Impact: High probability rating, possible major impact on our sales and earnings guidance.

Functional risks

Financial risks

Description of risk: Henkel is exposed to financial risks in the form of credit risks, liquidity risks, currency risks, interest rate risks, and risks arising from pension obligations.

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For the description of credit risk, liquidity risk, currency risk and interest rate risk, please refer to the notes to the consolidated financial statements on pages 209 to 220. For the risks arising from our pension obligations, please see pages 187 to 190.

Measures: Risk-mitigating measures and the management of these risks are also described in the notes to the consolidated financial statements on the pages mentioned.

Impact: We classify financial risks as follows:

- Credit risk with a low probability of a major impact on our earnings guidance.
- Liquidity risk with a low probability of a minor impact on our earnings guidance.
- Currency risk with a moderate probability of a major impact on our earnings guidance.
- Interest rate risk with a moderate probability of a minor impact on our earnings guidance.
- Risks arising from our pension obligations with a moderate probability of a minor impact on our earnings guidance, and with a moderate probability of a major impact on our equity.

Legal and regulatory risks

Description of risk: As a globally active corporation we are exposed, in the course of our ordinary business activities, to a range of risks relating to litigations and other actions, including government agency proceedings in which we are currently involved or may become involved in the future. These risks arise, in particular, in the fields of product liability, product deficiency, competition and cartel law, infringement of proprietary rights, patent law, tax law, environmental protection and legacy remediation. We cannot rule out the likelihood of negative rulings on current litigations and further litigations being initiated in the future. Legal uncertainty in some regions could also limit our ability to assert our rights.

Our business is subject to various national rules and regulations and – within the European Union (EU) – increasingly to harmonized laws applicable throughout the EU. In addition, some of our operations are subject to rules and regulations derived from approvals, licenses, certificates or permits. Our manufacturing operations are bound by rules and regulations with respect to the registration, evaluation, usage, storage, transportation and handling of certain substances and also in relation to emissions, wastewater, effluent and other waste. The construction and operation of production facilities and other plant and infrastructure are governed by framework rules and regulations, including those relating to legacy remediation. Product-specific regulations of relevance to us relate in particular to ingredients and input materials, safety in manufacturing, the handling of products and their contents, and the packaging and marketing of these items. The control mechanisms include statutory material-related regulations, usage prohibitions or restrictions, procedural requirements (test and inspection, identification marking, provision of warning labels, etc.), and product liability law. Violation of such regulations may lead to legal proceedings or compromise our future business activities.

Amendments to the aforementioned regulations and further changes to the regulatory environment in our relevant markets could influence our business activities and thus adversely affect our assets, financial position and results of operations. Such changes might involve import and export controls, customs or other trade regulations, or pricing and foreign exchange restrictions.

Equally, as a globally active company, we maintain business relations with customers in countries that are subject to export control legislation, embargoes, economic sanctions or other forms of trade restriction. Changes to these regulations, new or extended sanctions, or corresponding initiatives by institu-

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tional investors or non-governmental organizations may result in restrictions being imposed on our business activities in these countries or, indirectly, in other countries, or may prevent us from acquiring or keeping customers and suppliers.

Measures: Our internal standards, guidelines, codes of conduct, and training measures are geared to ensuring compliance with the aforementioned statutory requirements and, for example, safeguarding our manufacturing facilities and products. These requirements have also been incorporated into our management systems and are regularly audited. This includes the early monitoring and evaluation of relevant statutory and regulatory requirements and changes.

Ensuring compliance with laws and regulations is an integral component of our business processes. This includes the early monitoring and evaluation of relevant statutory and regulatory requirements and changes. Henkel has further established a Group-wide compliance organization with locally and regionally responsible compliance officers led by a globally responsible General Counsel & Chief Compliance Officer (details can be found in the corporate governance section on pages 26 to 46). In addition, our corporate legal department maintains constant contact with local counsel. Current proceedings and potential risks are recorded in a separate reporting system. For certain legal risks, we have concluded insurance policies that are standard for the industry and that we consider to be appropriate. However, the outcome of proceedings is inherently difficult to foresee, especially in cases in which the claimant is seeking substantial or unspecified damages. In view of this, we are unable to predict what obligations may arise from such litigations. Consequently, major losses may result from litigations and proceedings that are not covered by our insurance policies or provisions. Potential damage to our reputation is not covered by insurance, nor is there any guarantee that Henkel will acquire adequate insurance cover at reasonable terms and conditions in future.

Impact: Low probability rating, possible major impact on our earnings guidance.

IT and cyber risks

Description of risk: Information technology (IT) has strategic significance for Henkel. Our business processes rely to a great extent on internal and external IT services, applications, networks, and infrastructure systems. The failure or disruption of key IT services and the manipulation or loss of data constitute material risks for Henkel. We analyze different potential in-house and external perpetrators and types of threat, such as intent, error or natural phenomena. The failure or disruption of important IT services can impair critical business processes. The loss of confidential data, for example formulations, customer information or price lists, could put us at a disadvantage with our competitors or give rise to legal consequences. Henkel's reputation could also be damaged by such loss.

Measures: The technical and organizational safeguards for assuring information and cyber security at Henkel are based on the international standards ISO 27001 and 27002. Major components include the classification of information and IT applications with respect to confidentiality, availability, integrity and data protection requirements, as well as commensurate measures for mitigating risk. In addition, Henkel has put technical and organizational measures in place to prevent, discover and defeat cyber attacks. Henkel maintains regular contact with other major corporations, associations and specialized service providers to enable the early detection of threats and implementation of effective countermeasures.

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Our critical business processes operate through redundantly configured systems designed for high availability. Our data backup procedures reflect best engineering practice. We regularly review our restore and disaster recovery processes.

Access to buildings and areas containing IT systems, as well as user authorizations for our information systems, are limited to the minimum level necessary. For critical business processes, the required segregation of duties is enforced by technological means.

Our IT services are protected against unauthorized external access and are consistently kept up to date. We develop our systems using proven project management and program modification procedures.

We instruct and train our employees in the proper and secure use and operation of information systems as part of their regular duties. We require our IT service providers to maintain a comparable level of IT and cyber security.

The implementation of our security measures is continually reviewed by our Internal Audit function, other internal departments, and independent third parties.

Impact: Low probability rating, possible major impact on our earnings guidance.

Personnel risks

Description of risk: The motivation and the qualification of our employees are key drivers of Henkel's business success. Therefore, it is strategically important to attract highly qualified professionals and executives and ensure they stay with the company. In selecting and employing talents, we compete globally for qualified professionals and executives. In many of our markets, we see clear signs of increasingly tough competition for the most talented professionals and the impacts of demographic change. These developments expose us to the risk of losing valuable employees or of being unable to recruit relevant qualified professionals and executives.

Measures: We combat the risk of losing valuable employees through specifically devised personnel development programs and incentive systems. Supporting this is an established, thorough annual review process from which we derive individually tailored and future-viable qualification programs as well as performance-related remuneration systems. Further areas of our HR management focus include a global health management system and support for flexible work models to ensure better work-life flexibility.

We reduce the risk of not being able to recruit qualified professionals and executives by expanding our employer branding initiatives and through targeted cooperation with colleges and universities in all regions where we conduct business. Our attractiveness as an employer is reinforced by our focus on promoting talents and specialized development programs.

Further information relating to our employees can be found on pages 102 to 104.

Impact: Low probability rating, possible minor impact on our earnings guidance.

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Risks in connection with the company's reputation and its brands

Description of risk: As a globally active corporation, Henkel is exposed to potential damage to the reputation of its corporate brand – Henkel – or of our product brands, particularly in the consumer goods sector, in the event of negative reports in the media, including social media. These could lead to a negative impact on sales.

Measures: We minimize these risks through the measures described under legal and regulatory risks (see pages 126 and 127). These are designed to ensure that our production facilities and products are safe. We also pursue a policy of pro-active public relations management that serves to reinforce the reputation of our corporate brand and individual product brands. These measures are supported by a global communication network, and international and local crisis management systems with regular training sessions.

Impact: Low probability rating, possible major impact on our sales and earnings guidance.

Environmental and safety risks

Description of risk: Henkel is a global manufacturing corporation and is therefore exposed to risks pertaining to the environment, safety, health, and social standards, manifesting in the form of personal injury, physical damage to goods, and reputational damage. Soil contamination and the associated remediation expense, as well as leakage or other technical failures, could give rise to direct costs for the corporation. Furthermore, indirect costs such as fines, claims for compensation or reputational damage may also be incurred.

Measures: We minimize these risks through the measures described under legal and regulatory risks (see pages 126 and 127), and through our auditing, advisory and training activities. We continually update these preventive measures in order to properly safeguard our facilities, assets and reputation. We ensure compliance with high technical standards, rules of conduct, and relevant statutory requirements as a further means of preserving our assets, and make sure that our corporate values – one of which is sustainability – are put into practice.

Impact: Low probability rating, possible major impact on our earnings guidance.

Business strategy risks

Description of risk: Business strategy risks can arise from our expectations for internal projects, acquisitions and strategic alliances failing to materialize. The associated capital expenditures may not generate the originally anticipated value added due to internal or external influences. Individual projects could also be delayed or even halted by unforeseen events.

Measures: We combat these risks through comprehensive project management. We limit exposure through financial viability assessments in the review, decision, and implementation phases. These assessments are performed by specialist departments, assisted by external consultants where appropriate. Project transparency and control are supported by our management systems.

Impact: Moderate probability rating, possible moderate impact on our earnings guidance.

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Major opportunity categories

Entrepreneurial opportunities are identified and evaluated at Group level and in the individual business units, and duly incorporated into the strategy and planning processes. We understand the opportunities presented in the following as potential future developments or events that could lead to a positive deviation from our guidance. We also assess the probabilities of price-related procurement market and financial opportunities.

Procurement market opportunities

Description of opportunities: Countervailing the procurement market risks listed on page 124, opportunities may also arise in which the influencing factors described in this section develop in a direction that is advantageous to Henkel.

Impact: Low probability rating, possible major impact on our earnings guidance.

Macroeconomic and sector-specific opportunities

Description of opportunities: Additional business opportunities would arise if the uncertain geopolitical and macroeconomic situation in some regions, or the economic conditions in individual sectors, develop substantially better than expected.

Impact: The opportunities described could have a major impact on our sales and earnings guidance.

Financial opportunities

Description of opportunities: Countervailing the currency and interest rate risks indicated under financial risks, and the risks arising from pension obligations as described on pages 125 and 126, opportunities may also arise in which the influencing factors described in this section develop in a direction that is advantageous to Henkel.

Impact: We classify financial opportunities as follows:

- Currency opportunities with a moderate probability of a major impact on our earnings guidance.
- Interest rate opportunities with a moderate probability of a minor impact on our earnings guidance.
- Opportunities arising from our pension obligations with a low probability of a minor impact on our earnings guidance, and with a moderate probability of a major impact on our equity.

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Acquisition opportunities

Description of opportunities: Acquisitions are a key component of our strategy.

Impact: Large acquisitions could have a major impact on our earnings guidance.

Research and development opportunities

Description of opportunities: Opportunities arising from our extensively continuous innovation process are a key component of our strategy and are already accounted for in our guidance. There are additional opportunities in the event of product introductions that exceed our expectations of market acceptance, and in the development of exceptional innovations that have not yet been taken into account.

Impact: Innovations arising from future research and development could have a major impact on our sales and earnings guidance.

Risks and opportunities in summary

At the time this report was prepared, there were no identifiable risks related to future developments that could endanger the existence either of Henkel AG & Co. KGaA, or a material subsidiary included in the consolidation, or the Group, as a going concern. As we have no special-purpose vehicles, there is no risk that originate from such a source.

Compared to the previous year, our expectation of the likelihood and/or of the possible financial impact of individual risk and opportunity categories has changed slightly. Overall, however, the risk and opportunities situation has not altered to any significant degree.

The system of risk categorization adopted by Henkel continues to indicate that the most significant exposure currently relates to the impact of macroeconomic and sector uncertainty together with financial risks, to which we are responding with the countermeasures described above. The Management Board remains confident that the earning power of the Group forms a solid foundation for future business development and provides the necessary resources to leverage our opportunities.

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Macroeconomic development

The assessment of future world economic development is based on information provided by IHS Markit.

Overview:**Weaker gross domestic product growth of
approximately 2.5 percent**

The forecast for 2020 is that world economic growth will remain subdued. IHS expects gross domestic product to rise moderately by approximately 2.5 percent, which is approximately on a par with the prior year.

The mature markets should grow by approximately 1.5 percent. The North American economy is expected to grow by approximately 2 percent, while the economies in Western Europe and Japan are forecasted to expand by around 1 percent in each case.

The emerging markets are forecasted to achieve moderate economic growth of approximately 4 percent in 2020, but developments are expected to vary between individual regions and countries. Asia (excluding Japan) is expected to increase its economic output by approximately 5 percent. An increase of around 2 percent is forecasted for both the Eastern Europe and Africa/Middle East regions, while the Latin America region is expected to grow by approximately 1 percent.

Inflation:**Global inflation rate at prior-year level**

Global inflation in 2020 is expected to be approximately 2.5 percent, thus remaining more or less at the level of the previous year. IHS expects the mature markets to continue exhibiting a high degree of price stability, with inflation at approximately 1.5 percent. Inflation of approximately 4 percent on average is forecasted for the emerging markets.

Direct materials:**Increase in price levels**

We expect price increases for raw materials, packaging and purchased goods and services to be in the low single-digit percentage range compared to the previous year.

Currencies:**Higher currency volatility**

We anticipate higher volatility in the currency markets. Some major currencies in the emerging markets could weaken on average in 2020 compared to 2019. We expect the US dollar to weaken slightly versus the euro.

Development by sector

Consumption and retail:**Growth of approximately 3 percent**

IHS expects global private consumption to increase by approximately 3 percent in 2020. For the mature markets, IHS anticipates growth of approximately 2 percent. Private spending in the emerging markets is forecasted to rise by approximately 4.5 percent.

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Industrial production index:

Growth of around 1 percent

IHS expects the industrial production index (IPX) to grow at around 1 percent worldwide. Industrial production is expected to remain at the prior-year level in the mature markets and to expand by approximately 3 percent in the emerging markets.

Outlook for the Henkel Group in 2020

We expect the Henkel Group to generate organic sales growth of 0 to 2 percent in fiscal 2020. In our Adhesive Technologies business unit, we assume growth will be impacted by the uncertainty surrounding industrial demand and therefore expect organic sales development in a range between -2 and 1 percent. We expect organic sales growth in the range of 1 to 3 percent for the Beauty Care business unit and in the range of 2 to 4 percent for the Laundry & Home Care business unit.

We expect the contribution to nominal sales growth of the Henkel Group from our acquisitions of 2019 to be in the low single-digit percentage range. The translation of sales in foreign currencies is expected to have a negative effect in the low to mid-single-digit percentage range.

Henkel expects an adverse effect on its earnings performance in 2020, given the uncertainty prevailing in the industrial environment and the higher investments year on year in marketing and advertising, as well as digitalization and IT, to sustainably strengthen its businesses. At the same time, we will continue our strict cost discipline and persist with implementing a host of measures aimed at improving our cost structures. We expect the Henkel Group to generate adjusted return on sales (EBIT) of around 15 percent. Our expectations with regard to adjusted return on sales (EBIT) in our individual business units are between 17 and 18 percent for Adhesive

Technologies, between 12.5 and 13.5 percent for Beauty Care, and between 15 and 16 percent for Laundry & Home Care.

Compared to prior year, we expect a decrease in adjusted earnings per preferred share (EPS) at constant exchange rates in the mid- to high single-digit percentage range.

Furthermore, we have the following expectations for 2020:

- Restructuring expenses of 250 to 300 million euros.
- Cash outflows from investments in property, plant and equipment and intangible assets of between 700 and 800 million euros.

Dividend

In accordance with our dividend policy and depending on the company's asset and profit positions as well as its financial requirements, we expect a dividend payout by Henkel AG & Co. KGaA in fiscal 2020 in the range of 30 to 40 percent of net income after non-controlling interests, and adjusted for exceptional items.

Capital expenditures

In fiscal 2020, we plan cash outflows for investments in property, plant and equipment and intangible assets in a range between 700 and 800 million euros. We plan to invest considerable amounts in strengthening our innovation capabilities and in expanding and streamlining our production and logistics. We also intend to drive the digitalization of Henkel through targeted IT investments.

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Assets

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in million euros	Note	Dec. 31, 2018 ¹	%	Dec. 31, 2019	%
Goodwill	1	12,306	41.6	12,922	41.1
Other intangible assets	1	4,230	14.3	4,324	13.8
Property, plant and equipment	2	3,125	10.6	3,775	12.0
Other financial assets	3	65	0.2	125	0.4
Income tax refund claims		10	–	23	0.1
Other assets	4	184	0.6	231	0.7
Deferred tax assets	5	959	3.2	863	2.7
Non-current assets		20,879	70.5	22,263	70.8
Inventories	6	2,177	7.4	2,193	7.0
Trade accounts receivable	7	3,610	12.2	3,413	10.9
Other financial assets	3	1,030	3.5	1,335	4.3
Income tax refund claims		321	1.1	225	0.7
Other assets	4	406	1.4	473	1.5
Cash and cash equivalents	8	1,063	3.6	1,462	4.7
Assets held for sale	9	76	0.3	39	0.1
Current assets		8,683	29.5	9,140	29.2
Total assets		29,562	100.0	31,403	100.0

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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Equity and liabilities

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in million euros	Note	Dec. 31, 2018 ¹	%	Dec. 31, 2019	%
Issued capital	10	438	1.5	438	1.4
Capital reserve	11	652	2.2	652	2.1
Treasury shares	12	–91	–0.3	–91	–0.3
Retained earnings	13	17,288	58.4	18,659	59.4
Other components of equity	14	–1,372	–4.6	–1,135	–3.6
Equity attributable to shareholders of Henkel AG & Co. KGaA		16,915	57.2	18,523	59.0
Non-controlling interests	15	84	0.3	88	0.3
Equity		16,999	57.5	18,611	59.3
Provisions for pensions and similar obligations	16	794	2.7	635	2.0
Other provisions	17	285	1.0	307	1.0
Borrowings	18	1,556	5.3	1,932	6.2
Other financial liabilities	19	69	0.2	568	1.8
Other liabilities	20	18	0.1	14	–
Deferred tax liabilities	5	807	2.7	815	2.6
Non-current liabilities		3,529	12.0	4,271	13.6
Other provisions	17	1,769	6.0	1,634	5.2
Borrowings	18	2,619	8.9	2,026	6.5
Trade accounts payable	21	3,713	12.6	3,819	12.2
Other financial liabilities	19	145	0.4	292	0.9
Other liabilities	20	318	1.0	333	1.0
Income tax liabilities		470	1.6	417	1.3
Current liabilities		9,034	30.5	8,521	27.1
Total equity and liabilities		29,562	100.0	31,403	100.0

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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in million euros	Note	2018 ¹	%	2019	%	+/-
Sales	23	19,899	100.0	20,114	100.0	1.1%
Cost of sales	24	-10,743	-54.0	-10,883	-54.1	1.3%
Gross profit		9,156	46.0	9,231	45.9	0.8%
Marketing, selling and distribution expenses	25	-4,638	-23.3	-4,942	-24.6	6.6%
Research and development expenses	26	-484	-2.4	-499	-2.5	3.1%
Administrative expenses	27	-991	-5.0	-969	-4.8	-2.2%
Other operating income	28	154	0.8	162	0.8	5.2%
Other operating expenses	29	-81	-0.4	-84	-0.4	3.7%
Operating profit (EBIT)		3,116	15.7	2,899	14.4	-7.0%
Interest income		10	0.1	13	0.1	30.0%
Interest expense		-71	-0.5	-88	-0.4	23.9%
Other financial result		-5	-	-13	-0.1	160.0%
Investment result		1	-	-	-	-
Financial result	30	-65	-0.4	-88	-0.4	35.4%
Income before tax		3,051	15.3	2,811	14.0	-7.9%
Taxes on income	31	-721	-3.6	-708	-3.5	-1.8%
Tax rate		in %		23.6	25.2	
Net income		2,330	11.7	2,103	10.5	-9.7%
Attributable to non-controlling interests	32	16	0.1	18	0.1	12.5%
Attributable to shareholders of Henkel AG & Co. KGaA		2,314	11.6	2,085	10.4	-9.9%
Earnings per ordinary share – basic and diluted		in euros		5.32	4.79	-10.0%
Earnings per preferred share – basic and diluted		in euros		5.34	4.81	-9.9%

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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Consolidated statement of comprehensive income

See Notes 16 and 23 for further explanatory information

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in million euros	2018 ¹	2019
Net income	2,330	2,103
Results subject to possible future reclassification:		
Exchange differences on translation of foreign operations	142	245
Gains / losses from derivative financial instruments (Hedge reserve)	-1	-5
Gains / losses from debt instruments	-1	1
Results not subject to future reclassification:		
Gains / losses from equity instruments	1	-7
Remeasurement of net liability from defined benefit pension plans (net of taxes)	-134	203
Other comprehensive income (net of taxes)	7	437
Total comprehensive income for the period	2,337	2,540
Attributable to non-controlling interests	16	15
Attributable to shareholders of Henkel AG & Co. KGaA	2,321	2,525

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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See Notes 10 to 15 for further explanatory information

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	Issued capital				Other components of equity					Shareholders of Henkel AG & Co. KGaA	Non-controlling interests	Total
	Ordinary shares	Preferred shares	Capital reserve	Treasury shares	Retained earnings	Currency translation	Hedge reserve	Reserve for equity and debt instruments				
in million euros												
At January 1, 2018¹	260	178	652	- 91	15,928	- 1,318	- 198	3	15,414	84	15,498	
Net income ¹	-	-	-	-	2,314	-	-	-	2,314	16	2,330	
Other comprehensive income ¹	-	-	-	-	-134	142	-1	-	7	-	7	
Total comprehensive income for the period¹	-	-	-	-	2,180	142	- 1	-	2,321	16	2,337	
Dividends	-	-	-	-	-772	-	-	-	-772	-16	-788	
Share-based payments	-	-	-	-	-45	-	-	-	-45	-	-45	
Other changes in equity	-	-	-	-	-3	-	-	-	-3	-	-3	
Equity transactions with shareholders	-	-	-	-	-820	-	-	-	-820	-16	-836	
At Dec. 31, 2018 / Jan. 1, 2019¹	260	178	652	- 91	17,288	- 1,176	- 199	3	16,915	84	16,999	
Effect of first-time application of IFRS 16	-	-	-	-	-34	-	-	-	-34	-	-34	
At January 1, 2019 (amended)	260	178	652	- 91	17,254	- 1,176	- 199	3	16,881	84	16,965	
Net income	-	-	-	-	2,085	-	-	-	2,085	18	2,103	
Other comprehensive income	-	-	-	-	203	248	-5	-6	440	-3	437	
Total comprehensive income for the period	-	-	-	-	2,288	248	- 5	- 6	2,525	15	2,540	
Dividends	-	-	-	-	-798	-	-	-	-798	-19	-817	
Share-based payments	-	-	-	-	11	-	-	-	11	-	11	
Changes in ownership interest with no change in control	-	-	-	-	8	-	-	-	8	-8	-	
Capital increase of a subsidiary with non-controlling interests	-	-	-	-	-	-	-	-	-	8	8	
Acquisition of a subsidiary with non-controlling interests	-	-	-	-	-	-	-	-	-	12	12	
Other changes in equity	-	-	-	-	-104	-	-	-	-104	-4	-108	
Equity transactions with shareholders	-	-	-	-	-883	-	-	-	-883	-11	-894	
At December 31, 2019	260	178	652	- 91	18,659	- 928	- 204	- 3	18,523	88	18,611	

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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Consolidated statement of cash flows

See Note 39 for further explanatory information

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in million euros	2018	2019
Operating profit (EBIT)	3,116	2,899
Income taxes paid	- 586	- 607
Amortization / depreciation / impairment / write-ups of intangible assets, property, plant and equipment, and assets held for sale ¹	578	757
Net gains / losses on disposal of intangible assets and property, plant and equipment, and from divestments	- 31	- 11
Change in inventories	- 156	-
Change in trade accounts receivable	- 89	241
Change in other assets	14	43
Change in trade accounts payable	32	63
Change in other liabilities, provisions and equity	- 180	- 144
Cash flow from operating activities	2,698	3,241
Purchase of intangible assets and property, plant and equipment including payments on account	- 837	- 677
Acquisition of subsidiaries and other business units	- 429	- 564
Acquisition of associated companies and other investments	- 14	- 18
Proceeds on disposal of subsidiaries, other business units and investments	4	8
Proceeds on disposal of intangible assets and property, plant and equipment	68	78
Changes in financial receivables from third parties	-	- 18
Cash flow from investing activities	- 1,208	- 1,191
Dividends paid to shareholders of Henkel AG & Co. KGaA	- 772	- 798
Dividends paid to non-controlling shareholders	- 16	- 19
Interest received	24	28
Interest paid ²	- 78	- 98
<i>Dividends and interest paid and received</i>	<i>- 842</i>	<i>- 887</i>
Issuance of bonds	-	847
Repayment of bonds	- 500	- 666
Repayment of non-current bank liabilities	- 947	-
Other changes in borrowings	1,158	- 519
Redemption of lease liabilities ²	-	- 125

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in million euros	2018	2019
Allocations to pension funds	- 175	- 50
Other changes in pension obligations ³	42	24
Payments for the acquisition of treasury shares	- 33	-
Payments for the acquisition of non-controlling interests in a controlled entity	- 7	- 21
Other financing transactions ⁴	- 26	- 268
Cash flow from financing activities	- 1,330	- 1,665
Net change in cash and cash equivalents	160	385
Effect of exchange rates on cash and cash equivalents	- 16	14
Change in cash and cash equivalents	144	399
Cash and cash equivalents at January 1	919	1,063
Cash and cash equivalents at December 31	1,063	1,462

¹ Of which: Impairment in fiscal 2019: 43 million euros (fiscal 2018: 24 million euros). Due to first-time application of IFRS 16 Leases, the figure for depreciation, impairment and write-ups of property, plant and equipment includes amounts pertaining to right-of-use assets as of fiscal 2019.

² Due to first-time application of IFRS 16 Leases, interest paid on right-of-use assets and the redemption of lease liabilities have been disclosed as of fiscal 2019.

³ Other changes in pension obligations include payment receipts of 104 million euros in fiscal 2019 constituting the refund of pension payments to retirees for which a right of reimbursement exists with respect to Henkel Trust e.V. Reimbursement totaled 100 million euros in 2018.

⁴ Other financing transactions in fiscal 2019 include payments of - 269 million euros for the purchase of short-term securities and time deposits relating to swap contracts for financing purposes as well as for the provision of financial collateral (fiscal 2018: - 30 million euros).

Additional voluntary information: Reconciliation to free cash flow

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in million euros	2018	2019
Cash flow from operating activities	2,698	3,241
Purchase of intangible assets and property, plant and equipment including payments on account	- 837	- 677
Redemption of lease obligations	-	- 125
Proceeds on disposal of intangible assets and property, plant and equipment	68	78
Net interest paid	- 54	- 70
Other changes in pension obligations	42	24
Free cash flow	1,917	2,471

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Group segment report by business unit¹

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	Adhesives for Consumers, Craftsmen and Building	Industrial Business	Total Adhesive Technologies	Beauty Care	Laundry & Home Care	Operating business units total	Corporate	Henkel Group
<hr/>								
in million euros								
Sales 2019	1,884	7,577	9,461	3,877	6,656	19,994	121	20,114
Proportion of Henkel Group sales	9%	38%	47%	19%	33%	99%	1%	100%
Sales 2018	1,781	7,622	9,403	3,950	6,419	19,771	128	19,899
Change from previous year	5.8%	-0.6%	0.6%	-1.8%	3.7%	1.1%	-5.8%	1.1%
Adjusted for foreign exchange	4.5%	-2.2%	-0.9%	-1.8%	4.0%	0.5%	-	0.5%
Organic	0.7%	-2.1%	-1.5%	-2.1%	3.7%	0.0%	-	0.0%
EBIT 2019	317	1,314	1,631	418	973	3,022	-123	2,899
EBIT 2018	261	1,408	1,669	589	970	3,228	-112	3,116
Change from previous year	21.6%	-6.7%	-2.3%	-29.0%	0.3%	-6.4%	-	-7.0%
Return on sales (EBIT) 2019	16.8%	17.3%	17.2%	10.8%	14.6%	15.1%	-	14.4%
Return on sales (EBIT) 2018	14.7%	18.5%	17.7%	14.9%	15.1%	16.3%	-	15.7%
Adjusted EBIT 2019	317	1,396	1,712	519	1,096	3,328	-108	3,220
Adjusted EBIT 2018	282	1,479	1,761	675	1,162	3,598	-102	3,496
Change from previous year	12.2%	-5.6%	-2.8%	-23.1%	-5.7%	-7.5%	-	-7.9%
Adjusted return on sales (EBIT) 2019	16.8%	18.4%	18.1%	13.4%	16.5%	16.6%	-	16.0%
Adjusted return on sales (EBIT) 2018	15.9%	19.4%	18.7%	17.1%	18.1%	18.2%	-	17.6%
Capital employed 2019^{2,3}	1,244	8,219	9,464	4,131	7,722	21,316	144	21,460
Capital employed 2018 ²	872	7,765	8,637	3,983	7,381	20,001	77	20,078
Change from previous year	42.7%	5.8%	9.6%	3.7%	4.6%	6.6%	-	6.9%
Return on capital employed (ROCE) 2019³	25.5%	16.0%	17.2%	10.1%	12.6%	14.2%	-	13.5%
Return on capital employed (ROCE) 2018	29.9%	18.1%	19.3%	14.8%	13.1%	16.1%	-	15.5%

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	Adhesives for Consumers, Craftsmen and Building	Industrial Business	Total Adhesive Technologies	Beauty Care	Laundry & Home Care	Operating business units total	Corporate	Henkel Group
in million euros								
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment 2019³	58	300	358	106	268	732	25	757
Of which impairment 2019	–	23	23	6	14	43	–	43
Of which write-ups 2019	–	3	3	–	–	3	–	3
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment 2018	39	241	280	76	208	564	14	578
Of which impairment 2018	–	15	15	–	9	24	–	24
Of which write-ups 2018	–	–	–	–	–	–	–	–
Additions to non-current assets 2019^{3,5}	151	234	385	712	287	1,384	17	1,401
Additions to non-current assets 2018 ⁵	89	547	636	293	341	1,270	11	1,281
Operating assets 2019^{3,4}	1,853	10,132	11,985	5,679	10,820	28,484	586	29,070
Operating liabilities 2019	693	2,393	3,086	1,738	2,913	7,737	442	8,179
Net operating assets 2019^{3,4}	1,161	7,739	8,899	3,941	7,907	20,747	144	20,891
Operating assets 2018 ⁴	1,483	9,849	11,332	5,324	10,508	27,164	533	27,697
Operating liabilities 2018	694	2,579	3,273	1,689	2,863	7,826	456	8,282
Net operating assets 2018 ⁴	789	7,270	8,058	3,635	7,645	19,338	77	19,416

¹ Calculated on the basis of units of 1,000 euros.² Including goodwill at cost prior to any accumulated impairment in accordance with IFRS 3.79 (b).³ Due to first-time application of IFRS 16, we have recognized depreciation charges for right-of-use assets in the amount of 133 million euros, additions of right-of-use assets of 139 million euros, and acquisition-related additions of 15 million euros in fiscal 2019.⁴ Including goodwill at net carrying amounts.⁵ Excluding non-current financial instruments, deferred taxes and assets from defined benefit plans.

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in million euros	Western Europe	Eastern Europe	Africa / Middle East	North America	Latin America	Asia-Pacific	Total Regions	Corporate	Henkel Group
Sales² 2019	6,017	2,999	1,302	5,276	1,295	3,105	19,994	121	20,114
Sales ² 2018	6,107	2,843	1,286	5,040	1,181	3,314	19,771	128	19,899
Change from previous year	- 1.5%	5.5%	1.2%	4.7%	9.6%	- 6.3%	1.1%	-	1.1%
Organic	- 1.2%	6.5%	13.3%	- 2.3%	4.9%	- 6.5%	0.0%	-	0.0%
Proportion of Group sales 2019	30%	15%	7%	26%	6%	15%	99%	1%	100%
Proportion of Group sales 2018	31%	14%	6%	25%	6%	17%	99%	1%	100%
Operating profit (EBIT) 2019	1,725	278	106	337	145	431	3,022	- 123	2,899
Operating profit (EBIT) 2018	1,810	280	35	406	136	561	3,228	- 112	3,116
Change from previous year	- 4.7%	- 0.6%	200.3%	- 16.8%	6.6%	- 23.1%	- 6.4%	-	- 7.0%
Adjusted for foreign exchange	- 4.8%	- 0.1%	260.7%	- 25.1%	9.9%	- 25.6%	- 7.0%	-	- 7.8%
Return on sales (EBIT) 2019	28.7%	9.3%	8.1%	6.4%	11.2%	13.9%	15.1%	-	14.4%
Return on sales (EBIT) 2018	29.6%	9.8%	2.7%	8.0%	11.5%	16.9%	16.3%	-	15.7%

¹ Calculated on the basis of units of 1,000 euros.² By location of company.

In 2019, the subsidiaries domiciled in Germany, including Henkel AG & Co. KGaA, generated sales of 2,382 million euros (previous year: 2,435 million euros). Sales realized by the subsidiaries domiciled in the USA amounted to 4,899 million euros in 2019 (previous year: 4,696 million euros). Subsidiaries domiciled in China achieved sales of 1,390 million euros in 2019 (previous year: 1,612 million euros). In fiscal 2018 and 2019, no individual customer accounted for more than 10 percent of total sales.

Of the total non-current assets disclosed for the Henkel Group at December 31, 2019 (excluding financial instruments and deferred tax assets) amounting to 21,275 million euros (previous year: 19,920 million euros), 2,497 million euros (previous year: 2,468 million euros) was attributable to the subsidiaries domiciled in Germany, including Henkel AG & Co. KGaA. The non-current assets (excluding financial instruments and deferred tax assets) recognized in respect of the subsidiaries domiciled in the USA amounted to 11,723 million euros at December 31, 2019 (previous year: 10,617 million euros).

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Accounting principles and methods applied in preparation of the consolidated financial statements

General information

The consolidated financial statements of Henkel AG & Co. KGaA (Düsseldorf Regional Court, HRB 4724), Düsseldorf, as of December 31, 2019, have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs), together with the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRS IC), as adopted per Regulation number 1606/2002 of the European Parliament and the Council, on the application of international accounting standards in the European Union, and in compliance with Section 315a German Commercial Code [HGB]. The consolidated financial statements are published in the electronic federal gazette.

The individual financial statements of the companies included in the consolidation are drawn up on the same accounting date, December 31, 2019, as that of Henkel AG & Co. KGaA.

Members of the KPMG organization or other independent firms of auditors instructed accordingly have audited the financial statements of the material companies included in the consolidation. The Management Board of Henkel Management AG – which is the Personally Liable Partner of Henkel AG & Co. KGaA – compiled the consolidated financial statements on January 30, 2020, and approved them for forwarding to the Supervisory Board and for publication.

The consolidated financial statements are based on the principle of historical cost with the exception that certain financial instruments are accounted for at their fair values, and pension

obligations are measured using the projected unit credit method. The functional currency of Henkel AG & Co. KGaA and the reporting currency of the Group is the euro. Unless otherwise indicated, all amounts are shown in million euros. In order to improve the clarity and informative value of the consolidated financial statements, certain items are combined in the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income, and then shown separately in the notes.

Scope of consolidation

In addition to Henkel AG & Co. KGaA as the ultimate parent company, the consolidated financial statements at December 31, 2019, include 16 German and 198 non-German companies in which Henkel AG & Co. KGaA has a dominating influence over financial and operating policies, based on the concept of control. The Group has a dominating influence on a company when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Companies in which the stake held represents less than half of the voting rights are fully consolidated if Henkel AG & Co. KGaA controls them, as defined in IFRS 10 Consolidated Financial Statements, through contractual agreements or the right to appoint corporate bodies.

Henkel AG & Co. KGaA prepares the consolidated financial statements for the largest and the smallest groups of companies to which Henkel AG & Co. KGaA and its subsidiaries belong.

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The following table shows the changes to the scope of consolidation in fiscal 2019:

Scope of consolidation	93
At January 1, 2019	222
Additions	15
Mergers	-17
Disposals	-5
At December 31, 2019	215

Further details can be found in the section "Acquisitions and divestments" below.

Subsidiaries which are of secondary importance to the Group and to the presentation of a true and fair view of our net assets, financial position and results of operations due to their inactivity or low level of activity are generally not included in the consolidated financial statements. The total assets of these companies represent less than 1 percent of the Group's total assets; their total sales and income (net of taxes) are also less than 1 percent of the Group totals.

The Henkel Group also acquired 51 percent of the shares in eSalon.com LLC, Los Angeles, USA, effective August 5, 2019. The acquisition strengthens the Beauty Care business unit's leading Hair Colorants portfolio and expands its digital business. The acquisition is part of our strategy to further drive digitalization in our business areas. The purchase price was 90 million euros, settled in cash. With regard to the remaining 49 percent of shares, put and call options have been agreed between Henkel and the seller. Since the economic benefits of the non-controlling interests do not yet accrue to the Henkel Group, the present access method is used to recognize the put options on the non-controlling interests. The non-controlling interests continue to be recognized in the statement of financial position and the statement of comprehensive income. In recognition of the commitment in connection with the put options attributable to minority shareholders, a financial liability, remeasured through equity, was recognized upon first-time consolidation in an amount equal to the discounted expected purchase price. As of December 31, 2019, the liability amounted to 115 million euros. The purchase price is based on a multiple of sales less the company's debt. A maximum payment was not agreed. Provisional goodwill was capitalized in an amount of 77 million euros.

Acquisitions and divestments

Acquisitions

Effective May 1, 2019, Henkel completed the acquisition of all shares in Molecule Corp. based in Concord, USA. The final purchase price was 19 million euros, settled in cash. The acquisition complements and strengthens the Adhesive Technologies business unit's technology portfolio in the field of 3D printing and industrial inkjet solutions. Goodwill was recognized in an amount of 17 million euros.

Effective December 6, 2019, the Henkel Group completed the acquisition of all shares in Deva Parent Holdings, Inc., New York City, USA. This acquisition is part of our strategy to strengthen Henkel's position in attractive markets and categories. By acquiring this interest, we are expanding in particular our Beauty Care Hair Salon business in the USA, which is the world's largest single hairdressing market. The purchase price was 457 million euros, settled in cash. Provisional goodwill was capitalized in an amount of 338 million euros.

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None of the goodwill relating to any of the acquisitions was recognized for tax purposes.

The provisional goodwill acquired through the purchase of eSalon.com LLC and Deva Parent Holdings, Inc. represents the growth potential of the acquired businesses, as well as both offensive and defensive synergies to be achieved through integration in Henkel's existing organization.

Because the acquisition of Deva Parent Holdings, Inc. was only recently completed, and the acquisition of eSalon.com LLC was closed in the course of the reporting year, the allocation of the purchase prices to the acquired assets and liabilities in accordance with IFRS 3 Business Combinations is provisional. In particular, determination of the fair value of the goodwill, other intangible assets, property, plant and equipment, inventories, provisions and deferred taxes acquired has not yet been finalized.

Acquisitions 2019		94
in million euros		Fair value
Goodwill		432
Other intangible assets		144
Property, plant and equipment		24
Other non-current assets		–
Non-current assets		600
Inventories		15
Trade accounts receivable		10
Liquid funds		6
Other current assets		9
Current assets		40
Total assets		640
Net assets		578
Non-current liabilities		33
Other current provisions / liabilities		20
Trade accounts payable		9
Current liabilities		29
Total equity and liabilities		640

The carrying amounts of the acquired assets and liabilities are determined by the contracts and our opening balances on each respective acquisition date. The recognition and measurement principles adopted by the Henkel Group were applied.

If the acquisition of all shares of Molecule Corp. and the acquisition of eSalon.com LLC and of Deva Parent Holdings, Inc. – and thus their business activities – had been completed by January 1, 2019, sales for the Henkel Group for the reporting period January 1 to December 31, 2019 would be higher by 127 million euros and income after tax would be higher by 2 million euros, after taking acquisition-related incidental costs into account.

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The business activities actually contributed 23 million euros to sales and – 2 million euros to income after tax. Acquisition-related incidental costs amounted to 2 million euros.

Reconciliation of the purchase price to provisional goodwill 95

in million euros	2019
Acquisitions 2019	
Purchase price	566
Non-controlling interests based on shares of recognized assets and liabilities	12
Fair value of the acquired assets and liabilities (provisional)	146
Provisional goodwill	432

of acquisition, and all identifiable intangible assets are separately disclosed if they are clearly separable or if their recognition arises from a contractual or other legal right. Any difference arising between the acquisition cost and the (share of) net assets after purchase price allocation is recognized as goodwill. The goodwill of subsidiaries is measured in the functional currency of the subsidiary.

Entities acquired are included in the consolidation for the first time as subsidiaries by offsetting the carrying amount of the respective parent company's investment in them against their assets and liabilities. Contingent consideration is recognized at fair value as of the date of first-time consolidation. Subsequent changes in value do not result in an adjustment to the valuation at the time of acquisition. Incidental costs relating to the acquisition of participating interests in entities are not included in the purchase price. Instead, they are recognized through profit or loss in the period in which they occur.

Consolidation methods

The financial statements of Henkel AG & Co. KGaA and of the subsidiaries included in the consolidated financial statements were prepared on the basis of uniformly valid principles of recognition and measurement, applying the standardized year-end date adopted by the Group. Such entities are included in the consolidated financial statements as of the date on which the Group acquired control.

All receivables and liabilities, sales, income and expenses, as well as intra-group profits on transfers of non-current assets or inventories, are eliminated on consolidation.

The purchase method is used for capital consolidation. With business combinations, therefore, all hidden reserves and hidden charges in the entity acquired are revalued at the time

In the recognition of acquisitions of less than 100 percent of the shares in a company, non-controlling interests are measured at the fair value of the proportion of net assets that they represent. As of the fourth quarter of 2019, the Henkel Group has been using the present access method to recognize put options on non-controlling interests, unless the acquisition of the outstanding minority interests has already been realized from an accounting standpoint. This method requires the recognition of a financial liability, remeasured through equity, for the commitment associated with the relevant put options. The non-controlling interests continue to be recognized in the statement of financial position and in the statement of comprehensive income. Further discussion of the changes in accounting methods can be found in the section entitled "Amendment of prior-year figures" on pages 154 to 157.

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In subsequent years, the carrying amount of the Henkel AG & Co. KGaA investment is eliminated against the current (share of) equity in the subsidiary entities concerned.

Changes in the shareholdings of subsidiary companies resulting in a decrease or an increase in the participating interests of the Group without loss of control are recognized within equity as changes in ownership without loss of control.

As soon as the control of a subsidiary is relinquished, all the assets and liabilities and the non-controlling interests, and also the accumulated currency translation gains or losses, are derecognized. In the event that Henkel continues to own non-controlling interests in the non-consolidated entity, these are measured at fair value. The result of deconsolidation is recognized under other operating income or expenses.

Associated companies

An associated company is a company over which the Group can exercise significant influence on the financial and operating policies without controlling it. Significant influence is generally assumed when the Group holds 20 percent or more of the voting rights. Where a Group company conducts transactions with an associated company, the resulting profits or losses are eliminated in accordance with the share of the Group in that company.

Shares in associated companies are always recognized using the equity method. For simplification purposes, associated companies that are less relevant for the Group and for the presentation of a fair view of its net assets, financial position and results of operations, are recognized at cost less impairment.

The carrying amount of the companies recognized by the Group using the equity method as of December 31, 2019, was 0 million euros (previous year: 3 million euros).

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Currency translation

The annual financial statements, including the hidden reserves and hidden charges of Group companies recognized by the purchase method, goodwill arising on consolidation, and the statement of cash flows, are translated into euros using the functional currency method outlined in IAS 21 The Effects of Changes in Foreign Exchange Rates. The functional currency is the currency in which a foreign company predominantly generates funds and makes payments. As the functional currency for all the companies included in the consolidation is generally the local currency of the company concerned, assets and liabilities are translated at closing rates, while income and expenses are translated at the average rates for the year as an

approximation of the actual rates at the date of the transaction. Equity items are recognized at historical exchange rates. The differences arising from using average rather than closing rates are taken to equity and shown as other components of equity, or as non-controlling interests, and remain neutral in respect of net income until the shares are divested.

In the subsidiaries' annual financial statements, transactions in foreign currencies are converted at the rates prevailing at the time of the transaction. Financial assets and liabilities in foreign currencies are measured at closing rates through profit or loss. For the main currencies in the Group, the following exchange rates have been used based on 1 euro:

Currencies

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	ISO code	Average exchange rate		Exchange rate on December 31	
		2018	2019	2018	2019
Chinese yuan	CNY	7.81	7.74	7.88	7.82
Mexican peso	MXN	22.71	21.56	22.49	21.22
Polish zloty	PLN	4.26	4.30	4.30	4.26
Russian ruble	RUB	74.04	72.48	79.72	69.96
Turkish lira	TRY	5.71	6.36	6.06	6.68
US dollar	USD	1.18	1.12	1.15	1.12

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Recognition and measurement methods

Summary of selected measurement methods

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Financial statement figures	Measurement method
Assets	
Goodwill	Lower of initially recognized value of acquisitions as per IFRS 3 and comparative figure following impairment testing at the level of the cash-generating units ("impairment only" method)
Other intangible assets	
With indefinite useful lives	Lower of cost and recoverable amount ("impairment only" method)
With definite useful lives	Amortized cost less any impairment losses
Property, plant and equipment	Depreciated cost less any impairment losses
Financial assets (categories per IFRS 9)	
Amortized cost	Amortized cost using the effective interest method
Fair value through profit or loss	Fair value with gains or losses recognized in the income statement
Fair value through other comprehensive income	Fair value with gains or losses recognized in other comprehensive income ¹
Other assets	(Amortized) cost
Inventories	Lower of cost and fair value less costs to sell
Assets held for sale	Lower of carrying amount and fair value less costs to sell

¹ Apart from impairment equivalent to the expected credit losses, and from effects arising from measurement in a foreign currency.**Equity and liabilities**

Provisions for pensions and similar obligations	Present value of future obligations (projected unit credit method)
Other provisions	Settlement amount
Financial liabilities (categories per IFRS 9)	
Amortized cost	Amortized cost using the effective interest method
Fair value through profit or loss	Fair value with gains or losses recognized in the income statement
Other liabilities	Settlement amount

The methods of recognition and measurement, which are basically unchanged from the previous year, are described in detail in the notes relating to the individual items of the statement of financial position on these pages. Also provided as part of our financial instruments report (Note 23 on pages 195 to 220) are the disclosures relevant for the Henkel Group pursuant to IFRS 7 Financial Instruments: Disclosures, show-

ing the breakdown of our financial instruments by class, our methods for fair value measurement, and the derivative financial instruments that we use. The requisite disclosure of voluntary changes to the methods of recognition and measurement in the fiscal year can be found in the section entitled "Amendment of prior-year figures" on pages 154 to 157. Changes to International Financial Reporting Standards (IFRSs)

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that were applied for the first time in the year under review are discussed in the section entitled "New international accounting regulations according to International Financial Reporting Standards (IFRSs)" on pages 158 to 161. Changes in the methods of recognition and measurement arising from revised and new standards are applied retrospectively, provided that the effect is material and there are no alternative regulations. The consolidated statement of income from the previous year and the opening balance for this comparative period are amended as if the new methods of recognition and measurement had always been applied.

Accounting estimates, assumptions and discretionary judgments

Preparation of the consolidated financial statements is based on a number of accounting estimates and assumptions. These have an impact on the reported amounts of assets, liabilities and contingent liabilities at the reporting date and the disclosure of income and expenses for the reporting period. The actual amounts may differ from these estimates.

The accounting estimates and their underlying assumptions are based on past experience and are continually reviewed. Changes in accounting estimates are recognized in the period in which the change takes place where such change exclusively affects that period. A change is recognized in the period in which it occurs and in later periods where such change affects both the reporting period and subsequent periods. The judgments of the Management Board regarding the application of those IFRSs which have a significant impact on the consolidated

financial statements are presented in particular in the explanatory notes on goodwill and other intangible assets (Note 1 on pages 163 to 167), right-of-use assets recognized in property, plant and equipment (Note 2 on pages 168 to 171), provisions for pensions and similar obligations (Note 16 on pages 179 to 190), other provisions (Note 17 on pages 190 and 191), financial instruments (Note 23 on pages 195 to 220), sales (Note 24 on pages 221 and 222), income taxes (Note 32 on pages 224 to 227), and share-based payment plans (Note 36 on pages 229 to 231).

Material discretionary judgments are made in respect of the demarcation of the cash-generating units as explained in Note 1 on pages 163 to 167 and the segment reporting as explained in Note 37 on pages 231 to 234. As of the fourth quarter of 2019, the Henkel Group has been using the present access method to recognize put options on non-controlling interests, unless the shares are already attributable to the Henkel Group from an accounting standpoint. Further discussion of the changes in accounting methods can be found in the section entitled "Amendment of prior-year figures" on pages 154 to 157.

As part of its efforts to optimize its supplier relations, Henkel offers suppliers the option of joining supplier financing programs, which may result in changes to the legal creditor structure. Regardless of whether suppliers make use of a supplier financing facility or not, the programs do not result in any material changes to the amount, terms and conditions of the obligations or to the cash flows ensuing. As such, classification and the associated presentation as trade accounts payable is consistent with the recognition and presentation criteria of IFRS 9 Financial Instruments.

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As of September 30, 2019, the Henkel Group has changed the method used to determine the discount rates when calculating pension obligations per IAS 19 Employee Benefits in compliance with IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors.

The yield on high-quality European corporate bonds with AA rating still forms the basis for determining the interest rate. The criteria used to select potential corporate bonds have been defined in more detail. Based on the remaining portfolio, amended regression procedures are used to determine a yield curve that can then be applied to the payment profile of the pension obligations in order to obtain an equivalent, standardized rate of interest for calculating the pension obligations.

If this change had not been implemented, the defined benefit obligations as of December 31, 2019 would have been 114 million euros higher.

Amendment of prior-year figures

Amendments due to changes in the method for recognizing put options on non-controlling interests

Henkel changed the method for recognizing put options on non-controlling interests as of December 31, 2019. Instead of the anticipated acquisition method used up to September 30, 2019, the Henkel Group now uses the present access method, unless the acquisition of the outstanding minority interests has already been realized from an accounting standpoint.

Since International Financial Reporting Standards do not contain any explicit regulations governing the recognition of puttable instruments for minority shareholders, the Henkel

Group had previously observed pertinent accounting pronouncements and recognized industry practices, using the anticipated acquisition method when accounting for such put options. In the process, no non-controlling interests were recognized in equity or in the statement of comprehensive income, as they were deemed to be already acquired. A financial liability based on the put option of the non-controlling shareholders was recognized in the amount of the expected payment. In the case of put options awarded to non-controlling shareholders within the framework of a business combination, this financial liability constituted part of the purchase price paid to acquire the subsidiary. Subsequent changes in the value of the financial liability were recognized in the equity of the Henkel Group.

To afford readers of the consolidated financial statements a better understanding of the legal and economic circumstances, the Henkel Group decided in fiscal 2019 to adopt the present access method to account for future instances where the non-controlling interests are not yet attributable to the Henkel Group, as it believes this method provides more meaningful information. This method requires the recognition of a financial liability for the financial commitment associated with the relevant put options awarded to non-controlling shareholders, which has the effect of reducing equity and which is remeasured through equity. The financial commitment does not constitute part of the price paid to acquire the subsidiary, as is the case with the anticipated acquisition method, if the put options are awarded to non-controlling shareholders within the framework of a business combination. Unlike the anticipated acquisition method, the non-controlling interests are still recognized in the statement of financial position and the statement of comprehensive income.

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In compliance with IAS 8, the change in accounting method was applied retrospectively. The following amendments have been made to the prior-year figures:

Amendments to the consolidated statement of financial position

in million euros	Jan. 1, 2018 reported	Amendments	Jan. 1, 2018 amended	Dec. 31, 2018 reported	Amendments	Dec. 31, 2018 amended
Goodwill	11,821	-90	11,731	12,486	-94	12,392
Non-current assets	19,864	-90	19,774	20,941	-94	20,847
Current assets	8,475	-	8,475	8,682	-	8,682
Total assets	28,339	-90	28,249	29,623	-94	29,529
Retained earnings	16,101	-114	15,987	17,399	-111	17,288
Other components of equity	-1,527	14	-1,513	-1,382	10	-1,372
Equity attributable to shareholders of Henkel AG & Co. KGaA	15,573	-100	15,473	17,016	-101	16,915
Non-controlling interests	74	10	84	77	7	84
Equity	15,647	-90	15,557	17,093	-94	16,999
Non-current liabilities	4,941	-	4,941	3,649	-	3,649
Current liabilities	7,751	-	7,751	8,881	-	8,881
Total equity and liabilities	28,339	-90	28,249	29,623	-94	29,529

Amendments to the consolidated statement of income

in million euros	2018 reported	Amend- ments	2018 amended
Net income	2,330	-	2,330
Attributable to non-controlling interests	19	-3	16
Attributable to shareholders of Henkel AG & Co. KGaA	2,311	3	2,314
Earnings per ordinary share – basic and diluted in euros	5.31	0.01	5.32
Earnings per preferred share – basic and diluted in euros	5.33	0.01	5.34

Amendments to the reconciliation of adjusted net income

in million euros	2018 reported	Amend- ments	2018 amended
Adjusted net income	2,625	-	2,625
Attributable to non-controlling interests	21	1	22
Attributable to shareholders of Henkel AG & Co. KGaA	2,604	-1	2,603
Earnings per ordinary share – basic and diluted in euros	5.99	-	5.99
Earnings per preferred share – basic and diluted in euros	6.01	-	6.01

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Amendments to the consolidated statement of comprehensive income

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in million euros	2018 reported	Amend- ments	2018 amended
Results subject to possible future reclassification:			
Exchange differences on translation of foreign operations	146	- 4	142
Other comprehensive income (after taxes)	11	- 4	7
Total comprehensive income for the period	2,341	- 4	2,337
Attributable to non-controlling interests	19	- 3	16
Attributable to shareholders of Henkel AG & Co. KGaA	2,322	- 1	2,321

Amendments to the consolidated statement of changes in equity

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in million euros	Issued capital					Other components of equity					Shareholders of Henkel AG & Co. KGaA	Non-controlling interests	Total
	Ordinary shares	Preferred shares	Capital reserve	Treasury shares	Retained earnings	Currency translation	Hedge reserve	Reserve for equity and debt instruments					
At December 31, 2017 (reported)	260	178	652	- 91	16,101	- 1,332	- 198	3	15,573	74	15,647		
Effect of first-time application of IFRS 9 and IFRS 15	-	-	-	-	- 59	-	-	-	- 59	-	- 59		- 59
Amendment due to retrospective change in accounting method	-	-	-	-	- 114	14	-	-	- 100	10	- 90		- 90
At January 1, 2018 (amended)	260	178	652	- 91	15,928	- 1,318	- 198	3	15,414	84	15,498		
Net income (amended)	-	-	-	-	2,314	-	-	-	2,314	16	2,330		2,330
Other comprehensive income (amended)	-	-	-	-	- 134	142	- 1	-	7	-	7		7
Total comprehensive income for the period (amended)	-	-	-	-	2,180	142	- 1	-	2,321	16	2,337		
Equity transactions with shareholders	-	-	-	-	- 820	-	-	-	- 820	- 16	- 836		
At December 31, 2018 (amended)	260	178	652	- 91	17,288	- 1,176	- 199	3	16,915	84	16,999		

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Amendments due to changes in the presentation of tax uncertainties

In keeping with the clarification published by IFRS IC in September 2019, the Henkel Group desisted from presenting tax uncertainties as income tax provisions, starting from December 31, 2019, and now presents them as current income tax liabilities.

The following prior-year figures were amended:

Amendments to the consolidated statement of financial position

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	Dec 31, 2018 reported	Amend- ments	Dec. 31, 2018 amended
in million euros			
Equity	17,093	–	17,093
Income tax provisions	152	– 152	–
Non-current liabilities	3,649	– 152	3,497
Income tax provisions	305	– 305	–
Income tax liabilities	13	457	470
Current liabilities	8,881	152	9,033
Total equity and liabilities	29,623	–	29,623

Amendments due to purchase price allocations

The allocation of the purchase price for the acquisition of all shares of JemPak Corporation based in Colorado, Canada, was finalized in fiscal 2019. The prior-year figures were subsequently amended as a result. As part of the amendment, goodwill and other current provisions increased by 1 million euros.

The allocation of the purchase price for the acquisition of all shares of Aislantes Nacionales S.A., Santiago, Chile, was finalized in fiscal 2019. The prior-year figures were subsequently amended as a result. In the course of the amendment, goodwill and other intangible assets increased by 28 million euros in total, property, plant and equipment by 3 million euros, inventories by 1 million euros, and deferred tax liabilities by 32 million euros.

Amendments to the consolidated statement of financial position

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	Dec 31, 2018 reported	Amend- ments	Dec. 31, 2018 amended
in million euros			
Goodwill	12,486	– 86	12,400
Other intangible assets	4,115	115	4,230
Property, plant and equipment	3,122	3	3,125
Non-current assets	20,941	32	20,973
Inventories	2,176	1	2,177
Current assets	8,682	1	8,683
Total assets	29,623	33	29,656

Equity	17,093	–	17,093
Deferred tax liabilities	775	32	807
Non-current liabilities	3,649	32	3,681
Other provisions	1,768	1	1,769
Current liabilities	8,881	1	8,882
Total equity and liabilities	29,623	33	29,656

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New international accounting regulations according to International Financial Reporting Standards (IFRSs)

Accounting methods applied for the first time in the year under review

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	Mandatory for fiscal years beginning on or after
IAS 19 (Amendment) Plan Amendment, Curtailment or Settlement	January 1, 2019
IAS 28 (Amendment) Long-term Interests in Associates and Joint Ventures	January 1, 2019
IFRS 9 (Amendment) Prepayment Features with Negative Compensation	January 1, 2019
IFRS 16 Leases	January 1, 2019
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019
Improvements to IFRSs 2015–2017	January 1, 2019

IAS 19 (Amendment)

With its changes to IAS 19, the standards body has clarified that if a pension plan is amended, curtailed or settled during a fiscal year, the current service cost and net interest must be recalculated for the remaining period. Recalculation is to be based on the actuarial assumptions applicable at the time of the plan event. The changes will not have any material impact on the consolidated financial statements of Henkel.

IAS 28 (Amendment)

The amendments to IAS 28 Investments in Associates and Joint Ventures eliminate an ambiguity regarding the impairment rules to be applied to long-term interests which, in substance, form part of the net investment of a company in an associate or joint venture. Long-term interests in this respect are financial assets whose settlement is neither planned nor likely in the foreseeable future. The amendment to the Stan-

dard clarifies that such items are subject to the impairment rules of IFRS 9 rather than IAS 28. The changes will not have any material impact on the consolidated financial statements of Henkel.

IFRS 9 (Amendment)

The amendments to IFRS 9 relate to a limited adjustment to the relevant evaluation criteria for classifying financial assets. Agreeing symmetrical termination and compensation clauses for a financial asset, whereby compensation could theoretically be paid both by the debtor to the creditor and vice versa, does not necessarily preclude the asset's cash flows from comprising only interest and principal payments. In certain circumstances, therefore, corresponding financial assets must be recognized at amortized cost or at fair value through other comprehensive income. The changes will not have any material impact on the consolidated financial statements of Henkel.

IFRS 16

IFRS 16 provides a single accounting model for lease contracts in a lessee's balance sheet. A lessee reflects the right-of-use to the underlying asset (right-of-use asset) as well as a liability representing the future lease payments in the course of the lease contract. Exceptions are provided for short-term leases and leases relating to low-value assets.

IFRS 16 supersedes the former guidelines on leases, including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

In transitioning to the new model, Henkel has used the simplification regulation allowing the definition of a lease to be retained. As such, Henkel has applied IFRS 16 to all contracts concluded prior to January 1, 2019, and identified as leases under IAS 17 and IFRIC 4.

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Henkel has utilized the exemptions governing short-term leases and leases relating to low-value assets and has refrained from recognizing such leases in its statement of financial position. Henkel has also exercised its right under IFRS 16.4 to choose not to apply IFRS 16 to leases governing certain intangible assets. At the date of transition to IFRS 16, the Group recognized new assets and liabilities for its leases classified as operating leases under IAS 17. These mainly relate to office buildings and equipment, production buildings, warehouses, technical facilities, vehicles and IT equipment. The right-of-use assets recognized under property, plant and equipment are recognized at cost less accumulated depreciation and impairment and adjusted to reflect specific remeasurement of the lease liability. The Group exercises its option of not separating non-lease and lease components in plant and machinery leases. The lease liabilities recognized under other financial liabilities are measured at the present value of the outstanding lease payments at the date of provision. The lease payments are discounted at the incremental borrowing rate. When remeasuring, interest is accrued on the lease liability, and the corresponding interest expense is recognized under financial result. Payments reduce the carrying amount of the lease liability. In addition, the carrying amount of the lease liability is adjusted upon specific remeasurement.

Henkel applied IFRS 16 retrospectively per IFRS 16.C5(b), with all right-of-use assets being recognized in the amount of the corresponding lease liability. In the case of certain building leases, the right-of-use asset was measured as if IFRS 16 had been applied starting from the date of provision. The effect of first-time application of the standard was recognized in retained earnings. Prior-year figures have not been amended.

In transitioning to IFRS 16, Henkel has utilized the exemptions allowing leases with a remaining term of less than twelve months to be treated as short-term leases, initial direct costs to be ignored when measuring right-of-use assets for the first time, and current knowledge to be taken into account when determining the lease terms of contracts with extension and/or termination options.

The effects on the Group's former finance leases were immaterial.

Upon first-time application of IFRS 16, Henkel recognized right-of-use assets of 453 million euros under property, plant and equipment, together with lease liabilities of 80 million euros under other current financial liabilities and 427 million euros in other non-current financial liabilities.

A further 45 million euros before and 34 million euros after deduction of deferred taxes were recognized in retained earnings.

At December 31, 2019, the right-of-use assets totaled 485 million euros, current lease liabilities 128 million euros and non-current lease liabilities 423 million euros.

In fiscal 2019, a total of 133 million euros in scheduled depreciation of right-of-use assets was recognized in operating profit, together with an interest expense of 16 million euros recognized in the financial result. The effects of IFRS 16 on the net income for the year are immaterial.

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Reconciliation of operating lease commitments to lease liabilities upon first-time application	106
in million euros	
Operating lease commitments per IAS 17 on December 31, 2018	535
Interest effect	- 60
Effect of optional rental periods	21
Other effects	6
Lease liabilities per IFRS 16 on January 1, 2019, excluding finance leases	502
Finance leases per IAS 17	5
Lease liabilities per IFRS 16 on January 1, 2019	507

Of the difference between the lease liabilities totaling 507 million euros at the time of initial application and the operating lease commitments reported in an amount of 535 million euros at December 31, 2018, 60 million euros is primarily attributable to the application of the weighted average incremental borrowing rate of 2.47 percent, which was partially offset by 21 million euros from the recognition of lease payments in optional lease periods as liabilities. Contracts accounted for as finance leases as of December 31, 2018, were included in the first-time recognition of lease liabilities per IFRS 16 in an amount of 5 million euros.

Further information about rights of use to lease assets can be found in the discussion of property, plant and equipment in Note 2 on pages 168 to 171.

IFRIC 23

The tax treatment of certain circumstances and transactions is, in part, dependent on future recognition by the tax authorities or tax judiciary. IAS 12 Income Taxes prescribes the accounting treatment of current and deferred taxes. The IFRIC 23 interpretation clarifies the rules of IAS 12 when there is uncertainty over income tax treatments. Because Henkel is a globally operating company, tax uncertainties may arise due to ambiguous interpretations of income tax regulations. The recognition of tax uncertainties is based on the assumption that the tax authorities will examine the relevant circumstances and have full knowledge of all relevant information. If it is probable that the (planned) treatment of circumstances or transactions in any income tax filings will be rejected, the effect of uncertainty should be reflected by using either of the methods: the most likely amount or the expected value, whichever better predicts the resolution of tax uncertainty. If it is probable that the tax authorities will reject the tax treatment, this is taken into account accordingly when calculating the income tax liabilities and other tax items. The assumptions when recognizing tax uncertainties are applied consistently to both current and deferred taxes. Henkel regularly examines whether its assessment requires revision due to changes in the facts and circumstances relating to items or transactions. The interpretation does not have any material impact on the consolidated financial statements of Henkel.

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Improvements to IFRSs 2015–2017

Four IFRSs were amended in the 2015–2017 cycle of annual improvements to IFRSs. The amendments to IAS 12 Income Taxes relate to the accounting procedure for tax effects in connection with financial instruments classified as equity. They clarify the applicability of the fundamental principle of recognizing tax effects (through profit or loss or in equity) based on the underlying transactions or events.

IAS 23 Borrowing Costs has been amended in that specific borrowings such as those made to construct or acquire a particular asset, are not to be included in the calculation of weighted average borrowing costs until the asset is ready for its intended final use. Any outstanding (specific) financing must then be included in the borrowing cost calculation.

In IFRS 3 and IFRS 11 Joint Arrangements, the amendments clarify that in the event of acquisition of any further shares in a joint operation, the formerly held shares are only remeasured if control over the entity is obtained through the acquisition of the additional shares. If the investment continues to be classified as a joint operation, the old shares are not remeasured.

The amendments introduced by the improvements to IFRSs 2015–2017 will not have any material impact on the consolidated financial statements of Henkel.

Accounting regulations not yet adopted into EU law

In fiscal 2019, the IASB issued the following standards and amendments to existing standards of relevance to Henkel, which still have to be adopted into EU law (endorsement mechanism) before they become applicable:

Accounting regulations not yet adopted into EU law

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Mandatory for fiscal years beginning on or after
Framework (Amendment)
IAS 1 and IAS 8 (Amendment) Definition of Material
IFRS 3 (Amendment) Definition of a Business
IFRS 9, IAS 39 and IFRS 7 (Amendment) Interest Rate Benchmark Reform

These new standards and amendments to existing standards will be applied by Henkel starting in fiscal 2020 or later. A conclusive assessment of the effects is not possible.

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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 exclusively using the straight-line method on the basis of their 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 and the value in use. Impairment losses are recognized if the recoverable amounts of the assets are lower than their carrying amounts. They are charged to the relevant functions.

The following unchanged, standardized useful lives are applied:

Useful life	108
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

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1 Goodwill and other intangible assets

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	Trademarks and other rights					Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Intangible assets in development			
in million euros							
At January 1, 2018¹	3,007	1,829	443	83	11,756	17,118	
Acquisitions ¹	73	49	–	–	303	425	
Divestments	–	–	–	–	–	–	
Additions	–	8	11	258	–	277	
Disposals	–	–13	–	–	–	–13	
Reclassifications to assets held for sale	–	–	–	–	–	–	
Reclassifications	–	–	49	–49	–	–	
Translation differences ¹	101	45	–4	–1	276	417	
At Dec. 31, 2018 / Jan. 1, 2019¹	3,181	1,918	499	291	12,335	18,224	
Acquisitions	131	13	–	–	432	576	
Divestments	–	–	–	–	–20	–20	
Additions	–	8	6	54	–	68	
Disposals	–	–22	–1	–	–	–23	
Reclassifications to assets held for sale	–16	–4	–	–	–9	–29	
Reclassifications	–	5	54	–59	–	–	
Translation differences	49	43	9	1	196	298	
At December 31, 2019	3,345	1,961	567	287	12,934	19,094	

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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Accumulated amortization / impairment 110

	Trademarks and other rights				Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Intangible assets in development		
in million euros						
At January 1, 2018	8	1,248	246	–	29	1,531
Divestments	–	–	–	–	–	–
Write-ups	–	–	–	–	–	–
Scheduled amortization	–	107	42	–	–	149
Impairment	–	–	2	–	–	2
Disposals	–	–13	–	–	–	–13
Reclassifications to assets held for sale	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–
Translation differences	–	29	–10	–	–	19
At Dec. 31, 2018 / Jan. 1, 2019	8	1,371	280	–	29	1,688
Divestments	–	–	–	–	–17	–17
Write-ups	–	–	–	–	–	–
Scheduled amortization	–	109	51	–	–	160
Impairment	5	–	–	–	9	14
Disposals	–	–21	–1	–	–	–22
Reclassifications to assets held for sale	–5	–2	–	–	–9	–16
Reclassifications	–	–	–	–	–	–
Translation differences	3	37	1	–	–	41
At December 31, 2019	11	1,494	331	–	12	1,848

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Net carrying amounts	Trademarks and other rights				Goodwill	Total	111
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Intangible assets in development			
in million euros							
At December 31, 2019	3,334	467	236	287	12,922	17,246	
At December 31, 2018 ¹	3,173	547	219	291	12,306	16,536	

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

Goodwill represents the future economic benefit of assets that are acquired through business combinations and are not individually identifiable and separately recognized, as well as expected synergies. The goodwill upon first-time consolidation constitutes a positive difference between the cost of acquiring the entity and the amount of acquired identified assets and assumed liabilities existing at the time of acquisition and measured as specified in IFRS 3. Remeasurement and subsequent recognition is based on the lower of initially recognized value of acquisitions and a comparative figure following impairment testing at the level of the cash-generating units. Trademarks and other rights acquired for valuable consideration are stated at purchase cost, while internally generated software is stated at development cost.

Additions to internally generated intangible assets mostly reflect investments in consolidating and optimizing our IT system architecture for managing business processes.

The change in goodwill resulting from acquisitions and divestments made in the fiscal year is presented in the section "Acquisitions and divestments" on pages 147 to 149.

Amortization and impairment of trademarks 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.

Impairment totaling 14 million euros was recognized on goodwill and trademarks and other rights in fiscal 2019 and related to assets classified as held for sale on the reporting date (please refer to the notes on pages 175 and 176).

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).

We duly tested goodwill and trademarks and other rights with indefinite useful lives for impairment in the course of our annual analysis. The following table shows the cash-generating units together with the associated goodwill at the carrying amounts applicable as of the reporting date. The description of the cash-generating units can be found in Note 37 on pages 231 to 234 and in the combined management report on pages 90 to 95.

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Goodwill carrying amounts

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Cash-generating units in million euros	December 31, 2018 ¹			December 31, 2019		
	Goodwill	Terminal growth rate	Weighted average cost of capital	Goodwill	Terminal growth rate	Weighted average cost of capital
Packaging and Consumer Goods Adhesives	1,924	1.50%	7.25%	2,007	1.50%	6.75%
Transport and Metal	1,131	1.50%	7.25%	1,144	1.50%	6.75%
General Industry	460	1.00%	7.25%	485	1.00%	6.75%
Electronics	1,397	1.50%	7.25%	1,388	1.50%	6.75%
Adhesives for Consumers, Craftsmen and Building	581	1.00%	7.25%	579	1.00%	6.75%
Total Adhesive Technologies	5,493			5,603		
Branded Consumer Goods	1,374	1.00%	6.00%	1,259	1.00%	5.25%
Hair Salon business	747	1.00%	6.00%	1,310	1.00%	5.25%
Total Beauty Care	2,121			2,569		
Laundry Care	3,452	1.30%	6.00%	3,616	1.00%	5.25%
Home Care	1,240	1.40%	6.00%	1,134	1.00%	5.25%
Total Laundry & Home Care	4,692			4,750		

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

Goodwill impairment is assessed at the level of the global cash-generating units, based on fair value less costs to sell. Impairment of trademarks and other rights with indefinite useful lives is assessed at the level of either global (Adhesive Technologies) or regional (Beauty Care and Laundry & Home Care) cash-generating units. Testing is also based on fair value less costs to sell.

A discounted cash flow method is used to determine fair value (before deduction of costs to sell), which is allocated to valuation level 3 of the fair value hierarchy (see Note 23 on pages 195 to 220). The estimated future cash flows are derived from the budget approved by the relevant corporate management bodies. 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 planning horizon of four years.

For the period after that, a growth rate in cash flows of between 1 and 2 percent (previous year: 1 and 2 percent) is applied for the purpose of impairment testing, assuming in particular the passing-on of expected inflation rises to our customers. The euro to US dollar exchange rate applied is 1.16. Taking into account specific tax effects, the cash flows of the various cash-generating units are discounted at different rates reflecting the weighted average cost of capital (WACC) in each business unit: 6.75 percent after tax for Adhesive Technologies and 5.25 percent after tax for both Beauty Care and Laundry & Home Care.

The expected average annual growth in sales in the cash-generating units of Adhesive Technologies during the four-year detailed planning period is between 1 and 4 percent (previous year: 2 to 6 percent). The average annual sales growth of the cash-generating units in the Beauty Care business unit over the four-year forecasting horizon is budgeted at between

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4 and 5 percent (previous year: 3 to 4 percent), accompanied by a slight increase in market share. We expect an average annual growth in sales in the cash-generating units in the Laundry & Home Care business unit during the four-year detailed planning period of 4 percent (previous year: 3 to 4 percent). Here, too, we expect a slight increase in market share.

The material trademarks and other rights with indefinite useful lives are attributable to two cash-generating units. The carrying amount of the trademarks and other rights allocated to the regional cash-generating unit Laundry Care North America in the Laundry & Home Care business unit was 1.3 billion euros as of December 31, 2019. For impairment testing purposes, a cost of capital of 5.25 percent and a terminal growth rate of 1.0 percent were applied. The average annual increase in sales in the cash-generating unit during the four-year detailed planning period is 1 percent. The carrying amount of the trademarks and other rights with indefinite useful lives allocated to the cash-generating unit Branded Consumer Goods North America in the Beauty Care business unit was 400 million euros as of December 31, 2019. For impairment testing purposes, a cost of capital of 5.25 percent and a terminal growth rate of 1.0 percent were applied. The average annual increase in sales during the four-year detailed planning period is 5 percent.

Given our continued pro-active management of the portfolio, we anticipate achieving at least stable gross margins in all our business units.

As was also the case in the previous year, there was no need for impairment of, nor to write up, any goodwill or trademarks and other rights with indefinite useful lives.

The trademarks and other rights with indefinite useful lives with a net carrying amount of 3,334 million euros (previous year: 3,173 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 company also intends to continue using the trademarks and other rights disclosed as having definite useful lives. No impairment losses were recognized with respect to trademarks and other rights with definite useful lives in 2019.

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2 Property, plant and equipment

Cost

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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, 2018	2,293	3,512	1,098	331	7,234
Acquisitions ¹	20	14	1	–	35
Divestments	–	–2	–	–	–2
Additions	15	133	71	357	576
Disposals	–33	–98	–71	–	–202
Reclassifications to assets held for sale	–16	–6	–1	–	–23
Reclassifications	45	178	55	–278	–
Translation differences	–9	–8	6	–8	–19
At Dec. 31, 2018 / Jan. 1, 2019¹	2,315	3,723	1,159	402	7,599
Effect of first-time application of IFRS 16	377	24	52	–	453
At January 1, 2019 (amended)	2,692	3,747	1,211	402	8,052
Acquisitions	19	1	1	3	24
Divestments	–2	–	–	–	–2
Additions to existing operations	46	138	69	341	594
Additions of right-of-use assets	110	5	24	–	139
Disposals	–15	–106	–135	–	–256
Reclassifications to assets held for sale	–18	–22	–1	–	–41
Reclassifications	55	200	39	–294	–
Translation differences	34	41	7	–1	81
At December 31, 2019	2,921	4,004	1,215	451	8,591

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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Accumulated depreciation / impairment

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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, 2018	1,113	2,297	817	–	4,227
Divestments	–	–1	–	–	–1
Write-ups	–	–	–	–	–
Scheduled depreciation	72	224	109	–	405
Impairment	3	16	3	–	22
Disposals	–26	–69	–61	–	–156
Reclassifications to assets held for sale	–14	–6	–1	–	–21
Reclassifications	–	–	–	–	–
Translation differences	–3	2	–1	–	–2
At Dec. 31, 2018/Jan. 1, 2019	1,145	2,463	866	–	4,474
Divestments	–	–	–	–	–
Write-ups	–2	–1	–	–	–3
Scheduled depreciation	164	252	141	–	557
Impairment	2	16	–	–	18
Disposals	–13	–100	–133	–	–246
Reclassifications to assets held for sale	–7	–16	–	–	–23
Reclassifications	–	–	–	–	–
Translation differences	1	–5	43	–	39
At December 31, 2019	1,290	2,609	917	–	4,816

Net carrying amounts

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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, 2019	1,631	1,395	298	451	3,775
Of which: right-of-use assets	419	20	46	–	485
At December 31, 2018 ¹	1,170	1,260	293	402	3,125

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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Property, plant and equipment includes land, land rights and buildings, plant and machinery, factory and office equipment, rights of use to corresponding leased assets, and assets in the course of construction.

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 within the scope of IAS 23 Borrowing Costs. Cost figures are shown net of investment grants and allowances. As of December 31, 2019, investment grants of 18 million euros (previous year: 19 million euros) were deducted from purchase and manufacturing costs. Some of the grants are contingent upon certain terms and conditions being met, such as location guarantees. The company is sufficiently confident that these terms and conditions can be satisfied. Acquisition-related incidental costs incurred in order to make the asset ready for the intended use are capitalized. Also included as of December 31, 2019, is 4 million euros (previous year: 0 million euros) for investment grants, which are recognized under deferred charges. No unfulfilled conditions or other contingencies exist in this respect. An overview of the primary investment projects undertaken during the fiscal year can be found on pages 96 and 97 in the combined management report.

At December 31, 2019, property, plant and equipment with a carrying amount of 0 million euros had been pledged as security for existing liabilities (previous year: 0 million euros).

The periods over which the assets are depreciated are based on their estimated useful lives as set out on page 162. The depreciation and impairment are included in the cost of sales, selling and administrative expenses and research and development expenses in a ratio equivalent to the use of the asset. Write-ups are recognized in other operating income.

Of the property, plant and equipment impairments recognized in fiscal 2019, a total of 5 million euros is attributable to assets classified as held for sale as of the reporting date (please refer to the notes on pages 175 and 176).

Write-ups in fiscal 2019 totaled 3 million euros (previous year: 0 million euros).

In the course of its business operations, Henkel enters into various lease agreements as a lessee. The underlying assets primarily include office buildings and fixtures, production facilities and warehouses – all of which are recognized under land, land rights and buildings – as well as plant and machinery, and the vehicles and IT equipment classified as factory and office equipment.

Upon first-time application of IFRS 16, Henkel recognized right-of-use assets of 453 million euros in property, plant and equipment, primarily in land, land rights and buildings. For the first time in fiscal 2019, the Henkel Group recognized additions to right-of-use assets of 139 million euros in property, plant and equipment, primarily in land, land rights and buildings. Acquisitions resulted in additions of 15 million euros relating to land, land rights and buildings. The additions were offset by scheduled depreciation of 133 million euros. As of December 31, 2019, right-of-use assets amounted to 485 million euros.

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The depreciation recognized separately for the various categories of assets in the consolidated statement of income for the fiscal year is listed in the following table, together with further disclosures of lease-related expenses and income affecting Henkel as a lessee:

Effects on the consolidated statement of income of leases with Henkel as lessee	116
in million euros	2019
Depreciation in the year under review	133
Of which: right-of-use land, land rights and buildings	92
Of which: right-of-use plant and machinery	11
Of which: right-of-use factory and office equipment	30
Interest expenses of lease liabilities	16
Short-term lease expenses	38
Low-value lease expenses	3

Henkel paid 184 million euros in total for leases in fiscal 2019.

The Henkel Group uses the incremental borrowing rate to discount lease payments when measuring its lease liabilities. This rate is based on country-specific interest rates that are observable in the market and which are adjusted with regard to duration and credit risk. If no interest rates are observable for the relevant durations, they are derived from linear interpolation.

An analysis of the maturities of Henkel Group leases is included with the disclosures on financial instruments in Note 23 on pages 195 to 220. In addition to the future payments from leases discussed in the section, payment commitments of 122 million euros also exist with regard to leases of material relevance to Henkel that have already been agreed but have not yet commenced and have therefore not yet been capitalized.

Some of Henkel's leases for land, land rights and buildings include optional lease periods. Contractually agreed payments in these optional lease periods are in the mid-triple-digit million euros range. They are not included in the measurement of the lease liability because there is insufficient certainty that the option on the lease periods will be exercised.

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3 Other financial assets**Analysis****117**

in million euros	December 31, 2018			December 31, 2019		
	Non-current	Current	Total	Non-current	Current	Total
Receivables from non-consolidated subsidiaries and associated companies	1	–	1	–	–	–
Financial receivables from third parties	11	12	23	26	112	138
Derivative financial instruments	–	37	37	38	76	114
Investments in non-consolidated subsidiaries	15	–	15	9	–	9
Investments in associated companies	3	–	3	–	–	–
Other investments	20	–	20	36	–	36
Receivable from Henkel Trust e.V.	–	608	608	–	621	621
Securities and time deposits	–	221	221	–	425	425
Of which: readily monetizable	–	209	209	–	412	412
Financial collateral provided	–	49	49	–	26	26
Sundry financial assets	15	103	118	16	75	91
Total	65	1,030	1,095	125	1,335	1,460

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

Of the receivables from non-consolidated subsidiaries and associated companies, 0 million euros (previous year: 1 million euros) is attributable to non-consolidated subsidiaries.

Non-current financial receivables from third parties include 15 million euros (previous year: 0 million euros) receivables from leases where Henkel acts as lessor. Of the current financial receivables from third parties, 100 million euros is attributable to receivables from counterparties for EU emission rights swaps contracted by Henkel for liquidity management purposes.

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.

The securities and time deposits essentially comprise time deposits and are generally readily monetizable under our financial management arrangements with the exception of those securities and time deposits that are mandatory to cover our pension liabilities and can therefore not be monetized at short notice.

Sundry non-current financial assets include, among others, receivables from insurance companies.

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Examples of sundry current financial assets include:

- Receivables from sureties and guarantee deposits amounting to 21 million euros (previous year: 21 million euros).
- Receivables from suppliers amounting to 22 million euros (previous year: 26 million euros).
- Receivables from employees amounting to 9 million euros (previous year: 9 million euros).

4 Other assets

Analysis

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in million euros	December 31, 2018			December 31, 2019		
	Non-current	Current	Total	Non-current	Current	Total
Tax receivables	9	209	218	10	263	273
Payments on account	–	56	56	–	71	71
Overfunding of pension obligations	43	–	43	83	–	83
Reimbursement rights related to employee benefits	102	9	111	113	8	121
Accruals	28	86	114	24	84	108
Sundry other assets	2	46	48	1	47	48
Total	184	406	590	231	473	704

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 deferred tax liabilities relating to 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, or cannot be controlled.

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 other comprehensive income. For items recognized directly in other comprehensive income, the associated deferred taxes are also recognized in other comprehensive income.

The valuation, recognition and disaggregation of deferred taxes in respect of the various items in the statement of financial position are discussed in the disclosures on income taxes in Note 32 on pages 224 to 227.

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Further information**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 (work in progress) and those to be utilized or consumed in the course of manufacture or the provision of services (raw materials and supplies). Payments on account made for the purpose of purchasing inventories are likewise disclosed under the inventories heading. With the application of IFRS 9 as of January 1, 2018, the measurement effects from hedging transactions recognized in equity in the hedge reserve in the course of cash flow hedge accounting are included as part of the cost of the hedged non-financial assets. The IFRS 9 basis adjustment shown under inventories relates to currency hedges for the procurement of inventories in foreign currency.

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 inward department, raw material storage, filling, costs incurred through to the finished goods warehouse), production-related administrative expenses, the costs of the 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 less 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 market values. The resultant valuation allowance amounted to 179 million euros (previous year: 137 million euros). The carrying amount of inventories recognized at fair value less costs to sell amounted to 471 million euros (previous year: 454 million euros). The carrying amount of inventories pledged as security for liabilities was unchanged year on year at 0 million euros.

Analysis of inventories

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in million euros	December 31, 2018 ¹	December 31, 2019
Raw materials and supplies	644	546
Work in progress	124	118
Finished products and merchandise	1,389	1,499
Payments on account for merchandise	23	29
IFRS 9 basis adjustment	-3	1
Total	2,177	2,193

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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7 Trade accounts receivable

Trade accounts receivable amounted to 3,413 million euros (previous year: 3,610 million euros). They are all due within one year. Valuation allowances have been recognized in respect of specific risks as appropriate. The balance of amortization / depreciation and additions, and reversals of valuation allowances, produced an expense of 13 million euros, compared to a net expense in the previous year of 2 million euros. Valuation allowances are reported under selling and distribution costs. For an explanation of these valuation allowances and our risk management, please refer to pages 211 to 213.

Trade accounts receivable	120	
in million euros	December 31, 2018	December 31, 2019
Trade accounts receivable, gross	3,704	3,504
Less: cumulative valuation allowances on trade accounts receivable	94	91
Trade accounts receivable, net	3,610	3,413

Development of valuation allowances on trade accounts receivable	121	
in million euros	2018	2019
Valuation allowances at January 1	103	94
IFRS 9 adjustment	13	-
Additions / Releases	-	9
Derecognition of receivables	-20	-17
Currency translation effects	-2	1
Other changes	-	4
Valuation allowances at December 31	94	91

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 increased compared to the previous year from 1,063 million euros to 1,462 million euros. Of this figure, 1,307 million euros (previous year: 939 million euros) relates to cash and 155 million euros (previous year: 124 million euros) to cash equivalents. The change is shown in the consolidated statement of cash flows.

9 Assets and liabilities held for sale

Assets and liabilities held for sale are assets and liabilities that can be sold in their current condition and whose sale is highly 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 current price negotiations with potential buyers.

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Compared to December 31, 2018, assets held for sale decreased by 37 million euros to 39 million euros. The decline was primarily due to the sale of land and a building in Scottsdale, Arizona, USA. The non-current assets were allocated to the Laundry & Home Care business unit and were put up for sale once The Sun Products Corporation was integrated into the Henkel Group. Once they were classified as held for sale, the assets were measured at the lower of carrying amount and fair value less costs to sell. This produced an impairment loss of 11 million euros in fiscal 2019, which was recognized through profit or loss in administrative expenses. The reclassification of an activity carved out of the Adhesive Technologies portfolio and reclassified as assets held for sale as of December 31, 2019, had a countervailing effect. Since the Henkel Group plans to sell these business activities within the next twelve months, the associated assets were classified as held for sale. The impairment loss of 19 million euros resulting from measurement of the assets at the lower of carrying amount and fair value less costs to sell was recognized through profit or loss in other operating expenses. The impairment loss on assets held for sale amounted to 0 million euros in the prior year.

No liabilities were held for sale (December 31, 2018: 0 million euros).

Assets and liabilities held for sale		
in million euros	December 31, 2018	December 31, 2019
Intangible assets and property, plant and equipment	76	34
Inventories and trade accounts receivable	-	5
Cash and cash equivalents	-	-
Other assets	-	-
Provisions	-	-
Borrowings	-	-
Other liabilities	-	-
Net assets	76	39

10 Issued capital

Issued capital	123	
in million euros	December 31, 2018	December 31, 2019
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 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 year on year. The number of preferred shares in circulation was also unchanged year on year, at 174,482,323 as at December 31, 2019.

Pursuant to Art. 6 (5) of the Articles of Association, there is an authorized capital. Accordingly, 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 at any time until April 12, 2020, by up to a nominal amount of 43,795,875 euros in total by issuing up to 43,795,875 new non-voting preferred shares for cash and/or in-kind consideration. The authorization may be utilized to the full extent allowed or once or several times in installments. The proportion of capital stock represented by shares issued against payment in kind on the basis of this authorization must not exceed a total of 10 percent of the capital stock existing at the time the authorization takes effect.

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The Personally Liable Partner is authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to set aside the pre-emptive rights of shareholders in the case of a capital increase against payment in kind, particularly for the purpose of business combinations or the (direct or indirect) acquisition of entities, operations, parts of businesses, equity interests or other assets, including claims against the corporation or companies dependent upon it within the meaning of Section 17 German Stock Corporation Act [AktG].

If capital is increased against payment in cash, all shareholders are essentially assigned pre-emptive rights. However, these may be set aside where necessary, subject to the approval of the Shareholders' Committee and of the Supervisory Board, in order to dispose of fractional amounts or 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 corresponding to those that would accrue to such bondholders following the exercise of their warrant or conversion rights or on fulfillment of their conversion obligations, or if the issue price of the new shares is not significantly below the quoted market price at the time of issue price fixing.

In addition, the Personally Liable Partner is authorized to purchase ordinary and/or preferred shares of the corporation at any time until April 7, 2024, up to a maximum proportion of 10 percent of the capital stock existing at the time the resolution is adopted by the Annual General Meeting or at the time the authorization is exercised, whichever is lower. Equity derivatives (put and/or call options and/or forward contracts or a combination of same) can also be used for such purchase.

The volume of any and all shares purchased using such derivatives must not exceed 5 percent of the capital stock existing at the time the resolution is adopted by the Annual General Meeting or at the time the authorization is exercised, whichever is lower. The term of the derivatives must not exceed 18 months in each case. The choice of derivative must ensure that the purchase of the preferred shares acquired through exercising the derivative is not possible after April 7, 2024.

This authorization to purchase treasury shares can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may, in particular, be transferred to third parties for the purpose of acquiring entities or participating interests in entities. 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. Treasury shares may also be offered for purchase or transferred to members of the corporation's staff or managers of affiliated companies, particularly in connection with share-based payment plans, including the Long Term Incentive Plan 2020⁺. The shares may likewise be used to satisfy warrants or conversion rights granted by the corporation. The Personally Liable Partner is also 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 General Meeting.

Insofar as shares are issued or used to the exclusion of pre-emptive rights, the proportion of capital stock represented by such shares shall not exceed 10 percent.

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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 Treasury shares

Treasury shares held by the corporation at December 31, 2019 were unchanged at 3,680,552 preferred shares (December 31, 2018: 3,680,552), representing a nominal proportion of 3.7 million euros (0.84 percent) of the capital stock.

Details of the Global LTI Plan 2020⁺ are explained on pages 229 to 231.

13 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 other comprehensive income.
- The acquisition or disposal of ownership interests in subsidiaries with no change in control.
- Valuation effects following application of the present access method.
- Effects of first-time application of IFRS 9 and IFRS 15 in fiscal 2018 and of IFRS 16 in fiscal 2019.

14 Other components of equity

Reported under this heading are differences recognized in equity arising from the currency translation of annual financial statements of foreign subsidiaries, and also the effects arising from the valuation in comprehensive income of financial assets in the "fair value through other comprehensive income" 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. At December 31, 2019, the positive difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation was 248 million euros (previous year: 142 million euros).

15 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 they represent.

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16 Provisions for pensions and similar 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 regimes 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 of pension benefits for members of the Management Board are provided in the remuneration report on pages 47 to 74.

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.

The majority of the beneficiaries of these pension plans 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 newly formed 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 performance-related 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 retirement 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 assures its employees that a lump-sum amount is available upon retirement which is at least equivalent to the level of principal contributions made by Henkel. Henkel pays the pension contribution into 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 active and retired employees resident mainly in the USA. Under these programs, retirees are reimbursed for a certain percentage of their refundable medical expenses. We recognize provisions during the employees' service period and pay the promised benefits when they are claimed. The subsidies paid to active employees for medical benefits are recognized as a current expense and are therefore not included in the provisions for pensions and similar obligations. Disputes relating to health insurance commitments (self-insurance) are pending in the USA. They pertain to issues surrounding the reimbursement of costs for certain medical treatments and whether these costs are refundable under reinsurance agreements.

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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 reporting period amounted to 106 million euros (previous year: 112 million euros). In 2019, we paid 38 million euros to public sector institutions (previous year: 48 million euros) and 68 million euros to private sector institutions (previous year: 64 million euros).

Multi-employer plans

Henkel provides defined pension benefits that are financed by more than one employer. The ensuing 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. Within the Henkel Group, benefits from multi-employer plans are provided for employees in the USA. Withdrawal from our multi-employer plans at the present time would incur a one-time expense of around 19 million euros (previous year: around 20 million euros). Payments into multi-employer plans in fiscal 2019 amounted to 1 million euros (previous year: 1 million euros). We expect contributions of around 1 million euros in fiscal 2020.

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 2018G" mortality table. In the USA, the assumptions are based on the modified "Pri-2012" mortality table. The valuation of pension obligations in Germany was based essentially on the assumption of a 1.7-percent increase in retirement benefits (previous year: 1.8 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 matched to the currency and expected maturities of the post-employment pension obligations.

Actuarial assumptions

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	Germany			USA		Other countries ¹
in percent	2018	2019	2018	2019	2018	2019
Discount rate	1.80	1.30	4.15	3.20	2.45	1.80
Income trend	3.25	3.00	3.00	3.00	3.05	2.90
Expected increases in costs for medical benefits	-	-	6.30	6.00	3.80	3.70
in years						
Life expectancy at age 65 as of the valuation date for a person currently	21.8	21.9	22.0	22.0	23.5	23.6
65 years old	21.8	21.9	22.0	22.0	23.5	23.6
40 years old	24.9	25.0	24.0	24.0	25.7	25.9

¹ Weighted average.

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Development of defined benefit obligations 2018

in million euros	Germany	USA	Other countries	Total
At January 1, 2018	3,074	1,126	1,232	5,432
Changes in the Group	4	11	-10	5
Translation differences	-	51	-3	48
Actuarial gains (-)/losses (+)	-39	-77	-48	-164
Of which: from changes in demographic assumptions	31	-	-10	21
Of which: from changes in financial assumptions	-67	-62	-44	-173
Of which: from experience adjustments	-3	-15	6	-12
Current service cost	43	19	23	85
Employee contributions	21	-	1	22
Gains (-)/losses (+) arising from the termination and curtailment of plans	-7	-	1	-6
Interest expense	52	39	24	115
Retirement benefits paid out of plan assets	-122	-61	-41	-224
Employer payments for pension obligations	-2	-26	-9	-37
Other changes	-	-	-1	-1
At December 31, 2018	3,024	1,082	1,169	5,275
Of which: obligations not covered by plan assets	93	141	86	320
Of which: obligations covered by plan assets	2,931	830	1,083	4,844
Of which: obligations covered by reimbursement rights	-	111	-	111

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Development of pension assets 2018

in million euros	Germany	USA	Other countries	Total
At January 1, 2018	2,838	818	1,056	4,712
Changes in the Group	-	6	-6	-
Translation differences	-	39	-2	37
Employer contributions	41	81	52	174
Employee contributions	21	-	1	22
Retirement benefits paid out of plan assets	-122	-61	-41	-224
Planned income on pension assets	57	30	19	106
Remeasurements in equity	-179	-68	-42	-289
Other changes	-	-	-1	-1
At December 31, 2018	2,656	845	1,036	4,537

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Development of asset ceiling 2018

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in million euros	Germany	USA	Other countries	Total
At January 1, 2018	-	-	10	10
Interest cost for asset ceiling	-	-	-	-
Remeasurements in equity	-	-	4	4
At December 31, 2018	-	-	14	14

Development of net obligation 2018

128

in million euros	Germany	USA	Other countries	Total
Net obligation at January 1, 2018	236	308	186	730
Recognized through profit or loss				
Current service cost	43	19	23	85
Gains (-) / losses (+) arising from the termination and curtailment of plans	-7	-	1	-6
Interest expense	-5	9	5	9
Recognized in other comprehensive income				
Actuarial gains (-) / losses (+)	-39	-77	-48	-164
Remeasurements in equity	179	68	42	289
Change in the effect of the asset ceiling	-	-	4	4
Other items recognized in equity				
Employer payments	-43	-107	-61	-211
Changes in the Group	4	5	-4	5
Translation differences	-	12	-1	11
Other changes	-	-	-	-
Net obligation at December 31, 2018	368	237	147	752
Overfunding of pension obligations	-	18	24	42
Recognized provision at December 31, 2018	368	255	171	794

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Development of defined benefit obligations 2019

in million euros	Germany	USA	Other countries	Total
At January 1, 2019	3,024	1,082	1,169	5,275
Changes in the Group	–	–	–	–
Translation differences	–	21	33	54
Actuarial gains (–) / losses (+)	217	98	93	408
Of which: from changes in demographic assumptions	–	–8	–4	–12
Of which: from changes in financial assumptions	205	108	104	417
Of which: from experience adjustments	12	–2	–7	3
Current service cost	41	11	24	76
Employee contributions	21	–	1	22
Gains (–) / losses (+) arising from the termination and curtailment of plans	–8	–	–	–8
Interest expense	54	44	27	125
Retirement benefits paid out of plan assets	–131	–80	–40	–251
Employer payments for pension obligations	–	–31	–9	–40
Other changes	–	–	3	3
At December 31, 2019	3,218	1,145	1,301	5,664
Of which: obligations not covered by plan assets	102	124	97	323
Of which: obligations covered by plan assets	3,116	900	1,204	5,220
Of which: obligations covered by reimbursement rights	–	121	–	121

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Development of pension assets 2019

in million euros	Germany	USA	Other countries	Total
At January 1, 2019	2,656	845	1,036	4,537
Changes in the Group	–	–	–	–
Translation differences	–	16	32	48
Employer contributions	29	–	21	50
Employee contributions	21	–	1	22
Retirement benefits paid out of plan assets	–131	–80	–40	–251
Planned income on pension assets	57	34	24	115
Remeasurements in equity	388	123	99	610
Other changes	–	–	–1	–1
At December 31, 2019	3,020	938	1,172	5,130

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Development of asset ceiling 2019

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in million euros	Germany	USA	Other countries	Total
At January 1, 2019	-	-	14	14
Interest cost for asset ceiling	-	-	-	-
Remeasurements in equity	-	-	4	4
At December 31, 2019	-	-	18	18

Development of net obligation 2019

132

in million euros	Germany	USA	Other countries	Total
Net obligation at January 1, 2019	368	237	147	752
Recognized through profit or loss				
Current service cost	41	11	24	76
Gains (-) / losses (+) arising from the termination and curtailment of plans	-8	-	-	-8
Interest expense	-4	10	4	10
Recognized in other comprehensive income				
Actuarial gains (-) / losses (+)	217	98	93	408
Remeasurements in equity	-388	-123	-99	-610
Change in the effect of the asset ceiling	-	-	4	4
Other items recognized in equity				
Employer payments	-29	-31	-30	-90
Changes in the Group	-	-	-	-
Translation differences	-	5	1	6
Other changes	-	-	4	4
Net obligation at December 31, 2019	197	207	148	552
Overfunding of pension obligations	-	41	42	83
Recognized provision at December 31, 2019	197	248	190	635

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Analysis of reimbursement rights	133	
in million euros	2018	2019
At January 1	112	111
Changes in the Group	-	-
Translation differences	9	1
Employer contributions	1	1
Employee contributions	-	-
Retirement benefits paid	-6	-10
Interest income	4	5
Remeasurements in equity	-9	13
At December 31	111	121

The total present value (defined benefit obligation – DBO) is comprised of:

- 1,978 million euros (previous year: 1,827 million euros) for active employees,
- 971 million euros (previous year: 861 million euros) for former employees with vested benefits, and
- 2,715 million euros (previous year: 2,587 million euros) for retirees.

The average weighted duration of pension obligations is 14 years (previous year: 15 years) for Germany, 8 years (previous year: 8 years) for the USA and 18 years (previous year: 18 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 asset item 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 18 million euros as an asset ceiling (previous year: 14 million euros).

Within our consolidated statement of income, current service costs are allocated on the basis of cost of sales to the respective function. 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 are recognized in other operating income / expenses. Employer contributions to state pension insurance are included as "Social security contributions and staff welfare costs" under Note 35 on page 229. In 2019, allocations to the pension fund amounted to 50 million euros (previous year: 174 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 2020 are expected to total 49 million euros.

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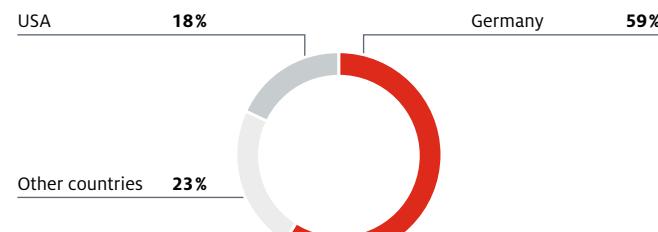
Analysis of plan assets

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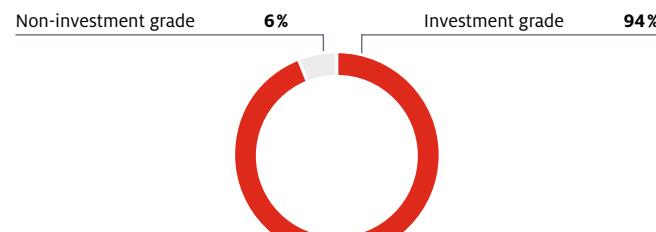
	December 31, 2018			December 31, 2019		
	Quotation on active markets	No quotation on active markets	Total	Quotation on active markets	No quotation on active markets	Total
in million euros						
Shares	1,047	–	1,047	1,157	–	1,157
Europe	363	–	363	361	–	361
USA	174	–	174	213	–	213
Others	510	–	510	583	–	583
Bonds and hedging instruments	3,454	19	3,473	3,741	49	3,790
Government bonds	1,685	–	1,685	2,053	–	2,053
Corporate bonds	1,769	–	1,769	1,688	–	1,688
Derivatives	–	19	19	–	49	49
Alternative investments	–	272	272	–	427	427
Cash	–	170	170	–	193	193
Liabilities¹	–	– 608	– 608	–	– 621	– 621
Other assets	–	183	183	–	184	184
Total	4,501	36	4,537	4,898	232	5,130

¹ Liability to Henkel AG & Co. KGaA from the assumption of pension payments for Henkel Trust e.V.**Plan assets by country 2019**

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**Classification of bonds by rating 2019**

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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 governs the funding ratio of the pension plans. To improve the funding ratio, Henkel invests plan assets in a diversified portfolio for which the 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 and real estate. The target portfolio structure of the plan assets is essentially 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 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, 2019, other assets making up the plan assets included the present value of a non-current receivable of 62 million euros (previous year: 60 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 95 million euros

against BASF Personal Care & Nutrition GmbH (formerly Cognis GmbH) for indemnification of pension obligations (previous year: 98 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 in respect of 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 funding levels, 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 required funding level 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 when the employee reaches retirement age or in the case of incapacity or death.

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, with the fund available being initially divided into an annuity and lump-sum portion.

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Newly hired employees since 2011 receive a commitment 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 within the pension structure reduce the financial risk arising from pension commitments in Germany. 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 increase in pensions and the expected trend 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 pension benefits 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 granted 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 annuity 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 relate solely to the USA. The contributions to these plans are determined mainly through an allocation process based on the pension-eligible income of active employees. Restructuring contributions may also be required in order to close gaps in coverage. The risks of such plans arise largely from higher future contributions to close coverage gaps or could occur through discontinuation by other companies obligated to make contributions.

The effects of changes to assumptions with respect to medical benefits for employees and retirees in the USA are shown in the sensitivity analysis.

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

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Cash flows and sensitivities

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

Future payments for pension benefits

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in million euros	Germany	USA	Other countries	Total
2020	149	121	37	307
2021	138	99	36	273
2022	137	96	38	271
2023	147	92	40	279
2024	146	92	42	280

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 77 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 6.0 percent (previous year: 6.3 percent) was assumed for the medical costs. We expect this rate of increase to fall gradually to 4.5 percent by 2037 (previous year: 4.5 percent by 2037). 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, 2018

138

in million euros	Germany	USA	Other countries	Total
Present value of obligations	3,024	1,082	1,169	5,275
In the event of				
Rise in discount rate increases by 0.5 pp	2,839	1,043	1,070	4,952
Reduction of discount rate by 0.5 pp	3,233	1,126	1,281	5,640
Rise in future income increases by 0.5 pp	3,024	1,086	1,187	5,297
Reduction of future income increases by 0.5 pp	3,023	1,078	1,150	5,251
Rise in retirement benefits increases by 0.5 pp	3,181	1,082	1,229	5,492
Reduction of retirement benefits increases by 0.5 pp	2,881	1,082	1,115	5,078
Rise in medical costs by 0.5 pp	3,024	1,085	1,169	5,278
Reduction of medical costs by 0.5 pp	3,024	1,080	1,167	5,271

pp = percentage points

Sensitivities – Present value of pension obligations at December 31, 2019

139

in million euros	Germany	USA	Other countries	Total
Present value of obligations	3,218	1,145	1,301	5,664
In the event of				
Rise in discount rate increases by 0.5 pp	3,026	1,098	1,191	5,315
Reduction of discount rate by 0.5 pp	3,435	1,194	1,429	6,058
Rise in future income increases by 0.5 pp	3,218	1,150	1,323	5,691
Reduction of future income increases by 0.5 pp	3,218	1,141	1,281	5,640
Rise in retirement benefits increases by 0.5 pp	3,361	1,145	1,374	5,880
Reduction of retirement benefits increases by 0.5 pp	3,087	1,145	1,238	5,470
Rise in medical costs by 0.5 pp	3,218	1,147	1,300	5,665
Reduction of medical costs by 0.5 pp	3,218	1,143	1,301	5,662

pp = percentage points

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The extension of life expectancy in Germany by one year would increase the present value of pension obligations by 4 percent (previous year: 4 percent).

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 none is subject to scenario analysis.

17 Other provisions

Development in 2019

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in million euros	At December 31, 2018 ¹	Acquisitions	Utilized	Released	Added	Other changes	At December 31, 2019
Restructuring provisions	194	0	-119	-17	175	4	237
Of which: non-current	54	0	-16	-4	38	12	84
Of which: current	140	0	-103	-13	137	-8	153
Sundry provisions	1,860	3	-1,142	-130	1,112	1	1,704
Of which: non-current	231	0	-26	-21	52	-13	223
Of which: current	1,629	3	-1,116	-109	1,060	14	1,481
Total	2,054	3	-1,261	-147	1,287	5	1,941
Of which: non-current	285	0	-42	-25	90	-1	307
Of which: current	1,769	3	-1,219	-122	1,197	6	1,634

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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 0.1 and 1.5 percent (previous year: 0.0 to 2.2 percent).

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Other provisions include identifiable obligations toward third parties. The amount represents the best possible estimate of the expense needed to honor the present obligation at the reporting date.

Other changes in provisions include changes in the scope of consolidation, movements in exchange rates, compounding effects, and 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 optimization of our production and logistics structures, and of our sales and distribution structures.

The provisions for obligations arising from our sales activities cover expected refunds to customers and risks arising from pending transactions. Commitments to customers result in cash outflows in the following period.

Provisions for payroll obligations essentially cover expenditures likely to be incurred by the Group for variable, performance-related remuneration components.

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

Analysis of sundry provisions by function

	December 31, 2018 ¹	December 31, 2019
in million euros		
Sales	1,084	1,023
Of which: non-current	7	7
Of which: current	1,077	1,016
Payroll	468	349
Of which: non-current	115	66
Of which: current	353	283
Production and engineering	46	4
Of which: non-current	23	3
Of which: current	23	1
Various sundry obligations	262	328
Of which: non-current	86	147
Of which: current	176	181
Total	1,860	1,704
Of which: non-current	231	223
Of which: current	1,629	1,481

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

Risks arising from legal disputes and proceedings

Provisions have been made for individual risks arising from civil disputes in the amount of probable claims plus associated procedural costs. In accordance with IAS 37.92, further disclosures with respect to the proceedings and their related risks to Henkel have not been made in order to refrain from interference with their outcome.

Henkel and its Group companies are defendants in or parties to judicial, arbitral, and official proceedings. The course and outcomes of legal disputes are inherently uncertain and unpredictable. Based on the knowledge currently available, no negative future impact, material or otherwise, on the net assets, financial position and results of operations of the corporation is expected.

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18 Borrowings**Analysis**

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in million euros	December 31, 2018			December 31, 2019		
	Non-current	Current	Total	Non-current	Current	Total
Bonds	1,556	664	2,220	1,932	543	2,475
Commercial paper ¹	–	1,931	1,931	–	1,448	1,448
Liabilities to banks ²	–	24	24	–	35	35
Total	1,556	2,619	4,175	1,932	2,026	3,958

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

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Issuer	Type	Nominal value	Carrying amounts excluding accrued interest		Market values excluding accrued interest ¹		Market values including accrued interest ¹		Interest rate p.a.	Maturity
			December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019		
in million euros										
Henkel AG & Co. KGaA	Bond	750 million US dollars	654	–	648	–	651	–	1.5 %	–
Henkel AG & Co. KGaA	Bond	600 million US dollars	523	534	518	533	524	539	2.0%	6/12/2020
Henkel AG & Co. KGaA	Bond	700 million euros	699	699	700	703	700	703	0.0%	0.0%
Henkel AG & Co. KGaA	Bond	300 million GB pounds ²	334	351	328	355	329	355	0.875%	0.875%
Henkel AG & Co. KGaA	Bond	400 million GB pounds ²	–	470	–	474	–	475	–	1.0%
Henkel AG & Co. KGaA	Bond	350 million GB pounds ²	–	411	–	410	–	411	–	1.25%
Total bonds			2,210	2,465	2,194	2,475	2,204	2,483		

¹ Market value of the bonds derived from the stock market price at December 31.² A cross-currency interest rate swap is in place to convert the interest and principal payments on the bond denominated in British pounds into euro payments.

One bond with a volume of 400 million British pounds and a term of three years and another bond with a volume of 350 million British pounds and a term of seven years were placed in the year under review. Coinciding with this, we

reduced our commercial paper funding by 483 million euros to 1,448 million euros. In addition, a 750 million US dollar bond was redeemed on schedule in fiscal 2019.

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in million euros	December 31, 2018			December 31, 2019		
	Non-current	Current	Total	Non-current	Current	Total
Lease liabilities	–	–	–	423	128	551
Liabilities to non-consolidated subsidiaries and associated companies	–	7	7	–	7	7
Liabilities to customers	–	50	50	–	65	65
Derivative financial instruments	38	41	79	21	79	100
Sundry financial liabilities	31	47	78	124	13	137
Total	69	145	214	568	292	860

Application of IFRS 16 starting on January 1, 2019, to Henkel Group leases resulted in recognition of non-current lease liabilities of 423 million euros and of current lease liabilities of 128 million euros on the reporting date. For further details of lease liability measurement, please refer to Note 2 on pages 168 to 171.

Of the liabilities to non-consolidated subsidiaries and associated companies, 7 million euros (previous year: 7 million euros) is attributable to non-consolidated subsidiaries.

Sundry financial liabilities include a liability of 115 million euros for the put option granted on the non-controlling interests in eSalon.com LLC, the subsidiary we acquired in the year under review. The purchase price liability of 9 million euros recognized in this item in the previous year in connection with the acquisition of the Darex Packaging Technologies business was paid in fiscal 2019. In addition, the shares previously held by minority shareholders in our subsidiary in Nigeria were acquired in the year under review. As a result, the liability for the puttable instruments for minority shareholders, which was stated with a carrying amount of 29 million euros as of December 31, 2018, was derecognized.

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in million euros	December 31, 2018			December 31, 2019		
	Non-current	Current	Total	Non-current	Current	Total
Other tax liabilities	–	152	152	2	186	188
Liabilities to employees	2	38	40	4	39	43
Liabilities relating to employee deductions	–	40	40	–	40	40
Liabilities in respect of social security	–	20	20	–	19	19
Sundry other liabilities	16	68	84	8	49	57
Total	18	318	336	14	333	347

Sundry other liabilities primarily comprise various income deferrals for other accounting periods amounting to 15 million euros (previous year: 18 million euros) and payments on account received in the amount of 3 million euros (previous year: 5 million euros).

21 Trade accounts payable

Trade accounts payable increased from 3,713 million euros to 3,819 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.

22 Income tax liabilities

Income tax liabilities include both tax obligations and uncertain tax treatments. Since December 31, 2019, amounts presented as income tax provisions in previous years are presented as income tax liabilities (please refer to the notes on pages 154 to 157).

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23 Financial instruments report

How Henkel recognizes and measures financial instruments

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

Financial instruments are recognized once Henkel becomes a contracting party to the financial instrument and thereby acquires rights under the financial instrument or enters into comparable obligations. The recognition of financial assets takes place at the settlement date, with the exception of derivative financial instruments, which are recognized at the transaction date. All financial instruments are initially reported at their fair value. Only those trade accounts receivable without any significant financing component are recognized at transaction price as defined in IFRS 15. Transaction costs are only capitalized if the financial instruments are not subsequently measured at fair value through profit or loss.

IFRS 9 specifies three categories for measuring financial assets

- Measured at amortized cost
- Measured at fair value through profit or loss
- Measured at fair value through other comprehensive income

Classification of financial assets to one of the measurement categories is initially based on the structure of the contractual cash flows. The classification of financial assets whose cash flows occur at fixed points in time and are comprised entirely of principal and interest payments is then dictated by the business model in which they are held.

Financial instruments held so as to collect contractual cash flows are recognized at amortized cost using the effective interest method. With the exception of derivative financial instruments, other investments, and certain cash deposits recognized as securities and time deposits and as cash equivalents, all financial assets fulfill these criteria and are measured at amortized cost.

If the business model essentially requires the assets to be held, albeit with their sale remaining possible where necessary – for example to cover liquidity needs – said assets are recognized at fair value through other comprehensive income. Henkel currently uses this category for certain shares in investment funds that it uses for the long-term investment of cash.

Financial instruments whose cash flows are comprised entirely of principal and interest payments but which are not held within one of the two aforementioned business models, are recognized at fair value through profit or loss.

In addition, a risk provision must be accrued in the amount of expected credit losses for financial assets that are measured at amortized cost or at fair value through other comprehensive income. For more details, please refer to the notes on trade accounts receivable on pages 174 and 175 and on credit risk on pages 210 to 216.

Financial assets whose cash flows are not comprised entirely of principal and interest payments are always recognized at fair value through profit or loss. At Henkel, this is the case with derivative financial assets, shares in open-end investment funds held to manage liquidity, and cash deposits with embedded derivatives. As a rule, Henkel exercises its right to choose to recognize equity instruments, including shares in closed-end investment funds, at fair value through other comprehensive income. This approach is commensurate with the fact that, as a rule, the corporation does not plan to sell the assets to benefit from short-term changes in their fair value. If these

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equity instruments are, nevertheless, sold or derecognized for some other reason, the valuation effects accumulated up to then in other comprehensive income are reclassified to retained earnings and not included in the consolidated statement of income.

Financial liabilities must be allocated to one of the following measurement categories:

- Measured at amortized cost
- Measured at fair value through profit or loss

As a rule, Henkel recognizes financial liabilities at amortized cost using the effective interest method. The one exception is derivative financial liabilities, which are measured at fair value 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. Fair value and cash flow hedges are designated within the Group, depending on the type of underlying and the risk being hedged. Details relating to the hedging contracts transacted within the Group and how the fair values of the derivatives are determined are provided on pages 198 to 209.

Henkel currently does not exercise the fair value option for financial assets, nor for financial liabilities.

The following table summarizes the allocation of items on the statement of financial position to the financial instrument classes and compares the carrying amounts of the financial assets and liabilities with their respective fair values:

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Comparison of carrying amounts and fair values of financial instruments

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in million euros	Financial instruments class (Valuation hierarchy of fair values)	December 31, 2018 Carrying amount	December 31, 2018 Fair value	December 31, 2019 Carrying amount	December 31, 2019 Fair value
Trade accounts receivable	Amortized cost	3,610		3,413	
Other financial assets		1,095		1,460	
Receivables from non-consolidated subsidiaries and associated companies	Amortized cost	1		–	
Financial receivables from third parties	Amortized cost	23		138	
Derivative financial instruments not included in a designated hedging relationship	Fair value through profit or loss (level 2)	31	31	60	60
Derivative financial instruments included in a designated hedging relationship	Derivatives included in a designated hedging relationship (level 2)	6	6	54	54
Investments in non-consolidated subsidiaries and associated companies	Not assigned to any valuation category under IFRS 9	18		9	
Other investments	Fair value through other comprehensive income (level 3)	20	20	36	36
Receivables from Henkel Trust e.V.	Amortized cost	608		621	
Securities and time deposits	Amortized cost	6		8	
Securities and time deposits	Fair value through other comprehensive income (level 1)	15	15	17	17
Securities and time deposits	Fair value through profit or loss (level 2)	200	200	400	400
Financial collateral provided	Amortized cost	49		26	
Sundry financial assets	Amortized cost	118		91	
Cash and cash equivalents	Amortized cost	972		1,349	
Cash and cash equivalents	Fair value through profit or loss (level 2)	91	91	113	113
Total		5,768		6,335	

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in million euros	Financial instruments class (Valuation hierarchy of fair values)	December 31, 2018 Carrying amount	December 31, 2018 Fair value	December 31, 2019 Carrying amount	December 31, 2019 Fair value
Borrowings		4,175		3,958	
Bonds	Amortized cost (level 1)	2,220	2,204	2,475	2,483
Other borrowings	Amortized cost	1,955		1,483	
Trade accounts payable	Amortized cost	3,713		3,819	
Other financial liabilities		214		860	
Lease liabilities	Not assigned to any valuation category under IFRS 9	–		551	
Liabilities to non-consolidated subsidiaries and associated companies	Amortized cost	7		7	
Liabilities to customers	Amortized cost	50		65	
Derivative financial instruments not included in a designated hedging relationship	Fair value through profit or loss (level 2)	28	28	56	56
Derivative financial instruments included in a designated hedging relationship	Derivatives included in a designated hedging relationship (level 2)	50	50	44	44
Derivative financial instruments included in a designated hedging relationship	Derivatives included in a designated hedging relationship (level 3)	1	1	–	–
Sundry financial liabilities	Not assigned to any valuation category under IFRS 9 (level 3)	29	29	–	–
Sundry financial liabilities	Amortized cost (level 3)	–		115	109
Sundry financial liabilities	Amortized cost	49		22	
Total		8,102		8,637	

IFRS 13 Fair Value Measurement defines fair value as the price that would be payable in a principal market – or in the most favorable market, in the absence of the former – if an asset were to be sold or a liability transferred. Valuation parameters as close to market reality as possible must be used as input factors to determine fair value. The fair value hierarchy prioritizes the input factors used in the valuation methods in three descending levels, depending on market proximity:

- 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.

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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 are used to measure the fair value of level 2 securities, time deposits and cash equivalents. If bid and ask prices are available, the mid price is used to determine the fair value. When using the discounted cash flow method to determine fair values, the contractually specified cash flows are discounted using currency-specific yield curves. When measuring derivative financial instruments, the credit risk is

determined by netting all financial assets, liabilities, collateral received and collateral provided for each counterparty to determine the net credit exposure. An explanation of the method used to determine the fair values of derivative financial instruments can be found on pages 204 to 209.

The changes in the fair values of the level 3 financial instruments are discussed in the following:

Development of level 3 assets and liabilities 2018

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in million euros

	Derivative financial instruments included in a designated hedging relationship	Other investments	Contingent purchase price commitments	Puttable instruments for minority shareholders
Carrying amount at January 1, 2018	–	7	38	27
Purchases	–	12	4	–
Gains / losses (realized) recognized in operating profit or loss	–	–	–9	–
Of which attributable to assets and liabilities held at the end of the reporting period	–	–	–9	–
Gains / losses recognized in other changes in equity	–1	–	–	2
Foreign exchange effects / Other changes	–	1	–	–
Carrying amount at December 31, 2018	–1	20	33	29

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Development of level 3 assets and liabilities 2019

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in million euros

Carrying amount at January 1, 2019

	Derivative financial instruments included in a designated hedging relationship	Other investments	Contingent purchase price commitments	Puttable instruments for minority shareholders
Purchases	-	23	-	-21
Gains / losses (realized) recognized in operating profit or loss	-	-	-26	-
Of which attributable to assets and liabilities held at the end of the reporting period	-	-	-16	-
Gains / losses recognized in other changes in equity	1	-8	-	-8
Foreign exchange effects / Other changes	-	1	1	-
Carrying amount at December 31, 2019	0	36	8	-

Gains / losses (realized) recognized in operating profit or loss

Of which attributable to assets and liabilities held at the end of the reporting period

Gains / losses recognized in other changes in equity**Foreign exchange effects / Other changes****Carrying amount at December 31, 2019**

The derivative financial instruments categorized as level 3 are commodity forwards recognized in hedge accounting. In the absence of forward quotes on the market, the fair value is determined on the basis of bids obtained from several banks for new contracts involving similar products.

Changes in the fair values determined using this procedure are included in full in the overall hedge reserve balance in other comprehensive income. Reclassification of the corresponding amounts to the cost of hedged inventories is performed when the derivatives are realized. This occurs when the hedged inventories are recognized. A 10 percent higher (lower) forward price on the reporting date would have resulted in other comprehensive income increasing (decreasing) by 0 million euros.

Other investments include investments in companies and investment funds that are currently not intended for sale. The carrying amounts of the investments in companies totaled 16 million euros (previous year: 11 million euros). Shares in investment funds totaled 20 million euros (previous year:

9 million euros). The fair value of other investments is based either on information derived from recent financing transactions, on a cost-based method or on valuation using the discounted cash flow method taking into account the free cash flow of the investee. Appropriate risk-adjusted costs of capital are applied when using the discounted cash flow method.

The individual other investments are of minor importance for the presentation of the net assets and results of operations of the Henkel Group. If any conceivably realistic changes were to occur in the valuation parameters, the change in the carrying amounts revealed by sensitivity analysis would not exceed a range in the low single-digit euro millions. The changes would be included in full in the overall figure for other changes in equity. No individual other investments were sold in the year under review. The sale of one other investment with a carrying amount of 0 million euros in fiscal 2018 produced a gain of 4 million euros. No valuation results recognized in equity were reclassified to retained earnings in the year under review nor in the previous year.

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The fair value of the performance-related purchase price component relating to the acquisition of the outstanding non-controlling shares in our subsidiary in the United Arab Emirates is determined on the basis of the expected trend in earnings before interest, taxes, depreciation and amortization, impairment losses and write-ups (EBITDA) that was relevant to payment of the contingent purchase price component. In addition to the EBITDA, the exchange rate of the UAE dirham is a further material valuation parameter.

If EBITDA were to be 10 percent lower, or the UAE dirham were to devalue by 10 percent, the resulting fair value would be lower by 2 million euros and 1 million euros respectively. If EBITDA were to be 10 percent higher, or the UAE dirham were to appreciate by 10 percent, the resulting fair value would be higher by 5 million euros and 1 million euros respectively. The changes would be included in full in the statement of income.

Following our acquisition of eSalon.com LLC in the year under review, a liability was recognized in sundry financial liabilities for the puttable instrument for the minority shareholders, which is measured at amortized cost. The fair value indicated in the notes, which is allocable to level 3, corresponds to the present value of the expected obligation, calculated using a multiple-approach procedure based on the sales of the company and an adjustment to net working capital, and discounted at the current market rate for comparable debt instruments. In addition to the sales of the company, the average annual growth rate in sales that forms the basis for determining the multiplier, and the exchange rate of the US dollar, are further material valuation parameters.

We did not perform any reclassifications between the valuation categories or IFRS 7 classes, or transfers within the fair value hierarchy either in fiscal 2019 or in the previous year.

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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 by measurement category 2018

	Interest	Valuation allowances	Payments received for written-off and derecognized financial instruments	Fees	Other effects recognized through profit or loss	Valuation effects recognized through other comprehensive income	Reclassifications of valuation effects recognized through other comprehensive income	Total net results
in million euros								
Financial assets measured at amortized cost	10	-5	3	-	3	-	-	11
Financial assets measured at fair value through other comprehensive income (debt instruments)	-	-	-	-	-	-1	-	-1
Financial assets measured at fair value through other comprehensive income (equity instruments)	-	-	-	-	-	-	-	-
Financial assets and liabilities measured at fair value through profit or loss	-	-	-	-	86	-37	36	85
Financial liabilities measured at amortized cost	-72	-	-	-5	-8	2	-	-83
Total net results 2018	-62	-5	3	-5	81	-36	36	12

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Net results by measurement category 2019

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	Interest	Valuation allowances	Payments received for written-off and derecognized financial instruments	Fees	Other effects recognized through profit or loss	Valuation effects recognized through other comprehensive income	Reclassifications of valuation effects recognized through other comprehensive income	Total net results
<i>in million euros</i>								
Financial assets measured at amortized cost	13	-19	2	-	8	-	-	4
Financial assets measured at fair value through other comprehensive income (debt instruments)	-	-	-	-	-	1	-	1
Financial assets measured at fair value through other comprehensive income (equity instruments)	-	-	-	-	-	-8	-	-8
Financial assets and liabilities measured at fair value through profit or loss	1	-	-	-	102	-80	76	99
Financial liabilities measured at amortized cost	-87	-	-	-5	-12	-	-	-104
Total net results 2019	-73	-19	2	-5	98	-87	76	-8

Reconciliation of net results to financial result

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	2018	2019
Total net results	12	-8
Less / plus results included in operating profit or in other comprehensive income	12	24
Foreign exchange effects	-85	-98
Interest expense of pension obligations less interest income from plan assets and reimbursement rights	-5	-7
Other financial result (not related to financial instruments)	1	1
Financial result	-65	-88

No gains or losses were realized in the fiscal year from derecognized financial assets measured at amortized cost.

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Derivative financial instruments and hedge accounting

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 hedge accounting rules are applicable. The Group ensures that its hedge accounting is consistent with the Group risk management objectives and strategy, and that a qualitative and forward-looking approach is adopted when assessing the effectiveness of its hedging transactions.

Hedge accounting is not applied for the derivative financial instruments as long as their valuation is offset by compensatory changes in the fair values of the hedged items or the requirements for hedge accounting are not fulfilled. We recognize directly in the statement of income the fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of the Group strategy.

In hedge accounting, derivative financial instruments are classified 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 operation (hedge of a net investment in a foreign operation). When closing the transaction, Henkel documents the relationship between the hedging instrument and the hedged underlying transactions, together with the risk management objectives and strategies of the hedging transactions. All derivatives classified as hedges are tied to specific committed and planned transactions. Henkel uses acknowledged methods – such as the dollar offset method or the hypothetical derivative method – to determine the effective portion of the hedges and any ineffective portions.

The following table provides an overview of the derivative financial instruments utilized and recognized within the Group, and their fair values:

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Derivative financial instruments

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in million euros	Nominal value		Positive fair value ²		Negative fair value ²	
	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
Currency risk						
Forward exchange contracts ¹	5,046	6,334	37	71	-31	-69
Of which: for hedging loans within the Group	2,171	2,823	20	52	-19	-35
Of which: designated as cash flow hedge	651	1,580	6	11	-3	-13
Cross-currency interest rate swaps ³	335	1,234	-	43	-30	-13
Of which: designated as cash flow hedge	335	1,234	-	43	-30	-13
Interest rate risk						
Interest rate swaps ⁴	-	979	-	-	-	-11
Of which: designated as cash flow hedge	-	979	-	-	-	-11
Commodity price risk						
Commodity forwards	9	3	-	-	-1	-
Of which: designated as cash flow hedge	9	3	-	-	-1	-
Share price risk						
Equity forward contracts	74	35	-	-	-17	-7
Of which: designated as cash flow hedge	74	35	-	-	-17	-7
Total derivative financial instruments	5,464	8,585	37	114	-79	-100

¹ Maturity less than 1 year.² Fair values including accrued interest and excluding valuation allowance for counterparty credit risk of 0 million euros (previous year: 0 million euros).³ Nominal value: 1.05 billion British pounds.⁴ Nominal value: 1.1 billion US dollars.

We determine the fair value of forward exchange contracts and cross-currency interest rate swaps on the basis of the reference rates issued by the European Central Bank for 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. The fair value of equity forward contracts is measured on the basis of the closing price of Henkel preferred shares on the reporting date,

taking into account forward premiums/forward discounts for the remaining term of the respective contract versus the contracted forward share price. Interest rate swaps are measured 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.

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Interest rates in percent p.a.

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At December 31	Euro		US dollar		
	Term	2018	2019	2018	2019
1 month		-0.36	-0.44	2.50	1.76
3 months		-0.31	-0.38	2.81	1.91
6 months		-0.24	-0.32	2.88	1.91
1 year		-0.12	-0.25	3.01	2.00
2 years		-0.18	-0.29	2.67	1.68
5 years		0.20	-0.13	2.58	1.72
10 years		0.81	0.21	2.72	1.88

In measuring derivative financial instruments, counterparty credit risk is taken into account with an adjustment to the fair values concerned, determined on the basis of credit risk premiums. The adjustment relating to fiscal 2019 amounts to 0 million euros (previous year: 0 million euros). Changes in credit risk are recognized through profit or loss in the financial result.

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

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

Fair value hedges

A fair value hedge hedges fluctuations in the fair value of recognized assets and liabilities or firmly contracted unrecognized financial commitments from which a specific risk arises. The changes in the fair values of the hedging instruments and of the hedged item resulting from the hedged risk are simultaneously recognized in profit or loss.

The Henkel Group did not use any fair value hedges in fiscal 2019 nor in fiscal 2018.

Cash flow hedges

A cash flow hedge hedges fluctuations in future cash flows from recognized assets and liabilities, firmly contracted unrecognized financial commitments, and also highly probable transactions, from which a specific risk arises. The Henkel Group uses them to hedge currency, interest rate, and commodity and share price risks. The effective portion of the change in fair value of the hedging instrument in a cash flow hedge is initially recognized in the cash flow hedge reserve in equity. The ineffective portion arising from the change in value is recognized through profit or loss in the financial result or operating profit, depending on the hedged item. Henkel exercises its right to choose to also initially recognize in the hedging cost reserve in equity, changes in value of non-designated components of hedges, such as the forward component and currency-based spread of currency forwards and the currency-based spread of cross-currency interest rate swaps. Amounts recognized in the reserves are released through profit or loss in the same period in which the hedged transaction impacts profit or loss. If a cash flow hedge results in the recognition of a non-financial asset, the amounts recognized in equity are included as part of the acquisition cost when the asset is recognized (basis adjustment).

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Cash flow hedge reserve (net of deferred taxes)					154
	At Jan. 1	Hedge results	Reclassifi- cations to the statement of income	Reclassifi- cations to inventories (basis adjustment)	At Dec. 31
in million euros					
2019	– 236	– 102	85	– 1	– 254

Hedging cost reserve (net of deferred taxes)					155
	At Jan. 1	Hedge results	Reclassifi- cations to the statement of income	Reclassifi- cations to inventories (basis adjustment)	At Dec. 31
in million euros					
2019	2	20	– 7	–	15
2018	0	4	– 2	–	2

The reserves recognized in equity relate substantially to currency hedges for past acquisitions, for planned inventory purchases and for those of our bonds issued in foreign currencies.

Neither in fiscal 2019 nor in the previous year did the cash flow hedge reserve and the hedging cost reserve include any amounts relating to hedges that were no longer subject to hedge accounting.

Currency risk

As part of its risk management, the Henkel Group hedges fluctuations in cash flows of planned sales and inventory purchases in foreign currencies against currency risk. Currency forwards or recognized receivables and payables are used as hedges. They are all due within one year. In the case of currency forwards, no ineffective portions arise, since the Group only designates the spot component as the hedging instrument. Changes in the non-designated components of the derivatives over the duration are recognized in the hedging cost reserve. The hedge ratio is determined individually, depending on

the relevant strategy for each currency. The hedging rates for major currencies are shown in the following table:

Currency derivatives in cash flow hedge accounting

	2019	
	Nominal	Weighted hedging rate
in euros		
US dollar	739	1.12
Canadian dollar	67	1.51
Chinese yuan	61	7.98
British pound	55	0.89
Polish zloty	24	4.32

An addition of –53 million euros (previous year: –27 million euros) to the reserves (net of deferred taxes) related to currency hedges of planned inventory purchases and currency hedges of budgeted sales against fluctuating spot rates. Of the changes in value of the hedges recognized in equity in the reporting period, –48 million euros (previous year: –34 million euros) was reclassified to cost of hedged inventories without affecting profit or loss or – within the framework of hedging budgeted sales – to operating result through profit or loss. The positive and negative fair values of the derivatives contracted as a currency hedge of planned inventory purchases and as a currency hedge of budgeted sales amounted to 11 million euros (previous year: 6 million euros) and –19 million euros (previous year: –3 million euros) respectively. The cash flows from these currency derivatives and the cash flows from the hedged inventory purchases and the hedged sales are expected to occur and affect operating profit in the next fiscal year when the inventories are used and the sales realized.

In addition to the currency derivatives, trade accounts payable in foreign currency were designated as hedges for budgeted sales. The carrying amount of these liabilities is 524 million euros (previous year: 445 million euros). The cash flows from these liabilities and the cash flows from the hedged sales are

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expected to occur and affect operating profit in the next fiscal year. The hedge transactions did not produce any ineffective portions.

In addition, cross-currency interest rate swaps are used to hedge currency risks arising in connection with interest and redemption payments in foreign currencies relating to Group funding. The hedged future interest and redemption payments relate to our bonds issued in British pounds with a nominal value totaling 1,050 million British pounds. Through the cross-currency interest rate swaps, the fixed payments in British pounds have been converted into fixed-rate payments in euros. The bond maturing on September 13, 2022, was hedged at a rate of 0.84361 British pounds. The bonds issued in 2019 were both hedged at a rate of 0.883 British pounds. The hedges were structured and designated such that the occurrence of ineffective portions was eliminated. Changes in the non-designated currency-based spreads over the duration are recognized in the hedging cost reserve. The cash flows from the cross-currency interest rate swap that are attributable to the interest payments were recognized proportionately for the reporting period through profit or loss as an interest expense. The term of the cross-currency interest rate swaps is matched to the term of the respective bond.

Interest rate risk

In the year under review, interest rate swaps with a nominal volume of 1,100 million US dollars were contracted to hedge the risk of interest rate changes in connection with our commercial paper program. The swaps are designated as hedging instruments in a cash flow hedge. Because of the revolving nature of our commercial paper borrowings, the interest payments in US dollars are variable and are converted into fixed-interest payments through the interest rate swap.

In fiscal 2018, the interest payments on the 1,100 million US dollar syndicated bank loan recognized under liabilities to banks were hedged against changes in market interest rates. An interest rate swap was used to convert the floating-rate US dollar interest payments into fixed-rate payments. The loan was repaid prematurely in fiscal 2018 and the interest rate hedge concluded. The change in fair value of the hedging instrument of 2 million euros (net of deferred taxes), which in previous years had been included in the cash flow hedge reserve, was recognized through profit or loss in financial result, as the hedged cash flows will no longer occur.

Commodity price risk

Payments for planned commodity purchases are selectively hedged against fluctuations due to changes in the purchase prices of the raw materials. Commodity forwards are used to hedge this risk. They are all due within one year. The Group only designates the commodity price component of the budgeted raw material purchases. Other price components, such as transportation costs, are not designated. Accordingly, there are no ineffective portions. At the reporting date, exposure in connection with clearly identifiable ethylene components amounted to 31 million euros. An ethylene volume of 3 million euros was hedged at an average rate of 0.25 euros per pound.

The negative changes in value of these derivatives of 1 million euros (previous year: 1 million euros) after deduction of deferred taxes were recognized as additions to the cash flow hedge reserve. Of the losses recognized in equity in the reporting period, 3 million euros (previous year: 0 million euros) was reclassified to cost of hedged inventories without affecting profit or loss.

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Share price risk

The hedged risk arises from potential fluctuations in future payroll cost for budgeted payouts relating to our Global Long Term Incentive (LTI) Plan 2013 due to fluctuations in the price of Henkel shares. Equity forward contracts with maturities from 2018 through 2020 were or are used to hedge against this risk. In these cases, no ineffective portions arise since the Group only designates the spot component of the equity forward contracts. At the reporting date, the exposure amounted to 51 million euros. A volume of 35 million euros is hedged at an average price of 110.70 euros.

An addition of –6 million euros (previous year: –3 million euros) to the cash flow hedge reserve (net of deferred taxes) resulted from the hedge of this planned exposure relating to our Long Term Incentive (LTI) Plan. Of the losses recognized in equity, –7 million euros (previous year: –3 million euros) were reclassified to operating profit in the year under review. The negative fair values of the equity forward contracts amounted to –7 million euros (previous year: –17 million euros). The hedged cash flows will be realized within one year.

Hedges of a net investment in a foreign operation

The accounting treatment of hedges of a net investment in a foreign operation 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 the reserve for hedges of a net investment in a foreign operation; the ineffective portion is recognized directly through profit or loss. Henkel exercises its right to choose to also recognize changes in value of non-designated components – such as the forward component and currency-based spread of currency forwards – in equity. The gains or losses recognized directly in equity in connection with the hedges of a net investment in a foreign operation remain there until disposal or partial disposal of the net investment.

The reserve for hedges of a net investment in a foreign operation relates essentially to translation risks arising from net investments in Swiss francs, US dollars, Chinese yuans and Russian rubles for which the associated hedging instruments expired in previous years. The year-end total of 35 million euros (previous year: 35 million euros) does not include any non-designated components.

Reserve for hedges of a net investment in a foreign operation (net of deferred taxes)

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	At Jan. 1 in million euros	Addition (recognized in equity)	Disposal (recognized through profit or loss)	Disposal (without affecting profit or loss)	At Dec. 31
2019	35	–	–	–	35
2018	35	–	–	–	35

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 other 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 hedged item constitute a unit in terms of countervailing fluctuations.

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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 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. A description of the objectives and fundamental principles adopted in capital management can be found in the combined management report on pages 100 and 101. There were no major risk clusters in the reporting period. Appropriate details are provided in the description of the individual risks.

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 the contractual party not fulfilling its obligations.

The maximum credit risk arising from financial assets not subject to the impairment rules of IFRS 9, i.e. financial assets that are measured at fair value through profit or loss or equity instruments that are measured at fair value through other comprehensive income, irrespective of any collateral provided, is reflected by the carrying amounts of the financial assets as recognized in the statement of financial position as follows:

in million euros	Maximum risk position		158
	December 31, 2018	December 31, 2019	
Financial assets measured at fair value through profit or loss	322	573	
Derivative financial instruments included in a designated hedging relationship	6	54	
Equity instruments measured at fair value through other comprehensive income	20	36	
Total carrying amounts	348	663	

Given that collateral has been provided, the actual credit risk is significantly lower and is discussed in detail in the following. Other financial assets include 621 million euros (previous year: 608 million euros) representing a receivable from Henkel Trust e.V., which constitutes the largest of all the financial assets. Given the investment structure and rules of Henkel Trust e.V., the credit risk is very minor. Further details of risk concentrations are discussed in the following.

Under IFRS 9, valuation allowances for expected credit losses ("expected loss model") must be recognized for all financial assets measured at amortized cost and for all debt instruments measured at fair value through other comprehensive income.

IFRS 9 provides a three-level method for this purpose. Risk provisions are accrued on the basis either of the 12 months expected losses (level 1), or of the lifetime expected losses if the credit risk has increased significantly since initial recognition (level 2), or if the asset is credit-impaired (level 3). The simplified approach is adopted, however, for most of the financial assets, including trade accounts receivable with no material financing component. As such, the expected credit losses are always determined for the full lifetime of the financial instruments.

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To calculate the expected credit losses, counterparties are grouped by similar credit default risks. Individual valuation allowances are made on a case-by-case basis in response to specific circumstances and risk indicators. Both empirical data – such as historical default rates – and forward-looking information – such as individual and macroeconomic circumstances – are considered when determining the amounts of the valuation allowances. If a counterparty's credit rating is deemed to be impaired – following noticeable changes in payment behavior or application for bankruptcy, for example – all outstanding amounts relating to that counterparty are subjected to a valuation allowance. The default is determined on the basis of individual assessment. Valuation allowances are always recognized through loss. If the expected credit losses decrease, a corresponding amount of the risk provision is reversed through profit.

A financial asset is derecognized if it is reasonably judged to be unlikely that the corresponding cash flows will be recoverable in part or in whole, for example after completion of insolvency proceedings, or after consideration of other local law circumstances. If an outstanding receivable is judged to be unrecoverable, the valuation allowance already in place is capitalized and the remaining net amount outstanding is stated as an expense and derecognized.

Trade accounts receivable and other financial assets

in Henkel's operating business

In its operating business, Henkel is confronted by progressive concentration and consolidation on the customer side, as reflected in the receivables from individual customers. No

individual customer and no individual country apart from Germany and the USA accounted for more than 22 percent of all trade accounts receivable. Of the total trade accounts receivable, customers based in Germany and the USA account for 12 percent to 22 percent respectively. Receivables from customers with a high credit risk rating account for about 9 percent of all trade accounts receivable. These risks are monitored regularly at the global and regional level and steps are taken to mitigate exposure.

Our 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 the export business, and guarantees, warranties, and cover notes. Most of the collateral included as of the reporting date is attributable to credit insurance policies in Western and Eastern Europe.

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Valuation allowances on trade accounts receivable by risk category as of December 31, 2018						159
	Equivalent to S&P rating	Probability of default ¹	Gross before deduction of collateral and value-added tax in million euros	Net for determining the valuation allowance in million euros	Valuation allowance in million euros	
Risk categories						
Low risk	AA- to A+	0.1%	1,899	1,197	1	
Moderate risk	BBB- to BB+	0.2% to 0.7%	1,000	644	2	
High risk	B- to C	4.3% to 26.8%	380	271	22	
Individual assessment	n/a	Individual	8	8	5	
Default	D	100%	64	61	61	
SMEs and microbusinesses	n/a	1.9%	192	161	3	
Total			3,543	2,342	94	

¹ Average probability of default before analysis on a case-by-case basis.

Valuation allowances on trade accounts receivable by risk category as of December 31, 2019						160
	Equivalent to S&P rating	Probability of default ¹	Gross before deduction of collateral and value-added tax in million euros	Net for determining the valuation allowance in million euros	Valuation allowance in million euros	
Risk categories						
Low risk	A- to AA	0.1 %	1,646	1,045	2	
Moderate risk	BB- to BBB+	0.3% to 0.8 %	1,073	653	3	
High risk	C to B+	4.1% to 24.8 %	327	212	21	
Individual assessment	n/a	Individual	17	16	4	
Default	D	100%	60	57	55	
SMEs and microbusinesses	n/a	4.0%	192	151	6	
Total			3,315	2,134	91	

¹ Average probability of default before analysis on a case-by-case basis.

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Of the gross amount before deduction of collateral and value-added tax of 3,315 million euros (previous year: 3,543 million euros), transactions worth 1,181 million euros (previous year: 1,201 million euros) were deducted for which no valuation allowances were required. Of this figure, 941 million euros (previous year: 1,004 million euros) is attributable to collateral received and 240 million euros (previous year: 197 million euros) to refundable value-added tax. Accordingly, the net base for determining valuation allowances was 2,134 million euros (previous year: 2,342 million euros).

The carrying amount of loans and receivables, the term of which was renegotiated because they would have otherwise been more than 30 days overdue, was 5 million euros (previous year: 3 million euros). Receivables of 56 million euros (previous year: 64 million euros) were written off in full, but not yet derecognized as they are still subject to ongoing collection proceedings.

Apart from financial receivables from third parties amounting to 138 million euros (previous year: 23 million euros), no valuation allowances exist in respect of other financial assets in our operating business because the credit risk is considered to be very low. A valuation allowance of 3 million euros (previous year: 0 million euros) exists for financial receivables from third parties.

Financial investments

Credit risks also arise from financial investments such as cash at banks, 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. Credit ratings and investment limits are continuously monitored and steps taken if fixed thresholds for ratings and credit default swaps (CDS) are exceeded. To minimize the credit risk, we agree netting arrangements to offset bilateral receivables and obligations with counterparties. We additionally enter into collateral agreements with relevant 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:

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

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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	
	2018	2019	2018	2019	2018	2019	2018	2019
Financial assets	37	114	26	67	6	28	5	19
Financial liabilities	79	100	26	67	48	26	5	7

¹ Fair values excluding valuation allowance of 0 million euros relating to counterparty credit risk (previous year: 0 million euros).

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 by the banks. A valuation allowance of 0 million euros exists to cover the remaining credit risk relating to the positive fair values of derivatives (previous year: 0 million euros).

In the case of financial assets held by Henkel in connection with EU emission rights swap contracts, the underlying emission rights are provided as collateral to the Henkel Group. They may be utilized even if the debtor is not in default of payment, since Henkel is only committed to returning the same number and specification of emission rights. The fair value of the non-financial assets held as collateral as of December 31, 2019 was 101 million euros (previous year: 0 million euros). Because the financial assets are fully backed, the credit risk was classified as absolutely minor, and no valuation allowance was accrued.

Liquidity risk

Liquidity risk is defined as the risk of an entity failing to meet its financial obligations at any given time. We mitigate this risk through our long-term management strategy of using financing instruments in the shape of bonds issued with variously staggered terms up to seven years, and in different currencies. 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. 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 or to manage liquidity in the short term. We also use our US dollar and euro commercial paper program for short-term liquidity management. In order to ensure the financial flexibility of Henkel at any time, the liquidity within the Group is largely centralized and managed through the use of cash pools. In addition, the Henkel Group has at its disposal a confirmed credit line of 1.5 billion euros with a term until 2023. The individual subsidiaries 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. We intend to maintain our ratings within a "single A" target corridor.

Our liquidity risk can therefore be regarded as very low.

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The maturity structure of the original and derivative financial liabilities within the scope of IFRS 7 based on undiscounted cash flows, and thus the risk concentration in respect of liquidity risk, is shown in the following table:

Cash flows from financial liabilities 2018

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	Dec. 31, 2018 Carrying amounts	Remaining term			Dec. 31, 2018 Total cash flow
		Up to 1 year	Between 1 and 5 years	More than 5 years	
in million euros					
Bonds	2,220	678	1,577	–	2,255
Commercial paper ¹	1,931	1,931	–	–	1,931
Liabilities to banks	24	25	–	–	25
Trade accounts payable	3,713	3,713	–	–	3,713
Sundry financial instruments ²	135	104	26	5	135
Original financial instruments	8,023	6,451	1,603	5	8,059
Expected inflow from interest rate and cross-currency interest rate swaps	30	3	345	–	348
Expected outflow for interest rate and cross-currency interest rate swaps	49	–	359	–	359
Other derivative financial instruments	79	38	22	–	60
Total	8,102	6,489	1,625	5	8,119

¹ From the euro and US dollar commercial paper program (total volume: 2 billion US dollars and 2 billion euros).

² Sundry financial instruments include amounts due to customers, and finance bills.

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	Cash flows from financial liabilities 2019	Dec. 31, 2019 Carrying amounts	Remaining term			Dec. 31, 2019 Total cash flow
			Up to 1 year	Between 1 and 5 years	More than 5 years	
in million euros						
Bonds		2,475	554	1,549	419	2,522
Commercial paper ¹		1,448	1,452	–	–	1,452
Liabilities to banks		35	35	–	–	35
Lease liabilities		551	122	255	208	585
Trade accounts payable		3,819	3,819	–	–	3,819
Sundry financial instruments ²		209	85	125	–	210
Original financial instruments		8,537	6,067	1,929	627	8,623
Expected inflow from interest rate and cross-currency interest rate swaps		25	993	359	–	1,352
Expected outflow for interest rate and cross-currency interest rate swaps			1,008	359	–	1,367
Other derivative financial instruments		75	75	–	–	75
Derivative financial instruments		100	90	–	–	90
Total		8,637	6,157	1,929	627	8,713

¹ From the euro and US dollar commercial paper program (total volume: 2 billion US dollars and 2 billion euros).

² 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 changing market prices. Market risks primarily take the form of currency risk, interest rate risk and various price risks (particularly the commodity price risk, and the share price risk arising from our Long Term Incentive [LTI] Plan).

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, interest rate and other price 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 trading platforms. These foreign currency transactions are automatically transferred into the treasury system. The currency exposure and interest rate risks reported by all subsidiaries

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under standardized reporting procedures are likewise 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. We use sensitivity analyses 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 analyses reveal the maximum potential future loss of a certain portfolio over a given period based on a specified probability level.

Currency risk

The global nature of our business activities results in a huge number of cash flows in different currencies.

This transaction risk arises 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 extensively hedged. In order to manage these risks, we primarily utilize forward exchange contracts and cross-currency interest rate swaps. The derivatives are designated as cash flow hedges and recognized accordingly in the financial statements or measured at fair value through profit or loss. The currency risk that exists within the Group in the form of transaction risk initially affects equity in the case of cash flow hedges, while all changes in the value of derivatives are recognized directly through profit or loss.

The following table shows the risk exposure for Henkel's major currencies. The risk arises mainly 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 of more than 50 different currencies.

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Currency risk exposure¹

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in million euros	December 31, 2018			December 31, 2019		
	Total currency risk exposure before currency hedging	of which: from planned transactions	Net currency risk exposure after currency hedging	Total currency risk exposure before currency hedging	of which: from planned transactions	Net currency risk exposure after currency hedging
US dollar	463	670	184	481	769	84
Chinese yuan	177	139	102	156	115	58
Russian ruble	151	102	71	151	115	115
Canadian dollar	119	108	59	140	131	65
British pound	139	128	66	126	116	58
Others	1,272	644	984	1,081	923	796
	2,321	1,791	1,466	2,135	2,169	1,176

¹ Transaction risk.

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2019 amounted to 52 million euros after hedging (previous year: 120 million euros). The value-at-risk shows the maximum expected risk of loss in a year as a result of currency fluctuations. Our value-at-risk analysis within internal risk reporting assumes a time horizon of one year and a one-sided confidence interval of 95 percent, as it comprehensively reflects the risk associated with one fiscal year. 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, the derivative financial instruments and the budgeted positions in foreign currency, with a forecasting horizon of up to twelve months.

Interest rate risk

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 those 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 liquidity procurement and cash investment activities of the Henkel Group mainly take place on international money and capital markets. Our financial liabilities and cash deposits are exposed to the risk of changing interest rates. The aim of our centralized interest rate management is to reduce this risk by choosing fixed or floating interest rate contracts and by using interest rate derivatives. 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.

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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, liabilities to banks and commercial paper put in place to secure Group liquidity, the securities and time deposits used for cash investments, and other interest-bearing financial instruments. The financial instruments 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. In the event of an expected rise in

interest rate levels, Henkel protects its positions by transacting additional interest rate derivatives as effective hedging instruments. In addition to the fixed-rate euro-denominated and US dollar bonds, Henkel enters into cross-currency interest rate swaps to convert bonds denominated in British pounds into fixed-rate euro obligations. The portion of commercial paper hedged through interest rate swaps in the year under review is also included as a fixed-rate item in the calculation of interest risk exposure. Financial instruments with interest rates pegged for less than twelve months are included in the calculation on a time-weighted basis. All other financial instruments bear floating interest rates. Our exposure to interest rate risk at the reporting dates was as follows:

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Interest rate risk exposure

in million euros	Carrying amounts			
	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
Fixed-interest financial instruments				
Euro	- 1,838	- 1,838	- 1,935	- 1,935
US dollar	- 1,186	- 1,186	- 270	- 1,182
	- 3,024	- 3,024	- 2,205	- 3,117
Floating-interest financial instruments				
Euro	364	364	897	897
US dollar	- 1,161	- 1,161	- 1,952	- 1,040
Chinese yuan	241	241	212	212
Polish zloty	151	151	201	201
Others	534	534	799	799
	129	129	157	1,069

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The calculation of the interest rate risk is based on sensitivity analyses that assume a parallel shift of 100 basis points in the interest curves of all currencies. When analyzing fair value risk, we calculate the hypothetical fair value loss or gain of the relevant fixed-interest financial instruments as of the reporting date.

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

Interest rate risk	166
in million euros	
Based on an interest rate change of 100 basis points per currency	2018 2019
Of which:	
Cash flow through profit and loss	7 19
Fair value recognized in equity through other comprehensive income	6 11
	1 8

Other price risks (commodity and share price risks)

Uncertainty with respect to commodity price development impacts the Group. Purchase prices for raw materials can affect the net assets, financial position and results of operations of Henkel. The risk management strategy put in place by the Group management for safeguarding against procurement market risk is described in more detail in the risks and opportunities report on page 124. As a small part of the risk management strategy, cash-settled commodity forwards are entered into on the basis of forecasted purchasing requirements in order to hedge future uncertainties with respect to commodity prices. Cash-settled commodity forwards are only used by Henkel where there is a direct relationship between the hedging derivative and the physical underlying. Henkel uses hedge accounting for these hedging transactions, thus limiting the temporary exposure to price risks related to holding commodity forwards. Developments in fair values and the resultant risks are continuously monitored.

Due to our Long Term Incentive Plan, Henkel is exposed to fluctuations in the price of its own shares. Details of our Long Term Incentive plans are discussed in Note 36 on pages 229 to 231. Henkel uses equity forward contracts to hedge against the share price risk.

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24 Sales and principles of income recognition

Sales only capture proceeds from contracts with customers and increased year on year to 20,114 million euros (previous year: 19,899 million euros).

Starting in fiscal 2018, Henkel has been applying IFRS 15 to its recognition of sales.

Sales comprise the transfer of goods and services less direct sales deductions such as customer-related rebates, credits and other benefits paid or granted. Sales are recognized once control of the goods has been transferred, or the service provided. The timing of transfer of control of the goods to a customer is determined by the underlying contract and the terms and conditions of supply stipulated therein, or by international trade rules.

Sales represent the consideration that Henkel will likely receive in exchange for transferring the goods or providing the service. Sales may only be recognized when no substantial adjustments to the cumulative recognized revenue is expected.

Pursuant to IFRS 15, Henkel does not recognize sales for products that it expects to be returned. In addition, empirical experience has shown that customers are justified in expecting invoice amounts to be reduced in certain instances. The amounts of these expected refunds are also not recognized as sales. Henkel draws on past return and refund statistics to quantify the expected returns and refunds; these are separated by business unit and legal entity, and are subject to ongoing

calculation and adjustment. Mathematical estimates and assumptions were made with regard to the underlying analysis period for determining the rates of return and the amount of sales to be adjusted by this rate of return, and also with regard to the observable volatilities, among other factors.

Henkel agrees payment terms that are standard in our industry; contracts with customers do not contain any material financing components.

Warranty obligations do not constitute a separate performance obligation and are recognized as provisions in accordance with IAS 37.

Services are generally provided in conjunction with the sale of goods, and recorded once the service has been performed. The amount of sales revenue relating to the provision of services is less relevant than that attributable to the transfer of goods.

For information about opening and closing balances, and impairment of contract receivables in fiscal 2019, please refer to our discussion of trade accounts receivable in Note 7 on pages 174 and 175.

A disaggregation of sales according to IFRS 15.114 f. can be found in the Group segment report by business unit on page 143 and in the discussion of regional development on page 145.

Henkel exercises its right under IFRS 15.121 to refrain from disclosing transaction prices relating to any remaining performance obligations, since the underlying contracts have an expected original term of no more than one year.

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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.

25 Cost of sales

The cost of sales increased from 10,743 million euros to 10,883 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.

26 Marketing, selling and distribution expenses

Marketing, selling and distribution expenses amounted to 4,942 million euros (previous year: 4,638 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 and valuation allowances and impairment losses on trademarks and other rights.

27 Research and development expenses

Research and development expenses increased year on year to 499 million euros (previous year: 484 million euros).

Expenditures directly attributable to research and development activities amounted to 488 million euros (previous year: 471 million euros).

The capitalization of research expenses is not permitted. 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 met with respect to product and technology developments, due to a high level of interdependence within these developments and the difficulty of assessing which products will eventually be marketable.

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28 Administrative expenses

Administrative expenses amounted to 969 million euros (previous year: 991 million euros).

Administrative expenses include personnel and material costs relating to the Group management, Human Resources, Purchasing, Accounting and IT functions, as well as the costs of managing and administering the business units.

29 Other operating income**Other operating income**

in million euros	2018	2019
Gains on disposal of non-current assets	39	17
Release of provisions ¹	18	32
Insurance claim payouts	5	13
Payments on derecognized receivables	1	2
Write-ups on non-current assets	–	3
Impairment reversal on assets held for sale	–	–
Sundry operating income	91	95
Total	154	162

¹ Including gains arising from the termination and curtailment of pension plans in the amount of 8 million euros in 2019 (2018: 6 million euros).

Sundry operating income relates to a number of individual items arising from ordinary operating activities, such as grants and subsidies, tax refunds for indirect taxes, and similar income.

30 Other operating expenses**Other operating expenses**

in million euros	2018	2019
Losses on disposal of non-current assets	– 6	– 7
Other taxes	–	–
Amortization, depreciation of other assets	–	–
Sundry operating expenses	– 75	– 77
Total	– 81	– 84

Sundry operating expenses include a number of individual items arising from ordinary operating activities, such as fees, provisions for litigations and third-party claims, sundry taxes, and similar expenses.

31 Financial result**Financial result**

in million euros	2018	2019
Interest result	– 61	– 75
Other financial result	– 5	– 13
Investment result	1	–
Total	– 65	– 88

The investment result from the previous year includes 1 million euros for companies valued using the equity method.

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Interest result	170
in million euros	
Interest and similar income from third parties	2018 10 2019 13
Interest to third parties	–71 –88
Total	–61 –75

Other financial result	171
in million euros	
Interest result from net obligation (pensions)	2018 –9 2019 –9
Interest income from reimbursement rights (IAS 19)	4 5
Expenses from currency losses	–107 –131
Income from currency gains	113 135
Other financial expenses	–24 –38
Other financial income	18 25
Total	–5 –13

Please refer to pages 202 and 203 in Note 23 for information on the net results of the valuation categories under IFRS 7, and the reconciliation to financial result.

32 Taxes on income

Income tax expense/income breaks down as follows:

Income before tax and analysis of taxes	172
in million euros	
Income before tax	2018 3,051 2019 2,811
Current taxes	618 644
Deferred taxes	103 64
Taxes on income	721 708
Tax rate	23.6% 25.2%

Main components of tax expense and income	173
in million euros	
Current tax expense / income in the reporting year	2018 635 2019 633
Current tax adjustments for prior years	–17 11
Current taxes	618 644

Deferred tax expense / income from temporary differences	102 92
Deferred tax expense / income from unused tax losses	23 –35
Deferred tax expense from tax credits	1 3
Deferred tax income from changes in tax rates	–2 1
Increase / decrease in valuation allowances on deferred tax assets	–21 3
Deferred taxes	103 64

Deferred tax expense by items on the statement of financial position	174
in million euros	
Intangible assets	2018 43 2019 84
Property, plant and equipment	14 52
Financial assets	–35 4
Inventories	11 –1
Other receivables and other assets	– –1
Special tax items	–3 –
Provisions	86 –32
Liabilities	–15 –12
Tax credits	–1 4
Unused tax losses	3 –34
Total	103 64

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 percent, is reconciled to the effective tax charge disclosed.

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Tax reconciliation statement		175
in million euros		
Income before tax	3,051	2,811
Tax rate (including trade tax) of Henkel AG & Co. KGaA	31 %	31 %
Expected tax charge	946	871
Tax reductions due to differing tax rates abroad	- 153	- 169
Tax increases / reductions for prior years	7	3
Tax increases / reductions due to changes in tax rates	- 2	1
Tax increases / reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	- 21	3
Tax reductions due to tax-free income and other items	- 137	- 137
Tax increases / reductions arising from additions and deductions for local taxes	- 14	- 7
Tax increases due to withholding taxes	52	54
Tax increases due to non-deductible expenses	43	89
Tax charge disclosed	721	708
Tax rate	23.6 %	25.2 %

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 surcharge 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		176		
in million euros	Deferred tax assets	Deferred tax liabilities		
	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019
Intangible assets	351	313	781	911
Property, plant and equipment	27	12	102	142
Financial assets	-	3	68	76
Inventories	25	27	1	1
Other receivables and other assets	24	61	40	71
Special tax items	-	-	26	26
Provisions	681	727	86	89
Liabilities	140	175	12	37
Tax credits	6	2	-	-
Unused tax losses	46	81	-	-
Amounts netted	- 341	- 538	- 341	- 538
Financial statement figures	959	863	775	815

The deferred tax assets of 727 million euros (previous year: 681 million euros) relating to provisions in the financial statement result primarily from recognition and measurement differences with respect to pension obligations. The deferred tax liabilities of 911 million euros (previous year: 781 million euros) relating to intangible assets are mainly attributable to business combinations. Deferred tax liabilities of 50 million euros (previous year: 34 million euros) were recognized for retained earnings of foreign subsidiaries, as these earnings will be distributed in 2020.

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 carryforwards can be used.

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Deferred taxes have not been recognized with respect to unused tax losses of 525 million euros (previous year: 408 million euros), as it is not probable that sufficient taxable profit will be available against which they may be utilized. Of these unused tax losses, 465 million euros (previous year: 288 million euros) are attributable to state taxes of our US-American subsidiaries (tax rate around 2.5 percent). Of the unused tax losses for which no deferred tax assets have been recognized, 467 million euros (previous year: 290 million euros) expire after more than three years, while 57 million euros are non-expiring (previous year: 56 million euros).

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

Expiry dates of unused tax losses and tax credits

In many countries, different tax rates apply to losses on the disposal of assets than 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 the unused tax losses, 552 million euros (previous year: 440 million euros) are attributable to losses made by US-American subsidiaries. Of this figure, 547 million euros (previous year: 435 million euros) relates solely to state taxes. Unused tax credits of 33 million euros (previous year: 5 million euros) are attributable to US-American subsidiaries. In addition to the unused tax losses listed in the table above, an interest expense of 2 million euros (previous year: 8 million euros) and other deductible expenses of 106 million euros may be carried forward in full with no expiration.

For a loss-making entity in China in the year under review, Henkel recognized deferred tax assets of 62 million euros on temporary differences and on unused tax losses despite the absence of corresponding deferred tax liabilities. Steps were taken to ensure the availability of sufficient taxable income in future. As such, we assume at present that we will be able to utilize the deferred tax assets.

Deferred tax expenses of 7 million euros (previous year: income of 4 million euros) were recognized in other comprehensive income. Within this figure, an expense of 7 million euros (previous year: income of 1 million euros) resulted from actuarial gains and losses on pension obligations. Currency developments did not affect other comprehensive income (previous year: income of 3 million euros).

in million euros	Unused tax losses		Tax credits		177
	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	
Expire within					
1 year	7	1	1	-	
2 years	65	3	-	-	
3 years	3	3	-	-	
more than 3 years	548	703	4	33	
May be carried forward without restriction	103	135	-	-	
Total	726	845	5	33	

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33 Non-controlling interests

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

Their share of net income was 18 million euros (previous year: 16 million euros). The prior-year figures have been amended to reflect the retrospective application of the present access method. Further discussion of this can be found in the section entitled "Amendment of prior-year figures" on pages 154 to 157.

The non-controlling interests included in the Henkel Group at the end of fiscal 2019 had no material impact on our net assets, financial position and results of operations. The Group has no joint operations or unconsolidated structured entities.

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34 Reconciliation of adjusted net income

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in million euros	2018 ¹	2019	+/-
EBIT (as reported)	3,116	2,899	-7.0%
One-time gains	-11	-7	-
One-time charges	129	34	-
Restructuring expenses	262	294	-
Adjusted EBIT	3,496	3,220	-7.9%
Adjusted return on sales	in %	17.6	16.0
Financial result		-65	-88
Taxes on income (adjusted)		-806	-760
Adjusted tax rate	in %	23.5	24.3
Adjusted net income	2,625	2,372	-9.6%
Attributable to non-controlling interests		22	19
Attributable to shareholders of Henkel AG & Co. KGaA		2,603	2,353
Adjusted earnings per ordinary share	in euros	5.99	5.41
Adjusted earnings per preferred share	in euros	6.01	5.43
At constant exchange rates			-10.1%

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).

The one-time gains recognized in 2019 include income of 7 million euros from the sale of business activities (previous year: 0 million euros).

Adjusted expenses in fiscal 2019 include 19 million euros for impairment on assets held for sale relating to reclassification of an activity eliminated from the portfolio of the Adhesive Technologies business unit (previous year: 0 million euros), 11 million euros attributable to the optimization of our IT system architecture for managing business processes (previous year: 21 million euros), 2 million euros for legal

disputes (previous year: 11 million euros) and 2 million euros for incidental acquisition costs (previous year: 4 million euros).

Of the restructuring expenses in fiscal 2019, 72 million euros are attributable to cost of sales (previous year: 90 million euros) and 144 million euros to marketing, selling and distribution expenses (previous year: 103 million euros). In addition, 12 million euros is attributable to research and development expenses (previous year: 13 million euros) and 66 million euros to administrative expenses (previous year: 56 million euros).

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Taxes on income amounting to 760 million euros reflect the tax effects of the adjustments to EBIT.

35 Payroll cost and employee structure

Payroll cost ¹	179	
in million euros	2018	2019
Wages and salaries	2,503	2,550
Social security contributions and staff welfare costs	450	476
Pension costs	175	169
Total	3,128	3,195

¹ Excluding personnel-related restructuring expenses of 137 million euros (previous year: 87 million euros).

Number of employees per function ¹	180	
	2018	2019
Production and engineering	28,600	28,700
Marketing, selling and distribution	14,200	13,450
Research and development	2,750	2,650
Administration	7,900	7,850
Total	53,450	52,650

¹ Basis: annual average number of full-time employees, excluding apprentices and trainees, work experience students and interns; figures rounded.

36 Share-based payment plans**Global Long Term Incentive (LTI) Plan 2020+**

The Global Long Term Incentive (LTI) Plan 2020+ was introduced effective January 1, 2017 to replace the previous Global LTI Plan 2013. Both programs will exist alongside each other until the final tranche of the Global LTI Plan 2013 is paid out in 2020. However, as from January 1, 2017, first-time-eligible employees are only being admitted to the Global LTI Plan 2020+.

Unlike the Global LTI Plan 2013, which is designed as a share-based remuneration scheme with cash settlement, the Global LTI Plan 2020+ provides for share-based remuneration settled with preferred shares of Henkel AG & Co. KGaA. These treasury shares are granted on condition that members of the Plan are employed for four years by Henkel AG & Co. KGaA or one of its subsidiaries in a position senior enough to qualify for participation, and that they are not under notice during that period. This minimum period of employment pertains to the calendar year in which the treasury shares are granted and the three subsequent calendar years. A performance-related investment amount is pledged to eligible employees at the start of each four-year cycle. Target achievement is determined, and the investment amount for the cycle specified, at the end of the first calendar year. At the start of the second calendar year, this investment amount – after deduction of taxes and social security contributions, where appropriate – is used to purchase treasury shares on the stock exchange, which are then transferred to the employees. The number of shares transferred to each employee on the basis of the investment amount is determined by the actual market price (stock exchange price) of the shares at the time of purchase. The shares are subject to a lock-up period that ends upon completion of the relevant four-year cycle. During this time, the employees participate in all share price developments. Once the lock-up period has expired, the employees may dispose of the shares as they wish.

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In addition, an Outperformance Reward, which grants treasury shares based on the achievement of target figures established in advance, was set at the beginning of the four-year medium-term plan. In this case, the employees are not granted the treasury shares until the four-year performance measurement period has ended, but may then dispose of them immediately at will.

The investment amount specified in the first year of the cycle is recognized as a proportionate payroll cost spread over the four-year performance period. As the Global LTI Plan 2020+ provides for settlement using treasury shares, the allocations are recognized in equity. If treasury shares are granted at the end of the performance measurement period, equity is reduced accordingly with no effect on profit or loss. Additional employer contributions and other payments that do not constitute part of the investment amount and are not settled with treasury shares are recognized under other provisions.

For the 2018 – 2021 cycle, a gross investment amount of 0 million euros was determined, based on target achievement. Accordingly, no treasury shares were acquired in fiscal 2019.

Global LTI Plan 2020+ – 2017–2020 cycle		181
	Number of shares	
Earned entitlements and awards on April 1, 2018	301,782	
Forfeited entitlements in fiscal 2019	- 27,837	
Dividend payments converted into shares in fiscal 2019	4,534	
Entitlements that became vested in fiscal 2019	- 7,053	
Outstanding earned entitlements on December 31, 2019	271,426	

Of the shares already acquired for the 2017 cycle, 7,053 became vested in fiscal 2019. They are freely available to qualifying employees. 27,837 shares becoming available due to forfeited entitlements were resold. 4,534 shares were purchased to convert dividend payments into shares. At the end of 2019, therefore, 271,426 treasury shares were transferred to employees, who will be able to dispose of them freely at the end of 2020.

In fiscal 2019, an equity-increasing payroll cost of 11 million euros (previous year: equity-increasing cost of 1 million euros) was recognized in connection with the Global LTI Plan 2020+.

Global Long Term Incentive (LTI) Plan 2013

In fiscal 2013, the general terms and conditions of the previously implemented Global CPU Plan 2004 were amended and replaced by the Global LTI Plan 2013, which is a share-based remuneration scheme with cash settlement. Effective January 1, 2017, this scheme was replaced by the Global LTI Plan 2020+. Since 2013, Cash Performance Units (CPUs) have been granted on condition that members of the Plan are employed for four years by Henkel AG & Co. KGaA or one of its subsidiaries in a position senior enough to qualify for participation and that they are not under notice during that period. This minimum period of employment pertains to the calendar year in which the CPUs are granted and the three subsequent calendar years.

Until payment of the final tranche in 2020, the total value of the cash remuneration payable to senior management personnel is recalculated on each reporting date and on the settlement date, based on the fair value of the CPUs, and recognized through an appropriate increase in provisions as a payroll cost that is spread over the period of service of the beneficiary. All changes to the measurement of this provision are reported under payroll cost.

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The number of CPUs granted depends not only on the seniority of the officer but also on the achievement of set target figures. For the cycles issued from 2013 onward, the target is based on growth in adjusted earnings per preferred share. The value of a CPU in each case is the average price of the Henkel preferred share as quoted 20 stock exchange trading days after the Annual General Meeting following the performance period. As of the reporting date, the calculation of the provision was based on a fair value of 92.20 euros (closing price of Henkel preferred shares on December 30, 2019; on December 28, 2018: 95.40 euros) per CPU. The overall payout of the Long Term Incentive is subject to a cap.

The thirteenth four-year cycle, which was issued in 2015, became due for payment in 2019. At December 31, 2019, the CPU Plan worldwide comprised 220,324 CPUs (December 31, 2018: 362,558 CPUs) from the four-year tranche issued in 2016. No allocations were therefore made in the year under review (December 31, 2018: 3.2 million euros). The corresponding provision amounted to 22.5 million euros (December 31, 2018: 63.9 million euros), of which 22.5 million euros (December 31, 2018: 37.4 million euros) is vested.

37 Group segment report

The format for reporting the activities of the Henkel Group by segment is by business unit and reportable segments; selected regional information is also provided. The segment report corresponds to the way in which the Group manages its operating business, and the Group's reporting structure. The Group segment report comprises nine operating segments assigned to four reportable segments. The Adhesives for Consumers, Craftsmen and Building reportable segment is comprised of the eponymous operating segment, whereas the Industrial Adhesives reportable segment covers four operating segments: Packaging and Consumer Goods Adhesives, Transport and Metal, General Industry, and Electronics. The Beauty Care reportable segment is comprised of two operating segments: Branded Consumer Goods and Hair Salon. The Laundry & Home Care reportable segment is also made up of two operating segments: Laundry Care and Home Care.

The assignment of operating segments to individual reportable segments is based on the economic characteristics of the business, the nature of products and production processes, the type of customer groups, and the characteristics of the sales and distribution structure and of the regulatory environment.

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The level of homogeneity in terms of the characteristics of the operating segments within both the Beauty Care and the Laundry & Home Care reportable segments is very high. The business characteristics within the relevant reportable segments display a similarity given the comparability of the relevant operating segments with respect to various key financials of relevance for the Group. These key financials include both earnings and balance sheet figures, and cost of capital rates. The nature of the production, selling and distribution processes within the reportable segments is also highly comparable, given that – in some cases – even the same production facilities are used, similar raw materials purchased and the distribution models are also comparable. In addition, the manufactured product is destined for direct sale to and use by consumers. Accordingly, there is also homogeneity between the customer groups within these two reportable segments. There are no essential differences in the regulatory environment that have any impact on the management of the businesses.

The operating segments in the Adhesive Technologies business unit do not demonstrate the same high level of homogeneity. In particular, the operating segments differ due to the nature of their products and the associated customer groups. The products are either destined predominantly for private consumers and craftsmen, or for key accounts in the manufacturing sector. Accordingly, the operating segments are assigned to two different reportable segments. The Industrial Adhesives reportable segment is comprised of those operating segments whose products are manufactured for major industrial customers and predominantly sold in large quantities, whereas the Adhesives for Consumers, Craftsmen and Building reportable segment focuses on private consumers and craftsmen who regularly purchase small quantities from wholesalers/retailers.

Reportable segments

Adhesives for Consumers, Craftsmen and Building

In the Adhesives for Consumers, Craftsmen and Building operating segment, we market a comprehensive range of brand-name products for private users, craftsmen and the construction industry. Based on our four international brand platforms, namely Loctite, Pritt, Pattex and Ceresit, we offer target-group-aligned system solutions for applications in the household, in schools and in offices, for do-it-yourselfers and craftsmen, and also for the building industry.

Industrial Adhesives

The Industrial Adhesives reportable segment covers four operating segments: Packaging and Consumer Goods Adhesives, Transport and Metal, General Industry, and Electronics. The Packaging and Consumer Goods Adhesives operating segment serves major international customers as well as medium- and small-sized manufacturers of the consumer goods and furniture industries. The Transport and Metal operating segment serves major international customers in the automotive and metal-processing industries, offering next-generation system solutions and specialized technical services that cover the entire value chain – from steel strip coating to final vehicle assembly. In the General Industry operating segment, our customers comprise manufacturers from a multitude of industries, ranging from household appliance producers to the wind power industry. Our portfolio here encompasses Loctite products for industrial maintenance, repair and overhaul, a wide range of sealants and system solutions for surface treatment applications, and specialty adhesives. Our Electronics operating segment offers customers from the worldwide electronics industry a broad spectrum of innovative, high-tech adhesives and soldering materials for the manufacture of microchips and electronic assemblies.

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Beauty Care

The Beauty Care reportable segment comprises our globally active Branded Consumer Goods operating segment with Hair Care, Hair Colorants, Hair Styling, Body Care, Skin Care and Oral Care, as well as the professional Hair Salon operating segment.

Laundry & Home Care

The Laundry & Home Care reportable segment covers the global activities of Henkel in laundry and home care branded consumer goods. The Laundry Care operating segment includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers, and other fabric care products. Our Home Care operating segment encompasses hand and automatic dishwashing products, cleaners for bathroom and WC applications, and household, glass and specialty cleaners. We also offer air fresheners and insect control products for household applications in selected regions.

Principles of Group segment reporting

In determining the segment results, assets and liabilities, we apply essentially the same principles of recognition and measurement as in the consolidated financial statements. We have valued net operating assets in foreign currencies at average exchange rates.

The Group measures the performance of its segments on the basis of a segment income variable referred to internally and in our reporting procedures as "adjusted EBIT," which is calculated by adjusting operating profit (EBIT) for one-time charges and gains and also restructuring expenses.

Of the restructuring expenses, 65 million euros (previous year: 68 million euros) is attributable to Adhesive Technologies, 97 million euros (previous year: 59 million euros) to Beauty Care and 121 million euros (previous year: 132 million euros) to Laundry & Home Care.

For reconciliation with the figures for the Henkel Group, Group management overheads are reported under Corporate together with income and expenses that cannot be allocated to the individual business units.

For reconciliation with the pre-tax earnings of the Henkel Group, please refer to the consolidated statement of income and the financial result reported therein.

Proceeds transferred between the segments only exist to a negligible extent and are therefore not separately disclosed.

Net operating assets, provisions and liabilities are assigned to the segments in accordance with their usage or origin. Where usage or origin is attributable to several segments, allocation is effected on the basis of appropriate ratios and keys.

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For regional and geographic analysis purposes, we allocate sales to countries on the basis of the country-of-origin principle. Non-current assets are allocated in accordance with the domicile of the international company to which they pertain.

Reconciliation between net operating assets / capital employed and financial statement figures

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	Net operating assets		Financial statement figures	Net operating assets		Financial statement figures
	Annual average¹ 2018	December 31, 2018⁴		Annual average¹ 2019	December 31, 2019	
in million euros						
Goodwill at carrying amounts	12,005	12,306	12,306	12,592	12,922	12,922
Other intangible assets and property, plant and equipment (including assets held for sale) ⁵	7,169	7,431	7,431	7,997	8,138	8,138
Deferred taxes	–	–	959	–	–	863
Inventories	2,261	2,177	2,177	2,296	2,193	2,193
Trade accounts receivable from third parties	3,799	3,610	3,610	3,765	3,413	3,413
Intra-group accounts receivable	1,839	1,721	–	1,837	1,745	–
Other assets and tax refund claims ²	624	555	2,016	584	640	2,412
Cash and cash equivalents	–	–	1,063	–	–	1,462
Operating assets / Total assets⁵	27,697	27,800	29,562	29,070	29,051	31,403
Operating liabilities	8,282	7,886	–	8,179	7,978	–
Of which: Trade accounts payable to third parties	3,869	3,713	3,713	3,886	3,819	3,819
Intra-group accounts payable	1,839	1,721	–	1,837	1,745	–
Other provisions and other liabilities ² (financial and non-financial)	2,574	2,452	2,604	2,456	2,414	3,148
Net operating assets ⁵	19,416	19,914	–	20,891	21,073	–
– Goodwill at carrying amounts	12,005	–	–	12,592	–	–
+ Goodwill at cost ³	12,667	–	–	13,161	–	–
Capital employed ⁵	20,078	–	–	21,460	–	–

¹ The annual average is calculated on the basis of the 12 monthly figures.

² We take only amounts relating to operating activities into account in calculating net operating assets.

³ Before deduction of accumulated impairment pursuant to IFRS 3.79 (b).

⁴ Prior-year figures amended (please refer to the notes on pages 154 to 157).

⁵ Includes IFRS 16 Leases for the first time.

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38 Earnings per share**Earnings per share**

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in million euros (rounded)

	2018 ⁴		2019	
	Reported	Adjusted	Reported	Adjusted
Net income attributable to shareholders of Henkel AG & Co. KGaA	2,314	2,603	2,085	2,353
Dividends, ordinary shares	475	475	475	475
Dividends, preferred shares	323	323	323	323
Total dividends	798	798	798	798
Retained earnings, ordinary shares	907	1,080	770	930
Retained earnings, preferred shares	609	725	517	625
Retained earnings	1,516	1,805	1,287	1,555
Number of ordinary shares	259,795,875	259,795,875	259,795,875	259,795,875
Dividend per ordinary share	in euros	1.83	1.83	1.83 ³
Of which: preliminary dividend per ordinary share ¹	in euros	0.02	0.02	0.02
Retained earnings per ordinary share	in euros	3.49	4.16	2.96
EPS per ordinary share	in euros	5.32	5.99	4.79
Number of outstanding preferred shares ²	174,482,323	174,482,323	174,482,323	174,482,323
Dividend per preferred share	in euros	1.85	1.85	1.85 ³
Of which: preferred dividend per preferred share ¹	in euros	0.04	0.04	0.04
Retained earnings per preferred share	in euros	3.49	4.16	2.96
EPS per preferred share	in euros	5.34	6.01	4.81
Number of ordinary shares	259,795,875	259,795,875	259,795,875	259,795,875
Dividend per ordinary share	in euros	1.83	1.83	1.83 ³
Of which: preliminary dividend per ordinary share ¹	in euros	0.02	0.02	0.02
Retained earnings per ordinary share (after dilution)	in euros	3.49	4.16	2.96
Diluted EPS per ordinary share	in euros	5.32	5.99	4.79
Number of potentially outstanding preferred shares ²	174,482,323	174,482,323	174,482,323	174,482,323
Dividend per preferred share	in euros	1.85	1.85	1.85 ³
Of which: preferred dividend per preferred share ¹	in euros	0.04	0.04	0.04
Retained earnings per preferred share (after dilution)	in euros	3.49	4.16	2.96
Diluted EPS per preferred share	in euros	5.34	6.01	4.81

¹ See combined management report, Corporate governance, Composition of issued capital / Shareholders' rights on pages 26 and 27.² Weighted annual average of preferred shares.³ Proposal to shareholders for the Annual General Meeting on April 20, 2020.⁴ Prior-year figures amended (please refer to the notes on pages 154 to 157).

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39 Consolidated statement of cash flows

We prepare the consolidated statement of cash flows in accordance with IAS 7 Statement of Cash Flows. It describes the flow of cash and cash equivalents by origin and usage of liquid funds, distinguishing between changes in funds arising from operating activities, investing activities, and financing activities. Financial funds include cash on hand, checks and credit at banks, and other financial assets with a remaining term of not more than three months. Securities are therefore included in financial funds, provided that they are available at short term and are only exposed to an insignificant price change risk. The computation is adjusted for effects arising from currency translation. In some countries, there are administrative hurdles to the transfer of money to the parent company.

Cash flows from operating activities are determined by initially adjusting operating profit for non-cash variables such as amortization / depreciation / impairment / write-ups on intangible assets, property, plant and equipment, and assets held for sale – supplemented by changes in provisions, changes in other assets and liabilities, and also changes in net working capital. We likewise disclose payments made for income taxes under operating cash flow.

Cash flows from investing activities occur as a result of outflows of funds for investments in intangible assets and property, plant and equipment, subsidiaries and other business units, as well as associated companies and other investments. Here, we also recognize inflows of funds from the sale of intangible assets and property, plant and equipment, subsidiaries, other business units and investments. In the reporting period, cash flows from investing activities mainly involved outflows for the acquisition of subsidiaries and other business units in the amount of – 582 million euros (previous year: – 443 million euros). The disposal of a company formerly included in the scope of consolidation resulted in proceeds on disposal of subsidiaries, other business units and investments totaling 8 million euros. Investments in intangible assets and property, plant and equipment, including payments on account, resulted in outflows of – 677 million euros (previous year: – 837 million euros). Of the outflows for the acquisition of subsidiaries and other business units, virtually the entire amount is attributable to the acquisitions described in the section "Acquisitions and divestments" on pages 147 to 149.

In cash flow from financing activities, we recognize interest and dividends paid and received, the change in borrowings, the redemption of lease liabilities, the change in pension provisions, and also payments made for the acquisition of non-controlling interests and other financing transactions.

Free cash flow indicates how much cash is actually available for acquisitions and dividends, reducing debt and / or allocations to pension funds. First-time application of IFRS 16 did not have any effect on the amount of free cash flow. It merely resulted in a shift between cash flow from operating activities and cash flow from financing activities.

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Reconciliation of assets and liabilities reflected in cash flow from financing activities 2018

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	Derivative assets and liabilities	Receivable from Henkel Trust e.V. and reimbursement rights	Cash deposits¹	Provisions for pensions and similar obligations	Borrowings	Lease liabilities	Other assets and liabilities²	Total
in million euros								
At January 1, 2018	- 25	717	240	- 760	- 4,344	- 13	- 53	- 4,238
Change in cash flow from financing activities ³	- 55	-	18	133	370	-	4	470
Of which:								
Interest paid ⁴	3	-	-	-	71	-	4	78
Redemption of bonds	-	-	-	-	1,447	-	-	1,447
Other changes in borrowings ⁵	- 66	-	-	-	- 1,148	-	-	- 1,214
Allocations to pension funds	-	-	-	175	-	-	-	175
Other changes in pension obligations	-	-	-	- 42	-	-	-	- 42
Other financing transactions	8	-	18	-	-	-	-	26
Interest expense/income	- 3	3	-	- 9	- 75	-	4	- 80
Purchase or sale of subsidiaries	-	-	-	- 5	-	- 5	-	- 10
Foreign exchange effects	-	9	-	- 11	- 43	-	-	- 45
Changes in fair value	59	- 10	-	- 125	- 83	-	- 2	- 161
Sundry	-	-	12	- 17	-	13	-	8
At December 31, 2018	- 24	719	270	- 794	- 4,175	- 5	- 47	- 4,056

¹ Securities, time deposits and collateral provided.² Commitments and entitlements relating to incidental tax expenses and liabilities for put options granted to non-controlling shareholders.³ The received interest disclosed in the cash flow from financing activities is mainly attributable to cash and cash equivalents, the reconciliation of which is provided in the cash flow statement.⁴ Does not include cash outflow of 4 million euros for fees and other financial charges relating to the procurement of money and loans.⁵ Differs from the cash flow statement due to currency differences and the currency results of intra-group financing and capital transactions.

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	Derivative assets and liabilities	Receivable from Henkel Trust e.V. and reimbursement rights	Cash deposits¹	Provisions for pensions and similar obligations	Borrowings	Lease liabilities	Other assets and liabilities²	Total
in million euros								
At December 31, 2018	- 24	719	270	- 794	- 4,175	- 5	- 47	- 4,056
Effect of first-time application of IFRS 16	-	-	-	-	-	- 502	-	- 502
At January 1, 2019	- 24	719	270	- 794	- 4,175	- 507	- 47	- 4,558
Change in cash flow from financing activities ³	12	3	269	23	401	141	21	870
Of which:								
Interest paid ^{4,6}	3	-	-	-	72	16	-	91
Redemption of bonds	-	-	-	-	666	-	-	666
Issuance of bonds	-	-	-	-	- 847	-	-	- 847
Other changes in borrowings ⁵	11	-	-	-	510	-	-	521
Redemption of lease liabilities ⁶	-	-	-	-	-	125	-	125
Allocations to pension funds	-	-	-	50	-	-	-	50
Other changes in pension obligations	-	3	-	- 27	-	-	-	- 24
Payments for the acquisition of non-controlling interests with no change in control	-	-	-	-	-	-	21	21
Other financing transactions	- 2	-	269	-	-	-	-	267
Interest expense / income	1	5	-	- 10	- 74	- 16	2	- 92
Additions of lease liabilities	-	-	-	-	-	- 141	-	- 141
Purchase or sale of subsidiaries	-	-	-	-	-	- 15	-	- 15
Foreign exchange effects	-	2	-	- 6	- 21	- 13	-	- 38
Changes in fair value	25	13	-	202	- 89	-	8	159
Sundry	-	-	- 1	- 50	-	-	-	- 51
At December 31, 2019	14	742	538	- 635	- 3,958	- 551	- 16	- 3,866

¹ Securities, time deposits, collateral provided, and receivables recognized in financial receivables from third parties that counterparties owe to Henkel in connection with EU emission rights swaps contracted for the purpose of liquidity management.

² Commitments and entitlements relating to incidental tax expenses and liabilities for put options granted to non-controlling shareholders.

³ The received interest disclosed in the cash flow from financing activities is mainly attributable to cash and cash equivalents, the reconciliation of which is provided in the cash flow statement.

⁴ Does not include cash outflow of 5 million euros for fees and other financial charges relating to the procurement of money and loans.

⁵ Differs from the cash flow statement due to currency differences and the currency results of intra-group financing and capital transactions, and changes in non-Group financial liabilities.

⁶ Due to first-time application of IFRS 16 Leases, we have disclosed interest paid on right-of-use assets and the redemption of lease liabilities for fiscal 2019.

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40 Contingent liabilities

Analysis

in million euros	December 31, 2018	December 31, 2019
Liabilities under guarantee and warranty agreements	9	16

Within the Group, we primarily lease office space and equipment, production buildings, warehouses, technical facilities, automobiles and IT equipment. Some of these contracts contain extension options and price adjustment clauses. In the course of fiscal 2018, 85 million euros became due for payment under operating leases.

Finance lease commitments 2018

in million euros At Dec. 31, 2018	Future payments relating to finance lease commitments	Interest portion	Present value of future lease installments
Due in the following year	–	–	–
Due within 1 to 5 years	2	2	–
Due after 5 years	11	4	7
Total	13	6	7

41 Lease commitments as per IAS 17 and other unrecognized financial commitments

Since the Henkel Group applied the accounting rules of IFRS 16 retrospectively in accordance with IFRS 16.C5(b), the prior-year figures have not been amended (please refer to the notes on pages 158 to 160). Lease accounting was still performed in compliance with IAS 17 in fiscal 2018.

Operating leases as defined in IAS 17 comprise all forms of rights of use on assets, including rights of use arising from rent and leasehold agreements. Payment commitments under operating lease agreements are disclosed at the total amounts payable up to the earliest date of termination. The amounts shown are the nominal values. At December 31, 2018, they were due for payment as follows:

Operating lease commitments 2018

in million euros	December 31, 2018
Due in the following year	137
Due within 1 to 5 years	265
Due after 5 years	133
Total	535

As of the end of 2019, commitments arising from orders for property, plant and equipment amounted to 130 million euros (previous year: 103 million euros).

As of the reporting date, payment commitments under the terms of agreements for capital increases and share purchases contracted prior to December 31, 2019 amounted to 29 million euros (previous year: 24 million euros).

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42 Voting rights / Related party disclosures

Related parties as defined by IAS 24 Related Party Disclosures are legal entities or natural persons who may be able to exert influence on Henkel AG & Co. KGaA and its subsidiaries, or be subject to control or material influence by Henkel AG & Co. KGaA or its subsidiaries. These mainly include all members of the Henkel family share-pooling agreement, the non-consolidated subsidiaries in which Henkel holds shares, the associated companies, and the members of the corporate bodies of Henkel AG & Co. KGaA, whose remuneration is explained in the remuneration report on pages 47 to 74 of this Annual Report 2019. Related parties as defined in IAS 24 also include Henkel Trust e.V. and Metzler Trust e.V.

Henkel AG & Co. KGaA, Düsseldorf, has been notified that as of October 12, 2018, the proportion of voting rights held by the members of the Henkel family share-pooling agreement represent in total a share of 61.20 percent of the voting rights (158,999,015 votes) in Henkel AG & Co. KGaA (ISIN DE0006048408), held by

- 132 members of the families of the descendants of Fritz Henkel, the company's founder,
- four foundations set up by members of those families,
- three trusts set up by members of those families,
- two private limited companies (GmbH) set up by members of those families, thirteen limited partnerships with a limited company as general partner (GmbH & Co. KG), and one limited partnership (KG),

under the terms of a share-pooling agreement per Section 34 (2) German Securities Trading Act [WpHG], whereby the shares held by the two private limited companies, by the thirteen limited partnerships with a limited company as general partner, and by the one limited partnership, representing a share of 16.97 percent of the voting rights (44,081,965 votes), are also attributed (per Section 34 (1) No. 1 WpHG) to the family members who control those companies.

No party to the share-pooling agreement is obliged to notify that it has reached or exceeded 3 percent or more of the total voting rights in Henkel AG & Co. KGaA, even after adding voting rights expressly granted under the terms of usufruct agreements.

Dr. Simone Bagel-Trah, Germany, is the authorized representative of the parties to the Henkel family share-pooling agreement.

Financial receivables from and payables to other investments in the form of non-consolidated subsidiaries and associated entities are disclosed in Notes 3 and 19.

Henkel Trust e.V. and Metzler Trust e.V., as parties to relevant contractual trust arrangements (CTA), hold the assets required to cover the pension obligations in Germany. The claim on Henkel Trust e.V. for reimbursement of pension payments made is shown under other financial assets (Note 3 on pages 172 and 173). The receivable does not bear interest.

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43 Exercise of exemption options

The following German companies included in the consolidated financial statements of Henkel AG & Co. KGaA exercised exemption options in fiscal 2019:

- Schwarzkopf Henkel Production Europe GmbH & Co. KG, Düsseldorf (Section 264b German Commercial Code [HGB])
- Henkel Loctite-KID GmbH, Hagen (Section 264 (3) HGB)
- Henkel IP Management and IC Services GmbH, Monheim (Section 264 (3) HGB)
- Sonderhoff Services GmbH, Cologne (Section 264 (3) HGB)
- Sonderhoff Chemicals GmbH, Cologne (Section 264 (3) HGB)
- Sonderhoff Holding GmbH, Cologne (Section 264 (3) HGB)

The Dutch company Henkel Nederland B.V., Nieuwegein, exercised the exemption option afforded in Article 2:403 of the Civil Code of the Netherlands.

44 Remuneration of the corporate bodies

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,565,000 euros plus value-added tax (previous year: 1,559,000 euros) and 2,350,000 euros (previous year: 2,295,206 euros) respectively. The total remuneration (Section 285 No. 9a and Section 314 (1) No. 6a HGB) of the Management Board, i.e. members of the Management Board of Henkel Management AG, amounted to 17,247,891 euros (previous year: 21,111,180 euros).

Accruals for pension obligations to former members of the Management Board and the management of Henkel KGaA, as well as the former management of its legal predecessor and surviving dependents, amounted to 105,312,747 euros (previous year: 100,940,669 euros). The total remuneration for this group of persons (Section 285 No. 9b and Section 314 (1) No. 6b HGB) in the reporting year amounted to 13,291,431 euros (previous year: 7,205,023 euros) and included the compensation paid to members of the Management Board for premature departure in the year under review. For further details of the benefits paid in connection with the premature departure of these members from the Management Board, please refer to the audited remuneration report on pages 64 to 66.

The following expenditure was recognized in fiscal 2019 under IFRS for remuneration paid to members of the Management Board, Supervisory Board and Shareholders' Committee in office in the year under review:

	189	
in euros	2018	2019
Management Board remuneration		
Short-term remuneration ¹	18,226,124	14,418,084
Expense for Long Term Incentive	247,567	4,519,679
Service cost of pension obligations	3,084,685	3,125,737
Remuneration paid in connection with termination of employment	–	8,208,000
Total	21,558,376	30,271,500
Supervisory Board remuneration		
Fixed fee and meeting attendance ²	1,559,000	1,565,000
Shareholders' Committee remuneration		
Fixed fee ²	2,295,206	2,350,000
Total expenses relating to the corporate bodies	25,412,582	34,186,500

¹ Fixed remuneration, other emoluments, Short Term Incentive.

² Including committee activity.

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Further discussion of the remuneration paid to the members who served on the Management Board, Supervisory Board and Shareholders' Committee in the year under review can be found in the audited remuneration report on pages 47 to 74.

45 Declaration of compliance with the Corporate Governance Code (GCGC)

In February 2019, the Management Board of Henkel Management AG, and the Supervisory Board and Shareholders' Committee of Henkel AG & Co. KGaA approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code (GCGC) in accordance with Section 161 German Stock Corporation Act [AktG]. The declaration has been made permanently available to shareholders on the company website: □ www.henkel.com/ir

46 Subsidiaries and other investments

Details relating to the investments held by Henkel AG & Co. KGaA and the Henkel Group, which are part of these financial statements, are provided in a separate schedule appended to these notes to the consolidated financial statements but not included in this version of the Annual Report. Said schedule is included in the accounting record submitted for publication in the electronic federal gazette and can be viewed there and at the Annual General Meeting. The schedule is also published on our website: □ www.henkel.com/reports

47 Auditor's fees and services

The total fees charged to the Group for services provided by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft and other companies of the worldwide KPMG network in fiscal 2018 and 2019 were as follows:

Type of fee	190			
in million euros	2018	of which Germany	2019	of which Germany
Audits	9.7	2.0	9.9	2.0
Other attestation services	0.4	0.2	0.5	0.4
Tax advisory services	1.6	0.7	1.0	0.1
Other services	0.6	0.5	0.6	0.5
Total	12.3	3.4	12.0	3.0

The financial statement auditing services provided by KPMG AG relate primarily to their audits of the annual and consolidated financial statements of Henkel AG & Co. KGaA, together with various audits of annual financial statements of its subsidiaries. Reviews of interim financial statements were also included in the audit mandate.

Other attestation services included the provision of a comfort letter, and the performance of legally and contractually stipulated audits such as those specified in Section 20 Securities Trading Act [WpHG] in relation to the European Market Infrastructure Regulation (EMIR). These fees also covered the audit of the data protection management system per IDW PS 980, the audit of the non-financial report, and sustainability disclosures.

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Fees for tax advisory services mainly relate to those performed in connection with intra-group restructuring procedures under company law, and provision of support on ongoing tax issues.

Other services mainly comprised audits performed as part of IT migration projects, services focusing on the implementation of regulatory requirements, and other project-related advisory services.

Subsequent events

After December 31, 2019, there were no reportable events of particular significance for the net assets, financial position and results of operations of the Henkel Group.

Düsseldorf, January 30, 2020

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board
Carsten Knobel,
Jan-Dirk Auris, Sylvie Nicol, Bruno Piacenza,
Jens-Martin Schwärzler, Marco Swoboda

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Recommendation for the approval of the annual financial statements and the appropriation of the profit of Henkel AG & Co. KGaA

It is proposed that the annual financial statements of Henkel AG & Co. KGaA be approved as presented and that the unappropriated profit of 1,712,396,938.19 euros for fiscal 2019 be applied as follows:

a) Payment of a dividend of 1.83 euros per ordinary share (259,795,875 shares)	= 475,426,451.25 euros
b) Payment of a dividend of 1.85 euros per preferred share (178,162,875 shares)	= 329,601,318.75 euros
c) Remainder carried forward as retained earnings	= 907,369,168.19 euros
<hr/>	

At the time of convening the Annual General Meeting, the corporation holds 3,680,552 treasury shares (preferred shares). According to Section 71b German Stock Corporation Act [AktG], treasury shares do not qualify for a dividend. The amount in unappropriated profit which relates to the shares held by the corporation (treasury shares) at the date of the Annual General Meeting will be carried forward as retained earnings. As the number of such treasury shares can change up to the time of the Annual General Meeting, a correspondingly adapted proposal for the appropriation of profit will be submitted to it, providing for an unchanged payout of 1.83 euros per ordinary share qualifying for a dividend and 1.85 euros per preferred share qualifying for a dividend, with corresponding adjustment of the payout totals and of retained earnings carried forward to the following year.

Düsseldorf, January 30, 2020

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

The Management Board

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Corporate bodies of Henkel AG & Co. KGaA

Boards / memberships as defined by Section 125 (1) sentence 5 German Stock Corporation Act [AktG] as at January 2020

Honorary Chairman of the Henkel Group: Dipl.-Ing. Albrecht Woeste

Supervisory Board of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-TrahChair,
Private Investor, DüsseldorfBorn in 1969
Member since: April 14, 2008**Memberships:**
Henkel Management AG (Chair)¹
Henkel AG&Co. KGaA
(Shareholders' Committee, Chair)²
Bayer AG¹
Heraeus Holding GmbH¹**Birgit Helten-Kindlein***Vice Chair,
Chairwoman of the General Works Council of
Henkel AG & Co. KGaA and Chairwoman of the
Works Council of Henkel AG & Co. KGaA,
Düsseldorf siteBorn in 1964
Member since: April 14, 2008**Jutta Bernicke***Member of the Works Council of
Henkel AG & Co. KGaA, Düsseldorf siteBorn in 1962
Member since: April 14, 2008**Dr. rer. nat. Kaspar von Braun**

Astrophysicist, Pasadena

Born in 1971
Member since: April 19, 2010**Peter Emmerich***
Member of the General Works Council of
Henkel AG & Co. KGaA and Chairman of the
Works Council of Henkel AG & Co. KGaA,
Herborn-Schönbach siteBorn in 1966
Member since: April 9, 2018**Benedikt-Richard Freiherr von Herman**

Private Investor, Wain

Born in 1972
Member since: April 11, 2016**Timotheus Höttges**
Chairman of the Executive Board,
Deutsche Telekom AG, BonnBorn in 1962
Member since: April 11, 2016**Memberships:**
BT Group plc., Great Britain²
FC Bayern München AG¹
Telekom Group:
Telekom Deutschland GmbH (Chair)¹
T-Mobile US, Inc. (Chair), USA²**Prof. Dr. sc. nat. Michael Kaschke**Chairman of the Executive Board,
Carl Zeiss AG, OberkochenBorn in 1957
Member since: April 14, 2008**Memberships:**
Deutsche Telekom AG¹
Robert Bosch GmbH¹
Carl Zeiss Group:
Carl Zeiss Industrielle
Messtechnik GmbH (Chair)¹
Carl Zeiss Meditec AG (Chair)¹
Carl Zeiss Co. Ltd. (Chair), South Korea²
Carl Zeiss (Shanghai) Co. Ltd. (Chair), China²
Carl Zeiss Far East Co. Ltd. (Chair),
China/Hong Kong²
Carl Zeiss India (Bangalore) Private Ltd., India²
Carl Zeiss Pte. Ltd. (Chair), Singapore²**Barbara Kux**
Private Investor, ZurichBorn in 1954
Member since: July 3, 2013**Memberships:**
Firmenich S.A. (Vice Chair), Switzerland²
Grosvenor Group Ltd., Great Britain²
Pargesa Holding S.A., Switzerland²

* Employee representatives.

¹ Membership of statutory supervisory and administrative boards in Germany.

² Membership of comparable oversight bodies.

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Andrea Pichottka*

Managing Director, IG BCE Bonusagentur GmbH, Hannover
 Managing Director, IG BCE Bonusassekuranz GmbH, Hannover

Born in 1959

Member since: October 26, 2004

Philipp Scholz

Adjunct Professor at Humboldt University Berlin, Berlin

Born in 1967

Member since: April 9, 2018

Dr. rer. nat. Martina Seiler*

Chemist, Duisburg
 Member of the Senior Staff Representative Committee of Henkel AG & Co. KGaA

Born in 1971

Member since: January 1, 2012

Prof. Dr. oec. publ. Theo Siegert

Managing Partner of de Haen-Carstanjen & Söhne, Düsseldorf

Born in 1947

Member since: April 20, 2009

Dirk Thiede*

Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1969

Member since: April 9, 2018

Edgar Topsch*

Member of the General Works Council of Henkel AG & Co. KGaA and Vice Chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1960

Member since: August 1, 2010

Michael Vassiliadis*

Chairman of IG BCE, Hannover

Born in 1964

Member since: April 9, 2018

Memberships:

BASF SE
 RAG AG (Vice Chair)
 STEAG GmbH
 Vivawest GmbH

Committees of the Supervisory Board

Nominations Committee

Functions

The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members of the Supervisory Board (representatives of the shareholders).

Members

Dr. Simone Bagel-Trah, Chair
 Dr. Kaspar von Braun
 Prof. Dr. Theo Siegert

Audit Committee

Functions

The Audit Committee prepares the proceedings and resolutions of the Supervisory Board relating to the approval of the annual financial statements and the consolidated financial statements, and relating to ratification of the proposal to be put before the Annual General Meeting regarding appointment of the auditor. It also deals with accounting, risk management and compliance issues.

Members

Prof. Dr. Theo Siegert, Chair
 Prof. Dr. Michael Kaschke, Vice Chair
 Dr. Simone Bagel-Trah
 Birgit Helten-Kindlein
 Edgar Topsch
 Michael Vassiliadis

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Shareholders' Committee of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah

Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: April 18, 2005

Memberships:

Henkel AG & Co. KGaA (Chair)¹
Henkel Management AG (Chair)¹
Bayer AG¹
Heraeus Holding GmbH¹

Dr. rer. pol. h.c. Christoph Henkel

Vice Chair,
Private Investor, London

Born in 1958
Member since: May 27, 1991

Prof. Dr. oec. HSG Paul Achleitner

Chairman of the Supervisory Board,
Deutsche Bank AG, Munich

Born in 1956
Member since: April 30, 2001

Memberships:

Bayer AG¹
Daimler AG¹
Deutsche Bank AG (Chair)¹

Johann-Christoph Frey

Private Investor, Klosters

Born in 1955
Member since: April 9, 2018

Membership:

Antai Venture Builder S.L., Spain

Stefan Hamelmann

Private Investor, Düsseldorf

Born in 1963
Member since: May 3, 1999

Prof. Dr. rer. pol. Ulrich Lehner

Former Chairman of the Management Board
of Henkel KGaA, Düsseldorf

Born in 1946
Member since: April 14, 2008

Memberships:

Deutsche Telekom AG (Chair)¹
Porsche Automobil Holding SE¹

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer

Chairman of the Supervisory Board
of Bayerische Motoren Werke Aktiengesellschaft, Munich

Born in 1956
Member since: April 11, 2011

Memberships:

Bayerische Motoren Werke Aktiengesellschaft
(Chair)¹
Siemens AG¹

Konstantin von Unger

Managing Partner, CKA Capital Ltd., London

Born in 1966
Member since: April 14, 2003

Membership:

Henkel Management AG¹

Jean-François van Boxmeer

Chairman of the Executive Board
of Heineken N.V., Amsterdam

Born in 1961
Member since: April 15, 2013

Membership:

Mondelez International Inc., USA²

Werner Wenning

Chairman of the Supervisory Board
of Bayer AG, Leverkusen

Born in 1946
Member since: April 14, 2008

Memberships:

Bayer AG (Chair)¹
Henkel Management AG¹
Siemens AG¹

Subcommittees of the Shareholders' Committee

Finance Subcommittee

Functions

The Finance Subcommittee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, internal auditing, and risk management in the corporation.

Members

Dr. Christoph Henkel, Chair
Stefan Hamelmann, Vice Chair
Prof. Dr. Paul Achleitner
Prof. Dr. Ulrich Lehner
Dr. Dr. Norbert Reithofer

Human Resources Subcommittee

Functions

The Human Resources Subcommittee deals principally with personnel matters relating to members of the Management Board, issues pertaining to human resources strategy, and with remuneration.

Members

Dr. Simone Bagel-Trah, Chair
Konstantin von Unger, Vice Chair
Johann-Christoph Frey
Jean-François van Boxmeer
Werner Wenning

¹ Membership of statutory supervisory and administrative boards in Germany.

² Membership of comparable oversight bodies.

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Management Board of Henkel Management AG *

Carsten Knobel

Chairman of the Management Board (since January 1, 2020)

Born in 1969

Member since: July 1, 2012

Memberships:

Deutsche Lufthansa AG¹

Henkel Central Eastern Europe GmbH (Chair), Austria²

Henkel (China) Investment Co. Ltd., China²

Henkel & Cie AG (Vice Chair), Switzerland²

Henkel Ltd., Great Britain²

Henkel of America Inc. (Chair), USA²

Hans Van Bylen

(until December 31, 2019)

Chairman of the Management Board

Born in 1961

Member from: July 1, 2005³

Jan-Dirk Auris

Adhesive Technologies

Born in 1968

Member since: January 1, 2011

Kathrin Menges

(until April 8, 2019)

Human Resources/Infrastructure Services

Born in 1964

Member from: October 1, 2011

Memberships:

Adidas AG¹

Henkel Central Eastern Europe GmbH, Austria²

Henkel Finland Oy, Finland²

Henkel Nederland BV, Netherlands²

Henkel Norden AB, Sweden²

Sylvie Nicol

(since April 9, 2019)

Human Resources / Infrastructure Services

Born in 1973

Member since: April 9, 2019

Membership:

Henkel Central Eastern Europe GmbH, Austria²

Bruno Piacenza

Laundry & Home Care

Born in 1965

Member since: January 1, 2011

Jens-Martin Schwärzler

Beauty Care

Born in 1963

Member since: November 1, 2017

Marco Swoboda

(since January 1, 2020)

Finance

Born in 1971

Member since: January 1, 2020

Memberships:

Henkel & Cie AG, Switzerland²

Henkel Nederland BV, Netherlands²

Henkel South Africa (Pty) Ltd., South Africa²

Henkel Switzerland Operations AG, Switzerland²

Supervisory Board of Henkel Management AG *

Dr. rer. nat. Simone Bagel-Trah

Chair,

Private Investor, Düsseldorf

Born in 1969

Member since: February 15, 2008

Memberships:

Henkel AG & Co. KGaA (Chair)¹

Henkel AG & Co. KGaA (Shareholders' Committee, Chair)²

Bayer AG¹

Heraeus Holding GmbH¹

Konstantin von Unger

Vice Chair,

Managing Partner, CKA Capital Ltd., London

Born in 1966

Member since: April 17, 2012

Membership:

Henkel AG & Co. KGaA (Shareholders' Committee)²

Werner Wenning

Chairman of the Supervisory Board of Bayer AG, Leverkusen

Born in 1946

Member since: September 16, 2013

Memberships:

Bayer AG (Chair)¹

Siemens AG¹

Henkel AG & Co. KGaA (Shareholders' Committee)²

* Personally Liable Partner of Henkel AG & Co. KGaA.

¹ Membership of statutory supervisory and administrative boards in Germany.

² Membership of comparable oversight bodies.

³ Including membership of the Management Board of Henkel KGaA.

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Independent Auditor's Report

To Henkel AG & Co. KGaA, Düsseldorf

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of Henkel AG & Co. KGaA, Düsseldorf and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Henkel AG & Co. KGaA for the financial year from January 1 to December 31, 2019. In accordance with German legal requirements, we have not audited the content of the corporate governance statement, which is included in the "Fundamental principles of the Group" section of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these

requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and

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of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of the carrying amount of goodwill and intangible assets with indefinite useful lives

See note 1 in the notes to the consolidated financial statements for explanations on goodwill and intangible assets with indefinite useful lives.

THE FINANCIAL STATEMENT RISK

In the consolidated financial statements of Henkel AG & Co. KGaA as of December 31, 2019, goodwill of EUR 12,922 million and trademarks and other rights with indefinite useful lives of EUR 3,334 million are reported. Goodwill and intangible assets with indefinite useful lives are allocated to the cash-generating units that are expected to benefit from the business combina-

tion in which the goodwill arose or from the utilization of the intangible assets.

In performing the impairment test for goodwill and intangible assets with indefinite useful lives, which is conducted annually, the carrying amounts of the respective cash-generating units are compared with their respective recoverable amounts. The recoverable amount is determined at Henkel based on fair value less costs to sell. For this purpose, fair value is determined using a discounted cash flow model. Future cash flows are derived from the Henkel Group's financial plan, which is prepared by management and approved by the Supervisory Board, and which is developed for subsequent years using assumptions. Future cash flows are discounted using the weighted average cost of capital of the respective cash-generating unit. This measurement is highly dependent on estimates of future cash flows as well as the cost of capital used and therefore subject to considerable uncertainty.

In this context and due to the underlying complexity of the valuation models, there is a risk that impairment of goodwill and of intangible assets with indefinite useful lives existing as of the reporting date is not recognized. There is also a risk that the disclosures in the notes to the consolidated financial statements of Henkel AG & Co. KGaA are not appropriate.

OUR AUDIT APPROACH

Our audit included an evaluation of the methodical approach to conducting the impairment tests and a verification of the computational accuracy of the model.

Through a comparison with the assumptions from the extrapolated financial plan and reconciliation with the expected developments in the relevant markets derived from market analysis, among others, we confirmed the appropriateness of the future cash flows that were used. We conducted interviews in the business units to obtain information on key drivers of

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future development and to estimate their effects on the forecasts for the cash flows. We assessed the appropriateness of the estimated perpetuity growth rates using relevant market analysis. We also confirmed adherence to budget by making a retrospective comparison. Furthermore, we evaluated Henkel's planning process by surveying those responsible for the process and verifying the process steps.

As even small changes in the cost of capital materially affect the fair value, we involved our valuation specialists and focused on the assumptions and data used to determine the weighted average cost of capital and also verified the calculation procedure. This also involved comparisons with the peer group relevant to Henkel as regards the cost of equity utilized. In addition, we conducted our own sensitivity analyses for the cash-generating units to establish the effects of incremental changes to assumptions on the measurement of goodwill and intangible assets.

Finally, for the purposes of an overall assessment, we compared the total calculated fair values less costs to sell for the individual cash-generating units with the current market capitalization of the Henkel Group.

We also assessed whether the disclosures required pursuant to IAS 36 in the notes to the consolidated financial statements are appropriate.

OUR OBSERVATIONS

The calculation model used by Henkel AG & Co. KGaA for impairment testing of goodwill and intangible assets with indefinite useful lives is appropriate and consistent with the applicable accounting policies.

The assumptions used for the measurement of goodwill and intangible assets with indefinite useful lives are reasonable as a whole.

The related disclosures in the notes to the consolidated financial statements are appropriate.

First-time application of the new financial reporting standard "IFRS 16 – Leases"

See pages 158 et seqq., 168 et seqq., 178, 193, 239 in the notes to the consolidated financial statements for explanatory notes on the first-time application of IFRS 16

THE FINANCIAL STATEMENT RISK

As of December 31, 2019, right-of-use assets of EUR 485 million and lease liabilities of EUR 551 million are recognized in the consolidated financial statements of Henkel AG & Co. KGaA.

The first-time application of the new financial reporting standard "IFRS 16 – Leases" had effects on the opening statement of financial position figures for the financial year and how they were adjusted as of the reporting date. Henkel AG & Co. KGaA applies the modified retrospective approach for the new standard. The cumulative transition effect of EUR 34 million as of January 1, 2019, was recorded in retained earnings taking into account deferred taxes.

Determination of the lease term, the amount of the lease payments and the incremental borrowing rate used as the discount rate may require judgment and be based on estimates. Furthermore, determining the first-time application effect of IFRS 16 and adjusting the lease liabilities and right-of-use assets from leases in accordance with the standard requires the collection of extensive data from the lease agreements.

There is the risk for the consolidated financial statements that the lease liabilities and right-of-use assets from leases are not recorded completely in the statement of financial position. There is also the risk that the lease liabilities and right-of-use assets from leases have not been appropriately measured.

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There is a further risk that the disclosures in the notes to the consolidated financial statements as required by IFRS 16 are not appropriate.

OUR AUDIT APPROACH

First, we gained an understanding of the process used by Henkel AG & Co. KGaA to implement the new IFRS 16 financial reporting standard. We then analyzed the functional concept and the accounting instructions underlying the implementation in terms of completeness and compliance with IFRS 16.

We assessed the appropriateness, setup and effectiveness of the controls established by Henkel AG & Co. KGaA to ensure the full and correct determination of the data to measure the lease liabilities and right-of-use assets from leases. Where IT processing systems were used to determine and collect relevant data, we tested, with the involvement of our IT specialists, the effectiveness of the rules and procedures that relate to numerous IT applications and support the effectiveness of application controls.

For some lease agreements selected as a representative sample and some selected based on risk criteria, we assessed whether the relevant data was correctly and fully determined. To the extent that accounting judgments were made for determining the lease term, we examined whether – in light of the prevailing market conditions and risks in the industry – the underlying assumptions are comprehensible and consistent with other assumptions made in the financial statements.

With the involvement of our valuation experts, we compared the assumptions and parameters underlying the incremental borrowing rates to our own assumptions and publicly available data. We also assessed the calculation model for the interest rate in terms of appropriateness.

For the lease agreements in the sample detailed above, we verified the computational accuracy of the values of the lease liabilities and right-of-use assets determined by Henkel AG & Co. KGaA from the leases.

We also assessed whether the disclosures required pursuant to IFRS 16 in the notes to the consolidated financial statements are appropriate.

OUR OBSERVATIONS

Henkel AG & Co. KGaA has established appropriate procedures to record leases for the purposes of IFRS 16. The assumptions and parameters used to measure the lease liabilities and right-of-use assets from leases are appropriate overall.

The disclosures in the notes to the consolidated financial statements are appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

- the corporate governance statement, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

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Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design

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and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements, and of arrangements and measures (systems) relevant to the audit of the combined management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and

financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements**Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor at the annual general meeting on April 8, 2019. We were engaged by the Supervisory Board, represented by the Audit Committee Chair, on May 9, 2019. We have been the auditor of Henkel AG & Co. KGaA without interruption for more than 25 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Marcus Rohrbach.

Düsseldorf, January 30, 2020

KPMG AG

Wirtschaftsprüfungsgesellschaft

Klaus Becker

Wirtschaftsprüfer

[German Public Auditor]

Marcus Rohrbach

Wirtschaftsprüfer

[German Public Auditor]

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Responsibility statement by the Personally Liable Partner

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the management report of the Group, which is combined with the management report of Henkel AG & Co. KGaA, includes a fair review of the development, performance and results of the business and the position of the Group, together with a cogent description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, January 30, 2020

Henkel Management AG

Management Board

Carsten Knobel,
Jan-Dirk Auris, Sylvie Nicol, Bruno Piacenza,
Jens-Martin Schwärzler, Marco Swoboda

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in million euros	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year		
	2018 ¹	2019	2018 ²	2019							
Sales											
Adhesive Technologies	2,270	2,309	2,432	2,422	2,373	2,395	2,328	2,335	9,403	9,461	
Beauty Care	965	960	1,035	1,002	993	970	957	944	3,950	3,877	
Laundry & Home Care	1,569	1,667	1,644	1,666	1,641	1,682	1,565	1,640	6,419	6,656	
Corporate	32	32	32	30	30	30	34	28	128	121	
Henkel Group	4,835	4,969	5,143	5,121	5,037	5,077	4,884	4,947	19,899	20,114	
Cost of sales	-2,588	-2,686	-2,738	-2,747	-2,698	-2,727	-2,719	-2,723	-10,743	-10,883	
Gross profit	2,247	2,283	2,405	2,374	2,339	2,350	2,165	2,224	9,156	9,231	
Marketing, selling and distribution expenses	-1,184	-1,215	-1,192	-1,252	-1,142	-1,261	-1,120	-1,214	-4,638	-4,942	
Research and development expenses	-116	-124	-137	-126	-116	-116	-115	-133	-484	-499	
Administrative expenses	-238	-230	-271	-263	-244	-225	-238	-251	-991	-969	
Other operating expenses and income	30	22	9	23	-4	26	38	7	73	78	
EBIT											
Adhesive Technologies	389	381	438	444	444	452	398	354	1,669	1,631	
Beauty Care	152	136	151	98	158	91	128	93	589	418	
Laundry & Home Care	219	243	246	240	248	254	257	236	970	973	
Corporate	-21	-24	-22	-26	-17	-23	-52	-50	-112	-123	
Henkel Group	739	736	814	756	833	774	730	633	3,116	2,899	
Interest result	-14	-18	-20	-21	-14	-21	-13	-15	-61	-75	
Other financial result	-2	-3	9	1	-5	-1	-7	-10	-5	-13	
Investment result	-1	-	3	-	-1	-	-	-	1	-	
Financial result	-17	-21	-8	-20	-20	-22	-20	-25	-65	-88	
Income before tax	722	715	806	736	813	752	710	608	3,051	2,811	
Taxes on income	-174	-176	-204	-178	-194	-190	-149	-164	-721	-708	
Net income	548	539	602	558	619	562	561	444	2,330	2,103	
Attributable to non-controlling interests	5	5	4	4	5	6	5	3	16	18	
Attributable to shareholders of Henkel AG & Co. KGaA											
	543	534	598	554	614	556	556	441	2,314	2,085	
Earnings per preferred share	in euros	1.25	1.23	1.38	1.28	1.42	1.28	1.28	1.02	5.34	4.81

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	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year		
	2018 ¹	2019	2018 ²	2019							
in million euros											
EBIT (as reported)	739	736	814	756	833	774	730	633	3,116	2,899	
One-time gains	-11	-	-	-	-	-7	-	-	-11	-7	
One-time charges	30	2	32	3	46	4	21	25	129	34	
Restructuring expenses	84	57	80	87	47	79	51	71	262	294	
Adjusted EBIT	842	795	926	846	926	850	802	729	3,496	3,220	
Adjusted earnings per preferred share	in euros	1.43	1.34	1.58	1.43	1.58	1.43	1.42	1.23	6.01	5.43

¹ Amended following retrospective application of DRSC Interpretation 4 (IFRS).² Prior-year figures for full year amended (please refer to the notes on pages 154 to 157).

The quarterly figures are specific to the quarter to which they refer and have been rounded for commercial convenience. Calculated on the basis of units of 1,000 euros.

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in million euros	2013	2014	2015	2016	2017	2018 ¹	2019
Results of operations							
Sales	16,355	16,428	18,089	18,714	20,029	19,899	20,114
Adhesive Technologies	8,117	8,127	8,992	8,961	9,387	9,403	9,461
Beauty Care	3,510	3,547	3,833	3,838	3,868	3,950	3,877
Laundry & Home Care	4,580	4,626	5,137	5,795	6,651	6,419	6,656
Corporate	148	128	128	121	123	128	121
Gross margin	47.7	47.0	48.2	47.9	46.7	46.0	45.9
Research and development expenses	415	413	478	463	476	484	499
Operating profit (EBIT)	2,285	2,244	2,645	2,775	3,055	3,116	2,899
Adhesive Technologies	1,271	1,345	1,462	1,561	1,657	1,669	1,631
Beauty Care	474	421	561	526	535	589	418
Laundry & Home Care	682	615	786	803	989	970	973
Corporate	-141	-137	-164	-115	-126	-112	-123
Income before tax	2,172	2,195	2,645	2,742	2,988	3,051	2,811
Tax rate	25.2%	24.3%	24.4%	23.7%	15.0%	23.6%	25.2%
Net income	1,625	1,662	1,968	2,093	2,541	2,330	2,103
Attributable to shareholders of Henkel AG & Co. KGaA	1,589	1,628	1,921	2,053	2,519	2,314	2,085
Net return on sales ²	9.9%	10.1%	10.9%	11.2%	12.7%	11.7%	10.5%
Interest coverage ratio	23.9	48.4	75.7	107.9	59.2	56.0	41.5
Net assets							
Total assets	19,344	20,961	22,323	27,951	28,339	29,562	31,403
Non-current assets	11,360	14,150	15,406	19,738	19,864	20,879	22,263
Current assets	7,984	6,811	6,917	8,213	8,475	8,683	9,140
Equity	10,158	11,644	13,811	15,185	15,647	16,999	18,611
Liabilities	9,186	9,317	8,512	12,766	12,692	12,563	12,792
Equity ratio	52.5%	55.6%	61.9%	54.3%	55.2%	57.5%	59.3%
Return on equity ³	17.1%	16.4%	16.9%	15.2%	16.7%	14.9%	12.4%
Operating debt coverage ratio	not relevant ⁴	274.8%	375.2%	80.8%	80.9%	79.0%	88.6%

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in million euros	2013	2014	2015	2016	2017	2018 ¹	2019
Financial position							
Cash flow from operating activities	2,116	1,914	2,384	2,850	2,468	2,698	3,241
Capital expenditures	465	2,214	979	4,430	2,511	1,104	1,262
Investment ratio as % of sales	2.8	13.5	5.4	23.7	12.5	5.5	6.3
Shares							
Dividend per ordinary share in euros	1.20	1.29	1.45	1.60	1.77	1.83	1.83⁵
Dividend per preferred share in euros	1.22	1.31	1.47	1.62	1.79	1.85	1.85⁵
Total dividends	529	569	639	704	779	805	805⁵
Payout ratio	30.0%	30.0%	30.2%	30.3%	30.7%	30.9%	34.2%⁵
Share price, ordinary shares, at year-end in euros	75.64	80.44	88.62	98.98	100.00	85.75	84.00
Share price, preferred shares, at year-end in euros	84.31	89.42	103.20	113.25	110.35	95.40	92.20
Market capitalization at year-end in bn euros	34.7	36.8	41.4	45.9	45.6	39.3	38.2
Employees							
Total ⁶ (at December 31)	46,850	49,750	49,450	51,350	53,700	53,000	52,450
Germany	8,050	8,200	8,350	8,250	8,300	8,500	8,550
Abroad	38,800	41,550	41,100	43,100	45,400	44,500	43,900

¹ Prior-year figures amended (please refer to the notes on pages 154 to 157).² Net income divided by sales.³ Net income divided by equity at the start of the year.⁴ Figure not relevant due to the positive balance of net financial position and pension obligations.⁵ Proposal to shareholders for the Annual General Meeting on April 20, 2020.⁶ Basis: permanent employees excluding apprentices.

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Glossary

Adjusted EBIT

Earnings Before Interest and Taxes (EBIT) adjusted for exceptional items in the form of one-time charges, one-time gains and restructuring expenses.

Capital employed

Equity + interest-bearing liabilities.

Compliance

Acting in conformity with applicable regulations; adherence to laws, rules, regulations and in-house or corporate codes of conduct.

Compound annual growth rate

Year-over-year rate of growth, e.g. of an investment.

Corporate governance

System of management and control, primarily within listed companies. Describes the powers and authority of corporate management, the extent to which these need to be monitored and the extent to which structures should be put in place through which certain interest/stakeholder groups may exert influence on the corporate management.

Corporate Governance Code

The German Corporate Governance Code (abbreviation: GCGC) is intended to render the rules governing corporate management and control for a stock corporation in Germany transparent for national and international investors, engendering trust and confidence in the corporate management of German companies.

Credit default swap

Instrument used by Henkel to evaluate the credit risks of banks.

Credit facility

Aggregate of all loan services available on call from one or several banks as cover for an immediate credit requirement.

Declaration of compliance

Declaration made by the management / executive board and supervisory board of a company according to Section 161 German Stock Corporation Act [AktG], confirming implementation of the recommendations of the Governmental Commission for the German Corporate Governance Code.

Defined contribution plans

Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in current and prior periods.

Derivative

Financial instrument, the value of which changes in response to changes in an underlying asset or an index, which will be settled at a future date and which initially requires only a small or no investment.

Earnings per share (EPS)

Metric indicating the income of a stock corporation divided between the weighted average number of its shares outstanding. The calculation is performed in accordance with International Accounting Standard (IAS) 33.

EBIT

Abbreviation for Earnings Before Interest and Taxes. Standard profit metric that enables the earning power of the operating business activities of a company to be assessed independently of its financial structure, facilitating comparability between entities where these are financed by varying levels of debt capital.

EBITDA

Abbreviation for Earnings Before Interest, Taxes, Depreciation and Amortization – including impairment losses and write-ups.

Economic Value Added (EVA®)

The EVA concept reflects the net wealth generated by a company over a certain period. A company achieves positive EVA when the operating result exceeds the weighted average cost of capital. The WACC corresponds to the yield on capital employed expected by the capital market. EVA is a registered trademark of Stern Stewart & Co.

Equity ratio

Financial metric indicating the ratio of equity to total capital. It expresses the share of total assets financed out of equity (owners' capital) rather than debt capital (provided by lenders). Serves to assess the financial stability and independence of a company.

Free cash flow

Cash flow actually available for acquisitions, dividend payments, the reduction of borrowings, and contributions to pension funds.

Gross margin

Indicates the percentage by which a company's sales exceed cost of sales, i.e. the ratio of gross profit to sales.

Gross profit

Difference between sales and cost of sales.

Hedge accounting

Method for accounting for hedging transactions whereby the compensatory effect of changes in the fair value of the hedging instrument (derivative) and of the underlying asset or liability is recognized in either the statement of income or the statement of comprehensive income.

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KGaA

Abbreviation for "Kommanditgesellschaft auf Aktien." A KGaA is a company with a legal identity (legal entity) in which at least one partner has unlimited liability with respect to the company's creditors (personally liable partner), while the liability for such debts of the other partners participating in the share-based capital stock is limited to their share capital (limited shareholders).

Long Term Incentive (LTI)

Bonus aligned to long-term financial performance.

Net financial position

The net financial position is defined as cash and cash equivalents plus readily monetizable securities & time deposits and financial collateral provided, less borrowings, plus positive and minus negative fair values of derivative financial instruments.

Net working capital

Inventories plus payments on account, receivables from suppliers and trade accounts receivable, less trade accounts payable, liabilities to customers, and current sales provisions.

Non-controlling interests

Proportion of equity attributable to third parties in subsidiaries included within the scope of consolidation. Previously termed "minority interests." Valued on a proportional net asset basis. A pro-rata portion of the net income of a corporation is due to shareholders owning non-controlling interests.

Organic sales growth

Growth in revenues after adjusting for effects arising from acquisitions, divestments and foreign exchange differences – i.e. "top line" growth generated from within.

Payout ratio

Indicates what percentage of annual net income (adjusted for exceptional items) is paid out in dividends to shareholders, including non-controlling interests.

Return-enhancing portfolio

Contains investments in equities and alternative investments, and serves to improve the overall return of pension plan assets over the long term in order to raise the coverage ratio of pension funds. In addition, a broader investment horizon increases the level of investment diversification.

Return on capital employed (ROCE)

Profitability metric reflecting the ratio of earnings before interest and taxes (EBIT) to capital employed.

Return on sales (EBIT)

Operating business metric derived from the ratio of EBIT to revenues. Also known as EBIT margin.

Swap

Term given to the exchange of capital amounts in differing currencies (currency swap) or of different interest obligations (interest swap) between two entities.

Value-at-risk

Method, based on fair value, used to calculate the maximum likely or potential future loss arising from a portfolio.

Weighted average cost of capital (WACC)

Average return on capital, expressed as a percentage and calculated on the basis of a weighted average of the cost of debt and equity. WACC represents the minimum return expected of a company by its lenders for financing its assets.

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Financial calendar

Annual General Meeting Henkel AG & Co. KGaA 2020:

Monday, April 20, 2020

Publication of Statement for the First Quarter 2020:

Monday, May 11, 2020

Publication of Report for the Second Quarter / Half Year 2020:

Thursday, August 6, 2020

Publication of Statement for the Third Quarter / Nine Months 2020:

Tuesday, November 10, 2020

Publication of Report for Fiscal 2020:

Thursday, March 4, 2021

Annual General Meeting Henkel AG & Co. KGaA 2021:

Friday, April 16, 2021