Annual Report 2018

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Fiscal 2018 at a glance

Key financials

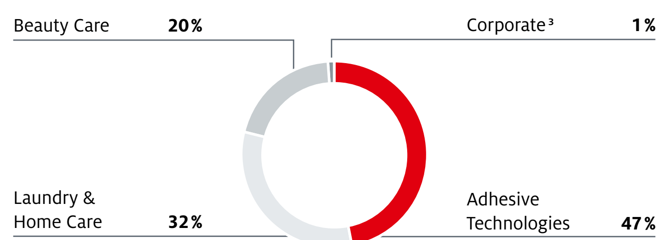
1

in million euros	2014	2015	2016	2017	2018	+/– 2017 – 2018
Sales	16,428	18,089	18,714	20,029	**19,899**	– 0.6 %
Operating profit (EBIT)	2,244	2,645	2,775	3,055	**3,116**	2.0 %
Adjusted [1] operating profit (EBIT)	2,588	2,923	3,172	3,461	**3,496**	1.0 %
Return on sales (EBIT) in %	13.7	14.6	14.8	15.3	**15.7**	0.4 pp
Adjusted [1] return on sales (EBIT) in %	15.8	16.2	16.9	17.3	**17.6**	0.3 pp
Net income	1,662	1,968	2,093	2,541	**2,330**	– 8.3 %
Attributable to non-controlling interests	34	47	40	22	**19**	– 13.6 %
Attributable to shareholders of Henkel AG & Co. KGaA	1,628	1,921	2,053	2,519	**2,311**	– 8.3 %
Earnings per preferred share in euros	3.76	4.44	4.74	5.81	**5.33**	– 8.3 %
Adjusted [1] earnings per preferred share in euros	4.38	4.88	5.36	5.85	**6.01**	2.7 %
Return on capital employed (ROCE) in %	19.0	18.2	17.5	16.3	**15.5**	– 0.8 pp
Dividend per ordinary share in euros	1.29	1.45	1.60	1.77	**1.83** [2]	3.4 %
Dividend per preferred share in euros	1.31	1.47	1.62	1.79	**1.85** [2]	3.4 %

pp = percentage points

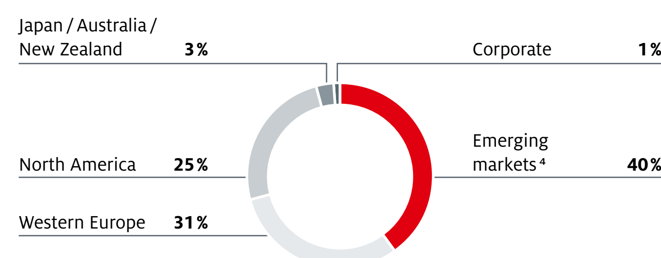
Sales by business unit 2018

2



Sales by region 2018

3



[1] Adjusted for one-time charges / gains and restructuring expenses.
[2] Proposal to shareholders for the Annual General Meeting on April 8, 2019.
[3] Sales and services not assignable to the individual business units.
[4] Eastern Europe, Africa / Middle East, Latin America, Asia (excluding Japan).

Sales

+2.4 %

organic sales growth.

EBIT

17.6 %

adjusted [1] return on sales (EBIT): up 0.3 percentage points.

EPS

6.01 €

adjusted [1] earnings per preferred share (EPS): up 2.7 percent.

Dividend

1.85 €

dividend per preferred share [2].

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Our business units

Adhesive Technologies

Key financials[1]

4

in million euros	2017	2018	+/–
Sales	9,387	**9,403**	0.2 %
Proportion of Henkel sales	47 %	**47 %**	–
Operating profit (EBIT)	1,657	**1,669**	0.7 %
Adjusted[2] operating profit (EBIT)	1,734	**1,761**	1.6 %
Return on sales (EBIT)	17.7 %	**17.7 %**	0.0 pp
Adjusted[2] return on sales (EBIT)	18.5 %	**18.7 %**	0.2 pp
Return on capital employed (ROCE)	20.3 %	**19.3 %**	– 1.0 pp
Economic Value Added (EVA®)	831	**762**	– 8.2 %

[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

LOCTITE

TECHNOMELT

TEROSON

Sales

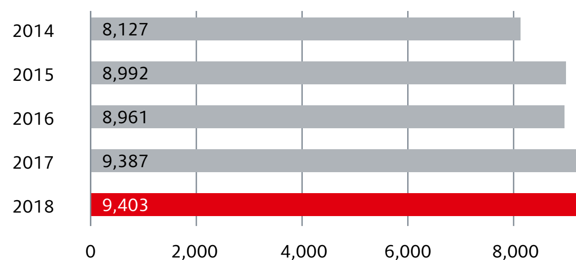
+4.0 %

organic sales growth.

Sales Adhesive Technologies

in million euros

5



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Beauty Care

Key financials[1]

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in million euros	2017	2018	+/–
Sales	3,868	**3,950**	2.1%
Proportion of Henkel sales	19%	**20%**	–
Operating profit (EBIT)	535	**589**	10.0%
Adjusted[2] operating profit (EBIT)	665	**675**	1.6%
Return on sales (EBIT)	13.8%	**14.9%**	1.1 pp
Adjusted[2] return on sales (EBIT)	17.2%	**17.1%**	–0.1 pp
Return on capital employed (ROCE)	17.6%	**14.8%**	–2.8 pp
Economic Value Added (EVA®)	262	**230**	–12.1%

[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

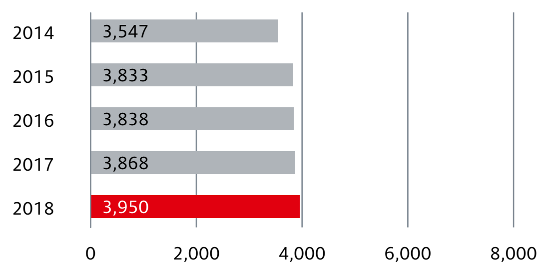
–0.7%

organic sales growth.

Sales Beauty Care

in million euros

7



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Laundry & Home Care

Key financials[1]

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in million euros	2017	2018	+/–
Sales	6,651	**6,419**	– 3.5 %
Proportion of Henkel sales	33 %	**32 %**	–
Operating profit (EBIT)	989	**970**	– 1.9 %
Adjusted[2] operating profit (EBIT)	1,170	**1,162**	– 0.7 %
Return on sales (EBIT)	14.9 %	**15.1 %**	0.2 pp
Adjusted[2] return on sales (EBIT)	17.6 %	**18.1 %**	0.5 pp
Return on capital employed (ROCE)	13.1 %	**13.1 %**	0.0 pp
Economic Value Added (EVA®)	309	**306**	– 1.0 %

[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

Persil

Bref

Sales

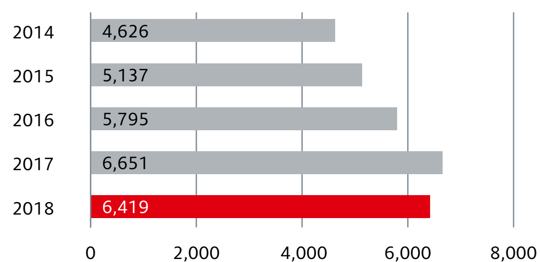
+1.9 %

organic sales growth.

Sales Laundry & Home Care

in million euros

9



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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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“We remain committed to generating profitable growth and attractive returns for our shareholders.”

HANS VAN BYLEN
CHAIRMAN OF THE MANAGEMENT BOARD

Dear Shareholders and Friends of the Company,

In 2018, we continued to deliver profitable growth for Henkel despite many challenges for our company.

We recorded good organic growth with new highs in earnings and profitability while we faced significant negative currency effects as well as increasing prices for many direct materials. Our good business performance in the past year was once again driven by our successful brands and innovative technologies with leading positions in attractive markets and categories. Our profitable growth was complemented by the contribution from acquisitions in our industrial and consumer businesses. At the same time, we maintained a strong focus on cost and continuous efficiency improvements.

We also made substantial progress in the execution of our strategic priorities through to 2020 and beyond, successfully implemented many strategic initiatives and further improved our competitiveness.

Sustainability has been a business priority at Henkel for decades. Based on this strong commitment we continued to drive progress in sustainability along the entire value chain in 2018. This was again recognized in many international sustainability ratings. We were ranked as a leader or among the top performers in our relevant industry sectors.

All of this only became possible thanks to the commitment and entrepreneurial spirit of more than 53,000 Henkel employees around the world. It is their dedication, agility and customer focus that enabled us to make 2018 another successful year for Henkel, despite an increasingly challenging environment.

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Good business performance in 2018 despite significant headwinds

In 2018, we were confronted with an increasing volatility in our markets. We faced significant pressure from unfavorable currency fluctuations as well as rising costs for many important direct materials.

The controversies around global trade, the introduction of tariffs as well as other uncertainties, such as the concerns about Brexit, increasingly hampered economic growth dynamics and the development in many industry segments.

Internally, delivery difficulties in North America adversely affected our consumer goods businesses at the beginning of 2018. These problems were due to a change in the transportation and logistics systems for our consumer businesses in North America. We acted decisively to resolve the situation and returned to normal service levels in the course of the second quarter.

Despite these external and internal challenges, we delivered again profitable growth in fiscal 2018. Organic sales growth, excluding the impact from currencies and acquisitions and divestments, reached 2.4 percent. Henkel Group sales amounted to 19.9 billion euros in 2018. The negative impact from currencies was 1.1 billion euros.

Adjusted[1] earnings before interest and taxes (EBIT) increased by 1 percent to 3.5 billion euros, the highest level to date. Adjusted[1] return on sales (EBIT margin) rose to 17.6 percent compared to 17.3 percent in the prior year. This is also a new high for Henkel. Adjusted[1] earnings per preferred share (EPS) grew to 6.01 euros. This is an increase of 2.7 percent or around 7 percent at constant exchange rates, and the highest adjusted EPS to date. Our free cash flow also developed very well, climbing to 1.9 billion euros.

Henkel's overall good performance in an increasingly challenging market environment is also reflected in the development of our share price. At the end of 2018, Henkel preferred shares closed the year 13.5 percent lower than the prior-year level, yet outperforming the DAX, which lost 18.3 percent over the same period.

At our Annual General Meeting on April 8, 2019, we will propose to our shareholders a dividend payment of 1.85 euros per preferred share. This is a new high for Henkel and represents an increase of 3.4 percent over the prior year.

Henkel 2020+: Committed to sustainable profitable growth through to 2020 and beyond

We pursue a clear long-term strategy for Henkel: We want to generate sustainable profitable growth. It is our ambition to become even more customer-focused, more innovative, more agile, and fully digitalized in our internal processes and customer-facing activities. We aim to promote sustainability in all our business activities, reinforcing our leading position.

In 2016, we defined strategic priorities to drive the successful execution of our strategy through to 2020 and beyond, Henkel 2020+. Our strategic priorities are: drive growth, accelerate digitalization, increase agility and fund growth. Over the past two years, we have made very good progress and successfully implemented numerous strategic initiatives.

In 2018, we continued to execute a range of projects and initiatives to drive growth in our markets around the world. Regular in-depth exchanges as well as close collaboration on strategic projects with our customers in our industrial and consumer businesses were a key success factor.

We place particular focus on further accelerating our innovation cycles and reducing innovation lead times to faster address new market trends and customer needs. We made good progress with the continuous improvement of our innovation processes,

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

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resulting in high innovation rates as well as increasing first-year sales from innovations or from our top ten innovations.

We also made further progress with the integration of acquired businesses and agreed several new acquisitions that will further strengthen our competitiveness and complement our portfolio in our industrial and consumer businesses.

To capture new sources of growth, our Corporate Venture Capital unit continued to invest in new technologies, in start-ups as well as in other venture funds. We plan to invest about 150 million euros in venturing activities between 2017 and 2020. By the end of 2018, around half of this amount had already been invested or committed.

We made particular good progress with the digital transformation of our company. In 2018, digital sales at Group level increased organically with double-digit growth rates. We invested further in our production facilities to leverage the potential of Industry 4.0. We now record more than 1 billion data points with networked sensors in our supply chain every day. This enables us to optimize control of our production sites and processes, with higher quality, improved efficiency and greater sustainability.

We also launched Henkel X as an integrated, internal and external platform to accelerate the digital transformation of Henkel. We set up a Digital Advisory Board with high-caliber industry experts to advise the Management Board on the digital transformation process. We also established a digital mentorship network of around 150 external mentors that include founders, digital experts and thought leaders, who are exclusively accessible to Henkel employees to provide insight and advice on digital projects and initiatives.

This was complemented by a broad range of internal and external activities to further advance the digital capabilities and upskilling of our own organization. We launched, for example, a tailor-made self-assessment tool for individual employees and teams to evaluate their level of digital know-how and identify specific training opportunities.

Digital transformation also complements our strategic priority to increase agility across the organization. In 2018, we continued to foster the entrepreneurial spirit of our employees and teams, encouraged openness to change and aimed at further expanding individual freedom for decision-making. One example is the successful implementation of the FAST initiative (Flexible, Agile, Simple and Transparent) in our global Finance organization. The initiative aims at simplified planning processes, optimized workflows, more transparent communication and at encouraging employees in their entrepreneurial thinking and behaviors.

As part of our strategic priority to fund growth, we have four initiatives in place. Combined, they are expected to deliver more than 500 million euros in annual efficiency gains as of 2020. In 2018, we advanced these initiatives and have already realized more than 50 percent of the targeted total efficiency gains.

At Henkel, we are proud of our commitment to sustainability. We are driving continuous progress in sustainable action in our operations and 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 2018, we placed a particular focus on the topic of plastic waste since plastic has become a serious environmental concern – especially in our oceans. We focus on three areas: using sustainable materials, developing smart packaging solutions, and establishing a circular economy. By 2025, we want all the packaging in our consumer businesses to be recyclable, reusable or compostable. Furthermore, we collaborate with numerous partners and initiatives. For example, we are part of the global "Alliance to End Plastic Waste," an affiliation of around 30 international companies, which wants to jointly develop and implement new approaches for less plastic waste.

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Growth investments reinforce our mid- to long-term financial ambitions

To capture additional growth opportunities, especially in our consumer businesses, and further accelerate the digital transformation of our company, we announced at the beginning of 2019 that we will step up investments by around 300 million euros annually from 2019 onward. Two thirds of this amount will be used to strengthen our brands, technologies and innovations, while one third will additionally fund the digital transformation across the entire company.

Our continued commitment to generate sustainable profitable growth and attractive returns is reflected in our expanded mid- to long-term financial ambitions for 2020 and beyond: We are targeting organic sales growth of between 2 and 4 percent and an adjusted[1] EPS growth in the mid- to high-single-digit percentage range at constant exchange rates and will continue to focus on free cash flow expansion. We will also continue to pursue compelling growth opportunities while maintaining our focus on strict cost discipline and margin development.

In line with our commitment to offer attractive returns to our shareholders, we announced that we will increase the target range for our dividend payout ratio to between 30 to 40 percent from fiscal 2019 onward.

Thank you for your continued confidence and support

In summary, 2018 was another successful year for Henkel. We again recorded profitable growth with new highs in earnings and profitability. We made significant progress with the implementation of our strategic priorities and expanded our mid- to long-term financial ambitions for our company beyond 2020. On behalf of the Management Board, I would like to thank our supervisory bodies for their invaluable support and advice. I would also like to express our gratitude to you, our shareholders, for your continued confidence in our company and our future. We are fully committed to deliver attractive returns for your investment in our company. We would also like to thank our customers and consumers around the world for their partnership and trust in our company, our brands and technologies. At Henkel, we are dedicated to driving superior performance and creating sustainable value for all our stakeholders. We look forward to jointly shaping a successful future.

Düsseldorf, January 31, 2019

Sincerely,

Hans Van Bylen
Chairman of the Management Board

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

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"In light of our strong brands and technologies and the steps we have taken leading into 2019, we believe Henkel is well equipped to face the future."

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

Dear Shareholders and Friends of the Company,

2018 was a very challenging year for Henkel. In addition to the continued political uncertainty prevailing in many parts of the world, underlying trading conditions were difficult, especially in the consumer goods markets. Unforeseeable foreign exchange effects and material price trends brought a further significant burden to bear on Henkel's activities. In spite of this challenging environment, we were able to achieve both organic sales growth and a further increase in our earning power. We also made further progress with the implementation of our strategic priorities.

On behalf of the Supervisory Board, I would like to thank all employees at Henkel for their dedicated commitment and contribution to the successful performance of our corporation over the past year. My thanks are equally due to the members of the Management Board who have steered the corporation successfully through these challenging times. I am also grateful to our employees' representatives and works councils for their consistently constructive support in growing Henkel.

Finally, I would like to extend my thanks to you, our shareholders, for your continued confidence in our corporation, its management and employees, and our brands and technologies over this past fiscal year.

Ongoing dialog with the Management Board

We continued to diligently discharge our Supervisory Board duties in fiscal 2018 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.

The Management Board and Supervisory Board continued to cooperate in 2018 through extensive dialog founded on mutual trust and confidence. The Management Board kept us regularly

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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 plans, as well as capital expenditures and organizational measures. We also discussed the risk situation of the corporation and issues relating to compliance. Financial reports focused on the sales and profits of Henkel Group as a whole, with further analysis by business unit and region. All members of the Supervisory Board consistently had sufficient opportunity to critically review and address the issues raised by each of these reports and to provide their individual guidance in both the Audit Committee and in plenary Supervisory Board meetings.

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 and the Audit Committee each held four regular meetings in the reporting year. Attendance at the Supervisory Board and committee meetings was around 92 percent and around 88 percent respectively. 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 reported in our last Annual Report, we held a meeting on February 21, 2018, to approve the annual and consolidated financial statements for 2017, including the combined management report for Henkel AG & Co. KGaA and the Group, together with the risk report and corporate governance report, as well as the separate, combined non-financial statement for Henkel AG & Co. KGaA and the Group, our 2018 declaration of compliance, and our proposals for resolution by the 2018 Annual General Meeting. At the same meeting, we focused on the innovation strategies of our business units and corresponding product launches, and on the position occupied by Adhesive Technologies in the competitive environment. We also discussed the implementation of our globally centralized and integrated supply chain in the USA and the implications of the US tax reform for Henkel.

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 9, 2018 focused specifically on the positions occupied by our Beauty Care and Laundry & Home Care business units in their respective competitive environments. We also looked in detail at the status of our North American consumer goods business and the underlying delivery processes.

Our meeting on September 28, 2018 focused on the performance of our business units over the first eight months of the year and our strategic objective of accelerating digitalization. We discussed the newly established Chief Digital Officer organization and the strategic initiatives focusing on digital business and Industry 4.0. We likewise examined the use of

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selected social media for recruiting new employees, and the introduction of new learning formats and programs for upskilling the application of digital tools.

At our meeting on December 14, 2018, and in a telephone conference on January 18, 2019, we focused closely on the expected results for 2018 and our assets and financial planning for fiscal 2019 aligned to various assumptions. We also discussed in detail the associated budgets of our business units on the basis of comprehensive documentation.

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. The Audit Committee was chaired in the year under review by Prof. Dr. Theo Siegert, who 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 these committees, please refer to the corporate governance report (on pages 26 to 42) and the membership lists on page 236 of this Annual Report.

Committee activities

Following the appointment of the external auditor by the 2018 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 2018. 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 was compiled as a separate non-financial report and made available in the public domain through publication on our website.

The Audit Committee met four times in 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 corporation and Group accounts, including the interim financial reports (quarterly statements and financial report for the half year) were discussed at all Audit Committee meetings, with matters arising being duly examined 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 systems. The efficiency of the risk management system was

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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 and their management, as well as the provision of non-audit-related services by the auditor, and monitored adherence to the cap specified for the same.

At its meeting on February 18, 2019, 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, the separate, combined non-financial report for Henkel AG & Co. KGaA and the Group for fiscal 2018, 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. It also recommended that the Supervisory Board should propose to the Annual General Meeting the election of KPMG as auditor for fiscal 2019. A declaration from the auditor asserting its independence was again duly received, accompanied by details pertaining to non-audit services rendered in fiscal 2018 and those envisioned for fiscal 2019. There was no evidence of any bias or partiality on the part of the auditor.

As in previous years, other members of the Supervisory Board took part as guests in this specifically accounting-related meeting of the Audit Committee.

As already reported, the Nominations Committee submitted a recommendation regarding the election of an additional shareholder representative in preparation for the Supervisory Board's proposal for resolution by the 2018 Annual General Meeting.

Corporate governance and declaration of compliance

The Supervisory Board again dealt with questions of corporate governance in the reporting year. Details of this and of Henkel's corporate governance can be found in the management report on corporate governance (pages 26 to 42 of this Annual Report), with which we fully acquiesce.

At our meeting on February 18, 2019, we discussed and approved the joint declaration of compliance for 2019 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 2018 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 2018. 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].

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Unqualified audit opinions were issued for the annual and the consolidated financial statements, as well as for the combined management report.

KPMG also reviewed the separate, combined non-financial statement for Henkel AG & Co. KGaA and the Group for fiscal 2018 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 audit review and the audit 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 2018 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 2018 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 February 18, 2019, 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 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 have agreed 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 February 18, 2019, 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.

In our meeting on February 18, 2019, we also ratified our proposal for resolution by the Annual General Meeting relating to the appointment of the external auditor for the next fiscal year, based on the recommendations of the Audit Committee. Neither the recommendation by the Audit Committee nor the Supervisory Board's proposal to elect KPMG as auditor for 2019 were unduly influenced by any third party; nor were agreements reached that might have restricted the choice of possible 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

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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.

Changes in the Supervisory Board and Management Board

Regarding the election of new employee representatives to the Supervisory Board, Angelika Keller, Peter Hausmann and Winfried Zander left the board at the end of the Annual General Meeting on April 9, 2018, to be replaced by Peter Emmerich, Dirk Thiede and Michael Vassiliadis. The other employee representatives were re-elected. Of the shareholder representatives, Johann-Christoph Frey left the Supervisory Board to join the Shareholders' Committee. Philipp Scholz was elected to take his place. In its constituent meeting on April 9, 2018, the Supervisory Board elected Birgit Helten-Kindlein to Vice Chair and confirmed myself as Chair. We also elected new and re-elected existing members to the Audit and Nominations Committees.

We thanked those members departing the Supervisory Board for their successful commitment in the interests of the company. Special thanks are due to Winfried Zander for around 25 years of service on our Supervisory Board.

Kathrin Menges, responsible for Human Resources (HR) and Infrastructure Services, will not be available for another term on the Management Board for personal reasons, and will leave the Management Board by mutual agreement at the end of business on April 8, 2019. Sylvie Nicol has been appointed to the Management Board effective April 9, 2019, and will take over responsibility for Kathrin Menges' portfolio. Kathrin Menges has been with Henkel for around 20 years, and responsible for Human Resources and sustainability at Management Board level since October 2011. During that time Kathrin Menges drove key improvements in HR and sustainability at Henkel, for which I would like to thank her most sincerely on behalf of all corporate bodies at Henkel. Sylvie Nicol joined Henkel in 1996. After various management posts in the Sales and Marketing functions of Henkel's Beauty Care business unit, she moved to headquarters in 2013 to take on responsibility for Human Resources at Beauty Care. In 2015 she moved back to the operations side as Head of Beauty Care Retail in Europe and Global Sales at Beauty Care. Since the beginning of 2018, Sylvie Nicol has been Corporate Senior Vice President Global Human Resources. We wish Sylvie Nicol every success in her new position and are delighted that we have been able to fill the vacancy on the Management Board with such an experienced Henkel manager.

The coming year will again pose challenges for both our employees and the corporation's management. In light of our strong brands and technologies and the steps we have taken leading into 2019, we believe Henkel is well equipped to face the future.

We thank you for your ongoing trust and support.

Düsseldorf, February 18, 2019

On behalf of the Supervisory Board

Dr. Simone Bagel-Trah
(Chair)

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Management Board

Hans Van Bylen

Chairman of the Management Board

Born in Berchem, Belgium, on April 26, 1961; with Henkel since 1984.

Carsten Knobel

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

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

Kathrin Menges

Executive Vice President Human Resources / Infrastructure Services

Born in Pritzwalk, Germany, on October 16, 1964; with Henkel since 1999.

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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Focusing on our strategic priorities

Henkel 2020+

Our efforts to shape our future are guided by clear strategic priorities. We want to sustain our profitable growth and become even more innovative, agile and digital through to 2020 and beyond.

Drive growth

Driving growth in mature and emerging markets is a key strategic priority for Henkel. In order to achieve this, we are implementing a range of targeted initiatives to further deepen the relationships with our customers and consumers worldwide, strengthen our leading brands and technologies, develop exciting innovations and services, and capture new sources of growth.

Accelerate digitalization

Accelerating digitalization helps us to successfully grow our business, strengthen the relationships with our customers and consumers, optimize our processes and transform the entire company. We will implement a range of initiatives to drive our digital business, leverage Industry 4.0, and eTransform the organization.

Increase agility

In a highly volatile and dynamic business environment, increasing the agility of the organization is a critical success factor for Henkel. This requires energized and empowered teams, fastest time-to-market, as well as smart and simplified processes.

Fund growth

In order to fund growth, we are implementing new approaches to optimize resource allocation, focus on net revenue management, further increase efficiency in our structures, and continue to expand our Global Supply Chain organization. Together, these initiatives will contribute to further improving profitability and enable us to fund our growth ambitions for 2020 and beyond.

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Shares and bonds

Although the price of Henkel shares declined in 2018, they performed better than the market as a whole. While share prices generally lagged behind the benchmarks – the DAX and EURO STOXX® Consumer Goods indices – over the course of the first nine months, they were able to mostly escape the negative trend exhibited by the benchmarks toward year-end.

Henkel preferred shares closed at 95.40 euros on December 31, 2018, down – 13.5 percent year on year, while the ordinary shares closed – 14.3 percent down at 85.75 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 – 12.1 and – 12.8 percent respectively. Over the course of the year, the DAX 30 lost significantly more ground. The performance index dropped by – 18.3 percent to 10,559 points, while the EURO STOXX® Consumer Goods Index closed – 14.1 percent down at 612 points. The preferred shares traded at an average premium of 10.8 percent over the ordinary shares in 2018.

Year on year, the trading volume (Xetra) of preferred shares increased significantly in 2018. Each trading day saw an average of around 624,000 preferred shares changing hands (2017: 465,000). The average volume of our ordinary shares also increased, to around 98,000 shares (2017: 85,000). The market capitalization of our ordinary and preferred shares totaled 39.3 billion euros as of year-end 2018.

Key data on Henkel shares 2014 to 2018

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in euros	2014	2015	2016	2017	2018
Earnings per share					
Ordinary share	3.74	4.42	4.72	5.79	**5.31**
Preferred share	3.76	4.44	4.74	5.81	**5.33**
Share price at year-end[1]					
Ordinary share	80.44	88.62	98.98	100.00	**85.75**
Preferred share	89.42	103.20	113.25	110.35	**95.40**
High for the year[1]					
Ordinary share	80.44	99.26	105.45	113.70	**104.70**
Preferred share	90.45	115.20	122.90	128.90	**115.05**
Low for the year[1]					
Ordinary share	67.00	76.32	77.00	96.15	**83.30**
Preferred share	72.64	87.75	88.95	110.10	**93.46**
Dividend					
Ordinary share	1.29	1.45	1.60	1.77	**1.83**[2]
Preferred share	1.31	1.47	1.62	1.79	**1.85**[2]
Market capitalization[1] **in bn euros**	**36.8**	**41.4**	**45.9**	**45.6**	**39.3**
Ordinary shares in bn euros	20.9	23.0	25.7	26.0	**22.3**
Preferred shares in bn euros	15.9	18.4	20.2	19.6	**17.0**

[1] Closing share prices, Xetra trading system.
[2] Proposal to shareholders for the Annual General Meeting on April 8, 2019.

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Henkel shares have proven to be an attractive investment for long-term investors. Over the last five and ten years, the Henkel preferred share has shown an average yield (assuming reinvested dividends, before tax deduction) of 4.0 percent and 17.3 percent per year respectively, offering a higher return than the average DAX performance of 2.0 percent and 8.2 percent per year for the same periods. 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 33,050 euros at the end of 2018. This represents an increase in value of 3,205 percent or an average yield of 11.1 percent per year. Over the same period, the DAX provided an annual return of 6.9 percent.

Performance of Henkel shares versus market
January through December 2018

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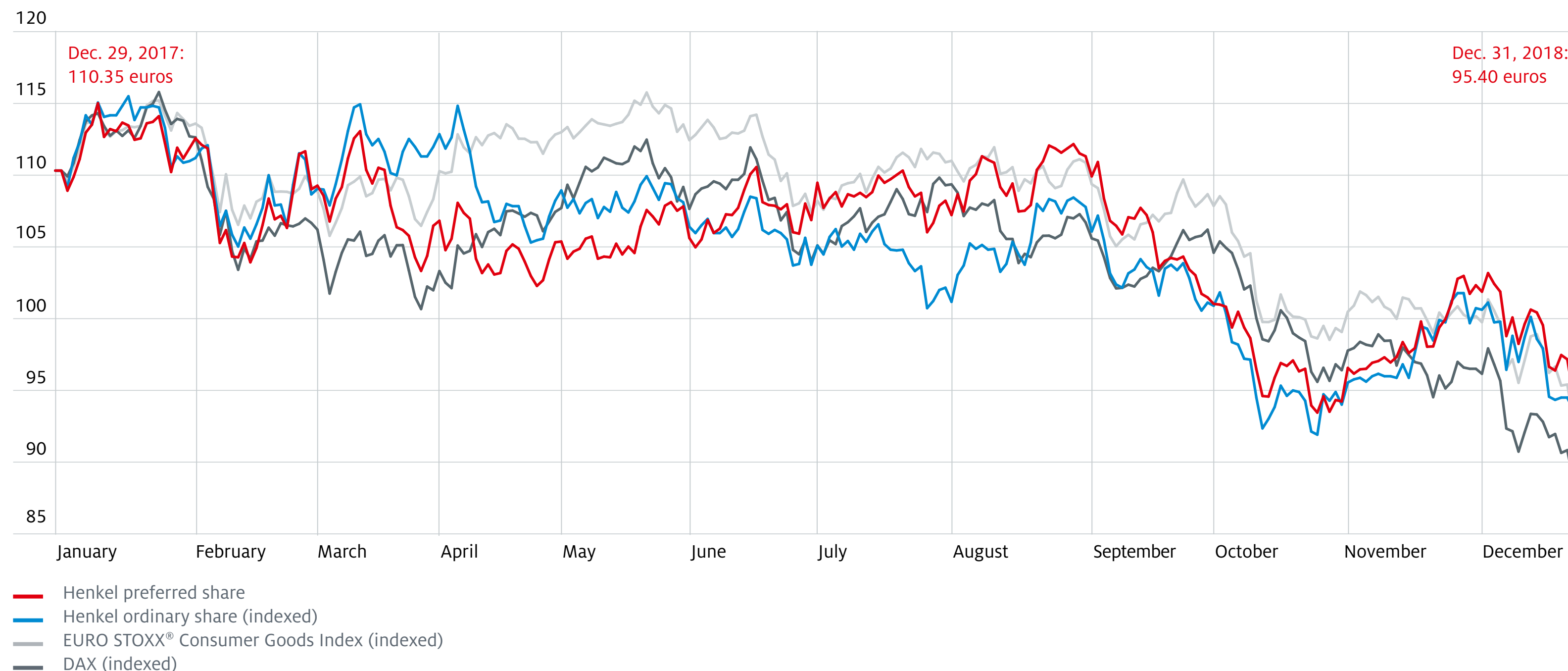

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Performance of Henkel shares versus market
2009 through 2018

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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 Depositary Receipt) program. The number of ADRs outstanding for ordinary and preferred shares at the end of the year was approximately 1.7 million (2017: 1.8 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 2018, Henkel again ranked 19th in terms of the market capitalization of the preferred shares included in the DAX index and 25th in terms of trading volume (2017: 23rd). Our DAX weighting increased slightly to 1.90 percent (2017: 1.85 percent).

Once again our advances in sustainable management earned recognition from external experts in 2018. 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 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 membership 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

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	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

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	Preferred shares	Ordinary shares
CUSIP	42550U208	42550U109
ISIN code	US42550U2087	US42550U1097
ADR symbol	HENOY	HENKY

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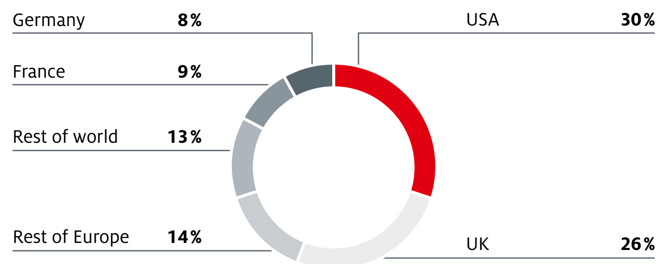
International shareholder structure

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 usually broadly distributed internationally.

According to notices received by the corporation, members of the Henkel family share-pooling agreement owned 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, 2018, treasury stock amounted to 3.7 million preferred shares.

Shareholder structure: Institutional investors holding Henkel shares 15



At November 30, 2018
Source: Nasdaq.

Employee share program

Since 2001, Henkel has offered an employee share program (ESP). For each euro invested in 2018 by an employee (limited to 4 percent of salary up to a maximum of 4,992 euros per year), Henkel added 33 eurocents. Around 12,200 employees in 58 countries purchased Henkel preferred shares under this program in 2018. At year-end, some 15,600 employees held a total of around 2.4 million shares in the program's securities accounts, representing 1.4 percent of total preferred shares outstanding. The lock-up period for newly acquired ESP shares is three years.

Investing in Henkel shares through participation in our share program has proven to be very beneficial for our employees in the past. Employees who invested 100 euros each month in Henkel shares since the program was first launched, and waived interim payouts, held portfolios valued at 83,858 euros at the end of 2018. This represents an increase in value of around 313 percent or an average yield of around 9.9 percent per year.

61.20%

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

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Henkel bonds

Henkel issued fixed-rate bonds with a total volume of 2.2 billion euros in 2016. The first tranche of 500 million euros matured on September 13, 2018. A 700 million euro bond with a term of five years, a 750 million US dollar eurodollar bond with a term of three years, and a 300 million British pound bond with a term of six years are still outstanding.

Henkel also placed a 600 million US dollar bond with a term of three years in the eurodollar market in June 2017.

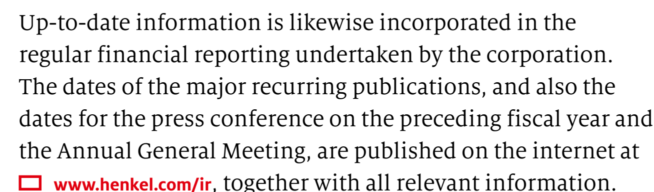
The proceeds from the issues were used to finance Henkel's acquisitions.

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 corporation. All stakeholders are treated equally in this respect.



Up-to-date information is likewise incorporated in the regular financial reporting undertaken by the corporation. 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 on the internet at www.henkel.com/ir, together with all relevant information.

Bond data

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	2016			2017
Currency	EUR	USD	GBP	USD
Volume	700 million	750 million	300 million	600 million
Coupon	0% p.a.	1.5% p.a.	0.875% p.a.	2.0% p.a.
Maturity	9/13/2021	9/13/2019	9/13/2022	6/12/2020
Issue price	100%	99.85%	99.59%	99.78%
Issue yield	0% p.a.	1.55%	0.95%	2.08%
Interest calculation	Act / Act (ISMA)	30 / 360 (ISMA)	Act / Act (ISMA)	30 / 360 (ISMA)
Denomination	1,000 EUR	2,000 USD	1,000 GBP	2,000 USD
Sec. code no.	A2BPAX	A2BPAY	A2BPAZ	A2E4FR
ISIN	XS1488418960	XS1488419695	XS1488419935	XS1626039819
Listing	Regulated Market of the Luxembourg Stock Exchange			

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This also serves as the portal for the live broadcast of telephone conferences and parts of the Annual General Meeting (AGM). The AGM offers all shareholders the opportunity to obtain extensive information about the corporation directly.

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

Henkel is covered by numerous financial analysts at an international level. Around 30 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 29 capital market conferences and roadshows held in Europe and North America, institutional investors and financial analysts had an opportunity to engage with the corporation 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 Laundry & Home Care business unit, held in Düsseldorf on May 29, 2018. Entitled "Shaping the Future," the Laundry & Home Care management team presented the strategy, business performance, digital transformation and research & development efforts of the business unit. The latest innovations and technologies were also showcased in a "Deep Dive Experience Tour."

An Investor & Analyst Conference was also hosted in London on September 4, 2018, where Hans Van Bylen, CEO of Henkel, and Carsten Knobel, CFO, presented the strategy and business performance of the Henkel Group and its three business units to more than 60 institutional investors and financial analysts, with a Q&A session following.

Analyst recommendations

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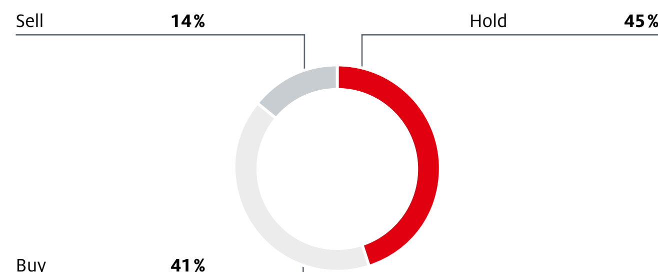

At December 31, 2018
Basis: 29 equity analysts.

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Corporate governance at Henkel AG & Co. KGaA

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 themselves 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 [DCGK] was introduced in order to promote confidence in the management and oversight of listed German corporations. It sets out the nationally and internationally recognized regulations and standards of responsible corporate governance applicable in Germany. The DCGK is 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). For a better understanding, this report describes the principles underlying the management and control structure of the corporation. It also outlines 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 report takes into account the recommendations of the DCGK and contains all disclosures and explanations required according to Sections 289a (1), 315a (1) (takeover-relevant information), and 289f, 315d (corporate governance statement) of the German Commercial Code [HGB].

Accordingly, the takeover-relevant information and the corporate governance statement form part of the combined management report for Henkel AG & Co. KGaA and the Group, which has been audited by the external auditor. In this respect, 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.

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 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 a 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 Henkel AG & Co. KGaA 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).

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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. 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 Annual 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 Articles 8, 9 and 26 of the Articles of Association):

- It acts in place of the Annual 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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Structure of Henkel AG & Co. KGaA

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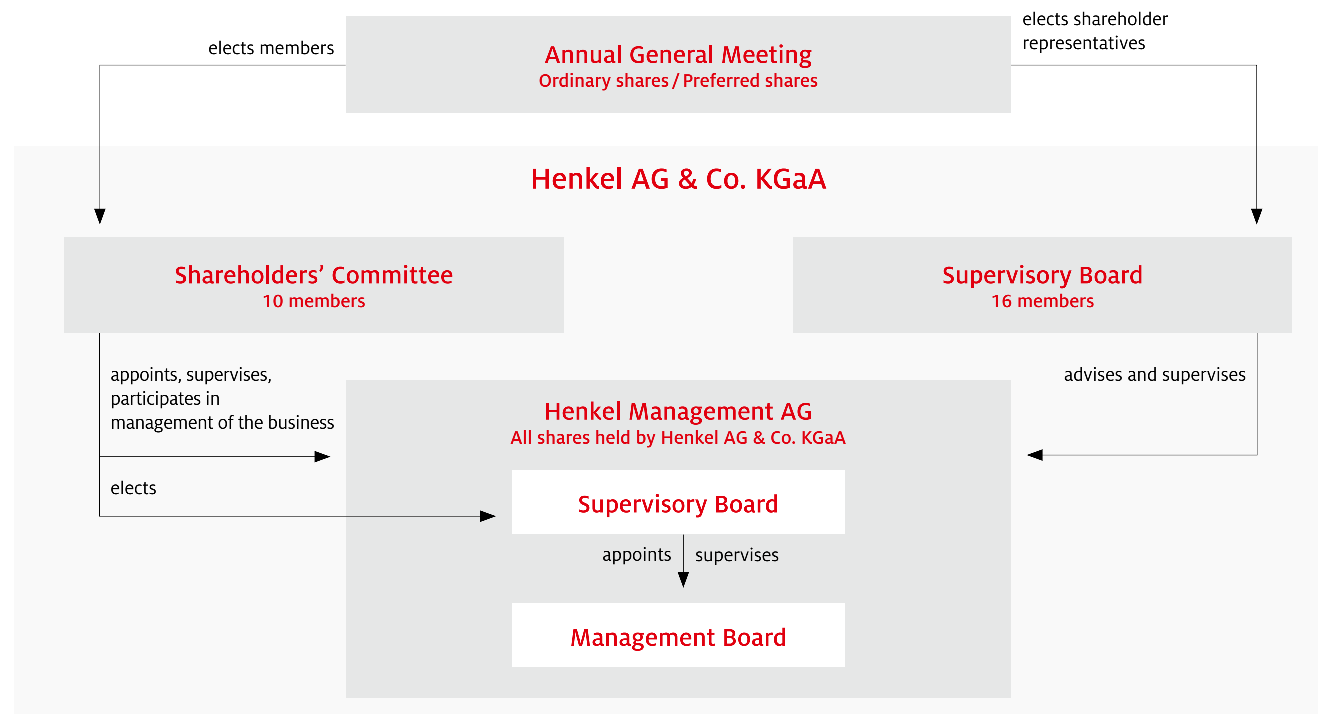

There were no changes in the Group management and supervisory structure in the year under review. The chart illustrates the structure of the corporation.

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Takeover-relevant information

(Disclosures required under 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 (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) AktG). 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).

The shareholders exercise their rights in the Annual General Meeting as per the relevant statutory provisions and the Articles of Association of Henkel AG & Co. KGaA. In particular, they exercise the right to vote conveyed by the shares with voting rights – either personally, by postal vote, through a legal representative or through a proxy-holder 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, 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

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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 proxy-holders 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. 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 Program, 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.

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 42 to 61).

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 shareholders as specified in Section 160 (1) (8) AktG, please see the disclosures provided in the notes to the consolidated financial statements under Note 41 on page 222). 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.

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

Decisions regarding the appointment and dismissal of Personally Liable Partners are taken by the General Meeting of Henkel AG & Co. KGaA. 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 DCGK. 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 consist of gross dereliction of management board duties or inability to properly manage the corporation'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 General Meeting, the Supervisory Board is also authorized to amend Articles 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.

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.

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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 12, 2020, up to a maximum nominal proportion of the capital stock of 10 percent. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may, in particular, be transferred to third parties for the purpose of acquiring entities or participating interests of 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. 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.

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 159 and 160.

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)

Application of the German Corporate Governance Code [DCGK]

Taking into account the special features arising from our legal form and Articles of Association, Henkel AG & Co. KGaA complies with all but one of the recommendations ("shall" provisions) of the DCGK as amended. According to Item 4.2.3 (2) sentence 8 of the Code as amended on February 7, 2017, any subsequent change in performance targets or the comparison parameters should be precluded in the case of variable remuneration components. Taking into consideration the modified Management Board remuneration scheme that comes into force from 2019, the performance measurement of 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, deviates from this recommendation insofar as the related performance parameters for the periods up to December 31, 2018 are determined pro rata temporis in accordance with the previously valid conditions, while for the periods from January 1, 2019, they are determined

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in accordance with the conditions that become effective as from that date. This will ensure a cogent and consistent incentive system of Management Board compensation effectively aligned to officer performance.

Taking into account the aforementioned special features arising from its legal form, the corporation has largely adopted the discretionary recommendations of the DCGK as amended on February 7, 2017.

Henkel deviates from the recommendation in Item 4.2.3 to refrain from premature payment of variable remuneration components spanning several years, insofar as 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 corresponding declarations of compliance together with the reasons for deviations from recommendations can be seen on our website at 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 are accessible 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.

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.

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- 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 the corporation 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, for example, define the scope of responsibilities for managers. 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 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 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

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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 issues 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

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 Management Board are regulated by the rules of procedure issued by the Supervisory Board of Henkel Management AG. The Management Board reaches its decisions by a simple majority of the votes cast. In the event of a tie, the Chairperson has the casting vote.

It is the duty of the Management Board to prepare the annual financial statements of Henkel AG & Co. KGaA, the consolidated financial statements and corresponding management reports, 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.

Supervisory Board and Shareholders' Committee; (sub)committees

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 management reports and the non-financial declaration, 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. The Management Board does not participate in such meetings unless this is deemed necessary. The Supervisory

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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.

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 Chairperson of the Audit Committee is elected based on a proposal of the shareholder representative members. 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 serving Chairperson of the Audit Committee in 2018, Prof. Dr. Theo Siegert, who is not the Chairperson of the Supervisory Board nor a present or former member of the Management Board, satisfies these requirements.

The Audit Committee, which generally meets four times a year, 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 declaration 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 the 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 a general rule, the Shareholders' Committee meets six times per year. The Management Board does not participate in such meetings unless this is deemed necessary. It also holds a joint conference with the Management Board lasting several days. The Shareholders' 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 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.

The Human Resources Subcommittee deals primarily with personnel matters relating to members of the Management

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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.

At regular intervals, 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, whereupon points relating to corporate governance and improvement opportunities are also discussed.

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.

Newly elected members of the Supervisory Board and Shareholders' Committee are familiarized with their 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.

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 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 our 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 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

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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, 2018, was 17 percent.

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

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 2018, we were again able to raise the proportion of women in management worldwide – to 34.7 percent at December 31, 2018.

Statutory gender quota for Supervisory Board composition

Given Henkel's position as a listed corporation subject to the Codetermination Act, 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 each gender was represented among both the shareholder representatives and the employee representatives.

Diversity considerations governing Management Board composition

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:

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- 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, including the social environment in which Henkel operates, 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.
- 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.

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.

Diversity considerations / Objectives governing Supervisory Board composition

Bearing in mind the legal requirements and the recommendations of the DCGK, and taking into account the specific situation and global reach of the corporation's activities in industrial and consumer business areas, the Supervisory Board has specified objectives governing its composition which are 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 Codetermination Act must be observed with regard to the employee representative candidates.

- 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 Supervisory Board must include a reasonable number of impartial members, bearing in mind the corporation's ownership structure. As a rule, the following people should not belong to the Supervisory Board:
  - Close family members of a Management Board member.
  - Anyone who, in the past three years, has been a partner of or in the employ of the present or previous external auditors of the corporation.
  - Anyone who 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 or, in the case of employee representatives, their salaries).
  - Anyone with direct or indirect material business ties to Henkel AG & Co. KGaA or one of its affiliates, whether as partner, shareholder, member of the management body or officer of the company with which this business relationship exists.

Assuming that the exercise of their Supervisory Board mandate by the employee representatives as such does not constitute a basis for doubt as to whether the independence criteria as defined by Item 5.4.2 of the DCGK are fulfilled, the Supervisory Board should include at least 13 members who are impartial as defined by the DCGK. 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 conflict of interest in the meaning above. Membership of the Shareholders' Committee or of the Supervisory Board of Henkel Management AG is compatible with Supervisory Board membership. As a rule, however, at least three of the shareholder representatives on the Supervisory Board 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 report.

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

- who – if members of a Management Board of a listed company – exercise more than three supervisory board mandates in total for non-Group listed companies or for non-Group companies with similar requirements,
- or who perform governance or advisory tasks for material competitors.

Also, as a rule, nobody should be proposed to the Annual General Meeting for election to the Supervisory Board who, at the time of the election, has already served more than two full terms of office on the Supervisory Board. However, to ensure continuity, members may also serve on the Supervisory Board for longer periods of time in individual cases. In keeping with the ownership structure and the corporation's tradition as an open family business, this applies particularly to members of the Henkel family share-pooling agreement.

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.

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

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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 has the knowledge, skills and professional experience needed to properly and effectively perform its duties. In addition, several members of the Supervisory Board offer international business experience or other international expertise. No individual on the Supervisory Board exceeds the specified maximum age.

None of the Supervisory Board members elected by the Annual General Meeting 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. 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 and – 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.

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 235 to 238. Details of the compensation of the Management Board, the Supervisory Board and the Shareholders' Committee can be found in the remuneration report that follows.

Remuneration report

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

The report takes into account the recommendations of the German Corporate Governance Code [DCGK] 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). 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).

Objectives and principles of the remuneration systems (remuneration policy)

Henkel is committed to corporate governance that is responsible, transparent and aligned to raising shareholder value over the long term. We want to create sustainable value – for our customers and consumers, for our people, our shareholders, for society and 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 business performance over the long term.

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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 long-term business performance and corresponding stakeholder targets.
- Remuneration consists of non-performance-related components and a significant portion of variable, performance-related components.
- A large portion of the variable, performance-related remuneration is tied to future performance spanning several years.
- Challenging financial performance indicators reflecting the corporation's strategy and objectives exist alongside non-financial individual targets to govern the variable performance-related components of remuneration. 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.
- Overall remuneration levels are as appropriate; reasonable caps on variable components of remuneration have been defined.
- The members of the Management Board invest a substantial portion of their remuneration in Henkel shares.

Supervisory Board / Shareholders' Committee:

- The remuneration strengthens the impartiality of the members of these corporate bodies.
- It 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 boards and committees.

1. Remuneration of members of the Management Board

Regulation, structure and amounts

Regarding Management Board remuneration, the Supervisory Board of Henkel Management AG is responsible, in particular, for:

- Determining and reviewing remuneration policy and the remuneration system.
- Specifying the non-performance-related and variable, performance-related components of remuneration.
- Defining individual targets each year, and measuring performance with regard to the same.
- Determining whether the financial targets have been met each year and quantifying the annual and multi-year variable, performance-related remuneration.
- Approving the acceptance of voluntary offices 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. Members of the Management Board do not participate in such consultations and resolutions unless this is deemed necessary.

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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 structure of Management Board remuneration is, moreover, based on the remuneration paid to the corporation's senior management, which is likewise composed of a fixed salary and a variable component aligned to long-term business performance. 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 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 remuneration system as well as the appropriateness of the compensation, based on the aforementioned criteria. In doing so, Management Board remuneration is analyzed relative to the compensation paid to senior management and the staff as a whole, both overall and over time, whereby the Supervisory Board of Henkel Management AG determines the boundaries between senior management and relevant staff members.

Members of the Management Board receive remuneration consisting of non-performance-related components and variable, performance-related components. The non-performance-related compensation is made up of the fixed salary together with various in-kind and other benefits (other emoluments). The variable performance-related compensation has two parts. The first is a variable annual cash payment (short-term incentive or "STI"), 65 percent of which is short-term variable cash remuneration and 35 percent of which is long-term variable cash remuneration in the form of an investment financed by the recipient in Henkel preferred shares (share deferral). The second is a variable cash payment based on the long-term performance of the business (long-term incentive or "LTI"). The variable remuneration targeting long-term performance thus consists of the share deferral and the LTI.

If all performance targets are met in full ("at target") – subject to comparability of the relevant areas of responsibility – around 21 percent of the remuneration (excluding other emoluments and pension benefits) is paid as the fixed component, while the STI and share deferral account for around 56 percent, and the LTI for around 23 percent. As such, around 42 percent of the remuneration in total is aligned to long-term performance (share deferral and LTI).

Pension benefits also form part of the remuneration package. In addition, the Supervisory Board of Henkel Management AG may, at its discretion and after due consideration, grant a special payment in recognition of exceptional achievements.

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. Pursuant to Section 87 (2) AktG, it 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).

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The components in detail:

Non-performance-related components

Fixed remuneration

The fixed remuneration takes into account the assigned function and responsibility and the market conditions. It is paid out monthly as salary 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.

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, reimbursement of accommodation / moving 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 preventive 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 monetary value in the case of benefits in kind.

Performance-related components

Variable annual cash remuneration

The performance criteria governing the variable annual cash remuneration (STI) are return on capital employed (ROCE) and earnings per preferred share (EPS) in the relevant fiscal year ("year of payment"), adjusted in each case for exceptional items, together with separate targets for each individual member.

Remuneration structure

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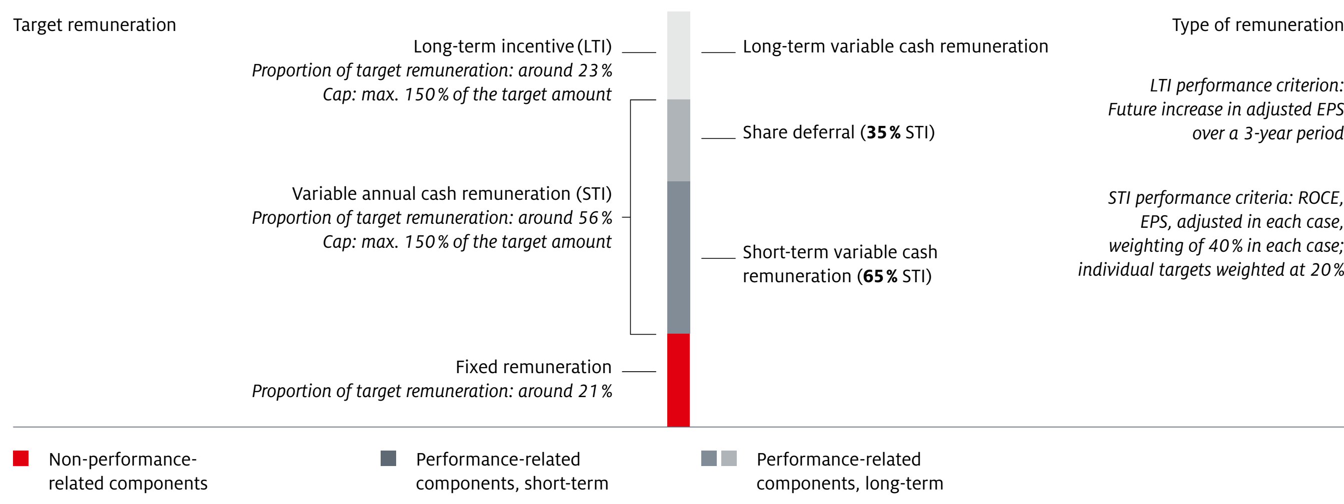

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The ROCE target is derived from a strategic target yield. EPS performance is measured on the basis of actual-to-actual comparison, i.e. the EPS in the year of payment is compared to the EPS from the previous year.

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. If adjusted EPS in the year of payment is more than 25 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 reference value for measuring performance in the following year.

The STI is calculated on the basis of a 40-percent weighting each of ROCE and EPS performance in the year of payment, and a 20-percent weighting of individual targets. The following factors play a key role in measuring individual performance: the Group results and the results of the relevant business unit; the quality of management demonstrated in those business units, taking account of any relevant circumstances; the individual contribution made by the Management Board member concerned and their individual contribution to general Henkel goals. The key financials EPS and ROCE are derived from the certified and approved consolidated financial statements for the relevant fiscal year. After the close of each fiscal year, the Supervisory Board of Henkel Management AG determines the degree to which the targets have been met. It also decides whether and to what extent adjustments of the key financials required to reflect exceptional items are to be taken into consideration when determining the variable remuneration. In determining the STI, the Supervisory Board of Henkel Management AG also takes into account the apparent sustainability of the economic performance delivered in the course of the year, and the performance levels of the Management Board members.

The total amount of the STI is subject to a cap of 150 percent of the target amount.

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

The STI is paid annually in arrears in the full amount in cash once the corporation's annual financial statements have been approved by the Annual General Meeting. The recipients can dispose of around 65 percent of this payment as they wish. This constitutes their short-term variable cash remuneration. The members of the Management Board invest the remainder of the relevant payment amount, corresponding to around 35 percent, in Henkel preferred shares. This constitutes their long-term variable cash remuneration, known as the 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 share 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 the members of the Management Board accumulate a significant share portfolio representing a multiple of their fixed remuneration while in office.

Reflection of negative performance in the STI (malus)

The structure of the STI is designed to ensure remuneration is lower on both an annual and multi-year basis if performance is negative. Firstly, negative performance is considered when measuring individual performance to determine the annual variable remuneration. Secondly, the requirement to invest in Henkel preferred shares (share deferral) ensures that this portion of Management Board members' remuneration participates directly in the

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long-term performance of the corporation, regardless of whether it is positive or negative.

Long-term incentive (LTI)

The long-term incentive is a variable cash payment based on the long-term performance of the corporation, the amount payable being dependent on the future increase registered in EPS over three consecutive years (the performance period).

On completion of the performance period, target achievement is ascertained by the Supervisory Board of Henkel Management AG on the basis of the increase in EPS attained. The EPS of the fiscal year preceding the year of payment is compared to the EPS of the second fiscal year following the year of payment. The figures used for the calculation of the increase are, in each case, the earnings per preferred share – adjusted for exceptional items, where these are relevant for determining remuneration – as disclosed in the certified and approved consolidated financial statements of the relevant fiscal years.

A remuneration scale has been established for the LTI, together with a threshold below which payments are withheld. The total amount of the LTI is subject to a cap of 150 percent of the target amount.

In keeping with the objectives of the Management Board remuneration policy, this structure of the STI and LTI rewards sustainably profitable growth and thus supports the long-term development of Henkel, with Management Board remuneration being effectively aligned to the interests of shareholders.

Special payments

Above and beyond the aforementioned remuneration components, the Supervisory Board of Henkel Management AG may, at its discretion and after due consideration, grant a special payment in recognition of exceptional achievements. Such special payment is limited to an amount equating to the respective Management Board member's fixed salary; the maximum compensation level – as determined by remuneration for a fiscal year if the caps on STI and LTI are reached – may not be exceeded as a result of such payment. As was also the case in previous years, no such special payments were awarded in the year under review.

Caps on remuneration

Taking into account the above-mentioned caps for the variable performance-related components of remuneration, the minimum and maximum remuneration amounts shown below result for a full fiscal year (excluding other emoluments and pension benefits).

Caps on remuneration[1] 20

in euros	Fixed remuneration	Short-term variable cash remuneration	Long-term variable cash remuneration (share deferral)	Long-term incentive, conditional entitlement	Total compensation minimum	Total compensation maximum
Chairman of the Management Board	1,200,000	0 to 3,315,000	0 to 1,785,000	0 to 2,100,000	**1,200,000**	**8,400,000**
Ordinary member of the Management Board[2]	750,000	0 to 1,950,000	0 to 1,050,000	0 to 1,200,000	**750,000**	**4,950,000**

[1] Excluding other emoluments and pension benefits. If these benefits are included, the amount of the remuneration cap increases by the equivalent of these contributions.
[2] In each case, for a factor of 1 for fixed remuneration, STI and LTI.

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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 unions to which Henkel AG & Co. KGaA belongs by virtue of its business activities. Any other paid or 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 238.

Pension benefits (retirement pensions and survivors' benefits)

The company 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, 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.

Provisions governing termination of position on the Management Board

Continued payment of fixed 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 fixed 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 dependent children.

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 severance settlement amounting to the remuneration for the remaining contractual term (fixed remuneration plus single- and multiple-year variable remuneration). These severance payments are limited to a maximum of two years' compensation (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 severance payment 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 severance payments amounting to not more than two years' compensation.

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 ter-

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mination 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

In addition, the executive 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 compensation, which is payable in 24 monthly installments unless the Supervisory Board of Henkel Management AG waives the non-competition clause. Any severance payments and any earnings from new extra-contractual activities during the non-competition period are offset against this discretionary payment. No entitlements exist in the event of premature termination of executive duties resulting from a change in control.

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 fixed remuneration.

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

Modifications to the Management Board remuneration policy

Current Management Board remuneration is derived from the remuneration policy approved by a large majority at the Annual General Meeting on April 13, 2015.

In light of the continued development of our ambition and strategic priorities since 2015, the Supervisory Board of Henkel Management AG has reviewed the remuneration policy and decided to adopt, starting with fiscal 2019, the following modifications as consistent with the recommendations of the Shareholders' Committee's Human Resources Subcommittee. These modifications are designed to ensure that remuneration offers even more of an incentive to drive Henkel's business strategy and long-term development.

During the course of 2019, we will decide whether further modification is expedient – based on the German Act implementing the second Shareholders' Rights Directive [Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie, ARUG II], which comes into force mid-2019, together with the revision of the DCGK, which is likewise expected mid-2019 – and will then present the finalized modification of the remuneration policy to the Annual General Meeting 2020 for approval.

The amendments compared to the former remuneration policy are explained in detail below and are due to come into effect on January 1, 2019:

Remuneration structure

Management Board remuneration continues to comprise four components: fixed remuneration (including non-cash and other benefits), annual variable cash remuneration (short-term incentive, STI) with share deferral, variable cash remuneration based on the long-term success of the corporation (long-term incentive, LTI), and company pension.

Fixed remuneration

The fixed remuneration constitutes the basic compensation element. It is paid out monthly as salary and is unchanged at 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.

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Other emoluments
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.

Variable annual cash remuneration (STI)
The performance criteria for the annual variable cash remuneration (STI) remain unchanged and include both financial targets, the so-called bonus, and the individual performance of each officer.

With a view to achieving closer alignment to sustainably profitable growth, the following financial targets will be included in the future measurement of bonuses, 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 ambition and budget. EPS performance will continue to be measured on the basis of actual-to-actual comparison, i.e. the EPS in the relevant fiscal year is compared to the EPS from the previous year. Thresholds have been defined for both key financials; payment is withheld if the minimum targets are not met. If EPS 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 amend the reference value for measuring performance in the following year.

To ensure increased consideration of the personal achievement of Management Board members, individual target achievement and personal performance are no longer reflected in additions to the STI; instead, an individual multiplier is determined, which is then multiplied with the amount (bonus) derived from total target achievement. The individual multiplier is contained within a bandwidth of 0.8 to 1.2.

Measurement of individual performance includes the following factors in particular: achievement of the relevant separate targets agreed with each individual 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 STI remains subject to a cap of 150 percent of the target amount. As has also been the case in the past, a minimum bonus is not guaranteed. Payment may therefore be canceled entirely.

Short-term and long-term components of the variable annual cash remuneration
Members of the Management Board can continue to dispose of 65 percent of this payment as they wish. This constitutes their short-term variable cash remuneration. They must invest the remaining 35 percent in Henkel preferred shares. This constitutes their long-term variable cash remuneration, known as the share deferral. The shares are placed in a blocked custody account with a drawing restriction. Moving forward, this ensures that the members of the Management Board accumulate a significant share portfolio representing a multiple of their fixed remuneration while in office, and that they participate in the long-term performance of the corporation, whether positive or negative.

Long-term incentive (LTI)
To place more emphasis on long-term value sustainability, future measurement of the long-term incentive will be based on the average over the three-year performance period of return on capital employed (ROCE) adjusted for one-time charges / gains and restructuring expenses.

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The ROCE target is derived from our financial ambition and budget, and is defined on a yearly basis. Target achievement is measured in each of the three years constituting a performance period and the average of the three values is used to determine target achievement for the performance period as a whole.

A threshold has been established for the LTI, below which payments are withheld. The total amount of the LTI is subject to a cap of 150 percent of the LTI target amount. As has also been the case in the past, a minimum LTI is not guaranteed. Payment may therefore be canceled entirely.

To ensure a cogent and consistent incentivization and structure of Management Board remuneration, the performance criteria governing the long-term incentive tranches issued in 2017 and 2018, whose three-year performance terms 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 from that date.

Functional factors governing variable remuneration
In order to give more weight to the differing requirements of the relevant areas of Management Board responsibility and to 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

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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.

Overall, the STI and LTI are calculated as follows:

Calculation of STI and LTI

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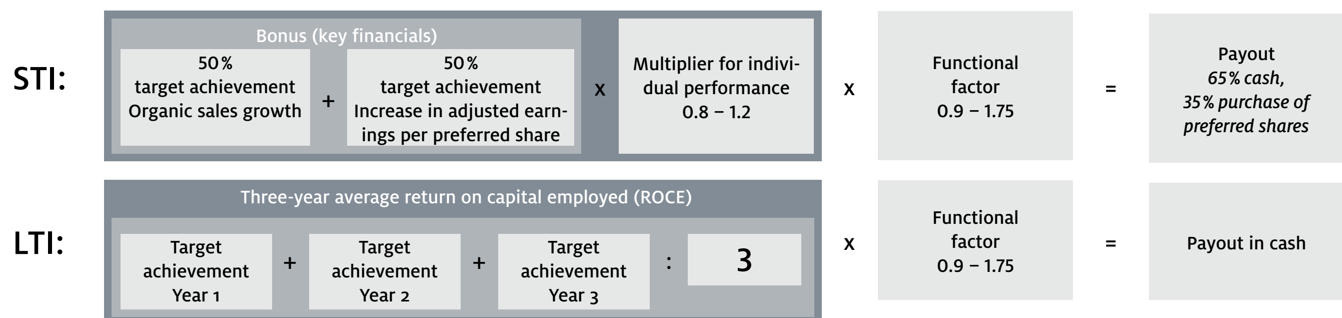

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Caps on remuneration

Taking into account the above-mentioned functional factors and caps for the variable performance-related components of remuneration, the minimum and maximum remuneration amounts for a full fiscal year (excluding other emoluments and pension benefits) are as follows:

Caps on remuneration[1] 23

in euros	Fixed remuneration	Short-term variable cash remuneration	Long-term variable cash remuneration (share deferral)	Conditional entitlement to long-term incentive	Total compensation Minimum	Total compensation Maximum
Chairman of the Management Board (Functional factor STI/LTI 1.75)	1,200,000	0 to 3,412,500	0 to 1,837,500	0 to 2,100,000	1,200,000	8,550,000
Ordinary member of the Management Board (Functional factor STI/LTI 0.9)	750,000	0 to 1,755,000	0 to 945,000	0 to 1,080,000	750,000	4,530,000
Ordinary member of the Management Board (Functional factor STI/LTI 1.0)	750,000	0 to 1,950,000	0 to 1,050,000	0 to 1,200,000	750,000	4,950,000
Ordinary member of the Management Board (Functional factor STI/LTI 1.1)	750,000	0 to 2,145,000	0 to 1,155,000	0 to 1,320,000	750,000	5,370,000

[1] Excluding other emoluments and pension benefits. If these benefits are included, the caps on total compensation increase accordingly by these amounts.

Special payments

The former authorization of the Supervisory Board of Henkel Management AG to grant special payments at its discretion and after due consideration – such payment to be limited to an amount equating to the respective Management Board member's fixed salary, and not to exceed the maximum compensation level if the caps on STI and LTI are reached – has been abolished entirely, starting in fiscal 2019.

Malus and clawback regulations

Malus and clawback regulations were added to the remuneration policy, starting on 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.

These modifications ensure closer and sustainable alignment of the remuneration policy to internationally and nationally recognized standards of good and responsible corporate governance.

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Henkel continues to meet the requirements of the AktG and DCGK (as amended on February 7, 2017) with regard to Management Board remuneration. As already explained, during the course of 2019, we will decide whether further modification is expedient – based on the German Act implementing the second Shareholders' Rights Directive [Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie, ARUG II], which comes into force mid-2019, together with the revision of the DCGK, which is likewise expected mid-2019. We will then present the finalized modification of the remuneration policy to the Annual General Meeting 2020 for approval.

Remuneration of members of the Management Board for fiscal 2018 *

Excluding pension entitlements, the total compensation paid to members of the Management Board serving in 2018 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 21,111,180 euros (previous year: 25,326,382 euros). Fixed salaries accounted for 4,950,000 euros (previous year: 4,950,000 euros), other emoluments for 362,365 euros (previous year: 390,083 euros), short-term variable cash remuneration for 8,393,942 euros (previous year: 9,532,967 euros), long-term variable cash remuneration – share deferral – for 4,519,817 euros (previous year: 5,133,135 euros), and the LTI tranche 2016 for which the plan term of three years ended at the end of the 2018 fiscal year for 2,885,056 euros (previous year: LTI tranche 2015, 4,474,265 euros). In addition, members of the Management Board serving in 2018 were granted an LTI tranche 2018 (term: January 1, 2018 – December 31, 2020) that will be paid out after the plan term of three years in 2021, subject to achievement of certain performance targets.

Management Board remuneration is disclosed in accordance with both HGB / DRS 17 and DCGK. Accordingly, the figures for some components and for total remuneration may differ.

Compensation as per HGB / DRS 17 for the reporting period granted to members of the Management Board serving in 2018, separated into the above-mentioned components, is shown in the following table.

The amounts in this table and the tables that follow have been rounded up or down to full euros. As a result, the rounded figures in some of the rows and columns in the tables may not add up to the totals as indicated.

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.

* Prior-year figures relate to the members of the Management Board serving in 2017.

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Remuneration of Management Board members who served in 2018

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in euros		1. Fixed remuneration[1]	2. Other emoluments[1]	3. Short-term variable cash remuneration[2]	Single-year remuneration (Total of 1 to 3)	4. Long-term variable cash remuneration (share deferral)[2]	5. Long-term incentive[3]	Multi-year remuneration (Total of 4 and 5)	Total remuneration (Total of 1 to 5)
Hans Van Bylen (Chairman of the Management Board) Board member since 7/1/2005	**2018**	**1,200,000**	**71,457**	**2,242,538**	**3,513,995**	**1,207,521**	**721,264**	**1,928,785**	**5,442,780**
	2017	1,200,000	56,648	2,486,755	3,743,403	1,339,022	894,853	2,233,875	5,977,278
Jan-Dirk Auris (Adhesive Technologies) 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**
	2017	750,000	47,540	1,498,165	2,295,705	806,704	894,853	1,701,557	3,997,262
Carsten Knobel (Finance) 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**
	2017	750,000	67,811	1,498,165	2,315,976	806,704	894,853	1,701,557	4,017,533
Kathrin Menges (Human Resources) Board member since 10/1/2011	**2018**	**750,000**	**45,027**	**1,240,376**	**2,035,403**	**667,895**	**540,948**	**1,208,843**	**3,244,246**
	2017	750,000	95,165	1,377,915	2,223,080	741,954	894,853	1,636,807	3,859,887
Bruno Piacenza (Laundry & Home Care) 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**
	2017	750,000	47,588	1,449,415	2,247,003	780,454	894,853	1,675,307	3,922,310
Jens-Martin Schwärzler (Beauty Care) Board member since 11/1/2017	**2018**	**750,000**	**73,405**	**968,900**	**1,792,305**	**521,716**	**0**	**521,716**	**2,314,021**
	2017	125,000	25,218	188,922	339,140	101,727	0	101,727	440,867
Total	**2018**	**4,950,000**	**362,365**	**8,393,942**	**13,706,307**	**4,519,817**	**2,885,056**	**7,404,873**	**21,111,180**
	2017	4,325,000	339,970	8,499,337	13,164,307	4,576,565	4,474,265	9,050,830	22,215,137 *

[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 2016: 1/1/2016 – 12/31/2018; term of LTI tranche 2015: 1/1/2015 – 12/31/2017, payout in the relevant following fiscal year.
* Includes prior-year remuneration paid to Management Board members who served in 2018.

Remuneration structure of Management Board members who served in 2018

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in euros		Components of single-year remuneration			Components of multi-year remuneration		
		Fixed remuneration	Other emoluments	Short-term variable cash remuneration	Long-term variable cash remuneration (share deferral)	Long-term incentive	Total remuneration
Total	**2018**	**4,950,000**	**362,365**	**8,393,942**	**4,519,817**	**2,885,056**	**21,111,180**
		23.5%	**1.7%**	**39.8%**	**21.4%**	**13.7%**	**100.0%**
Total	2017	4,325,000	339,970	8,499,337	4,576,565	4,474,265	22,215,137
		19.5%	1.5%	38.3%	20.6%	20.1%	100.0%

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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 in respect of 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 table below.

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 100,940,669 euros (previous year: 102,214,945 euros). Amounts paid to such recipients during the year under review totaled 7,205,023 euros (previous year: 7,265,411 euros).

Disclosures in accordance with the German Corporate Governance Code [DCGK]

In accordance with the recommendations of the DCGK, the following tables show

a) the benefits granted for fiscal 2018, including the maximum and minimum achievable compensation for variable remuneration components, and
b) the allocation for fiscal 2018.

The fixed salary and other emoluments are consistent with the HGB / DRS 17 figures. Unlike the disclosures under HGB / DRS 17, both DCGK tables also include the pension benefits (service cost as per IAS). In accordance with DCGK recommendations, the figures for granted variable remuneration (STI, LTI) reflect the expected value rather than the actual payment amount.

Service cost / Present value of pension benefits

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		HGB		IAS	
in euros		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	Present value of pension benefits as of December 31
Hans Van Bylen	**2018**	**770,183**	**8,051,409**	**770,220**	**8,439,095**
	2017	767,916	7,526,791	767,944	8,053,190
Jan-Dirk Auris	**2018**	**462,270**	**4,083,439**	**462,865**	**4,187,786**
	2017	460,860	3,815,974	461,600	3,961,485
Carsten Knobel	**2018**	**461,558**	**3,415,383**	**463,029**	**3,510,588**
	2017	460,036	3,120,002	461,860	3,256,629
Kathrin Menges	**2018**	**460,602**	**3,480,289**	**461,099**	**3,537,289**
	2017	459,233	3,188,528	459,882	3,267,118
Bruno Piacenza	**2018**	**460,013**	**3,449,136**	**460,072**	**3,453,241**
	2017	458,647	3,181,500	458,721	3,186,993
Jens-Martin Schwärzler (since 11/1/2017)	**2018**	**462,459**	**1,589,793**	**467,400**	**1,680,637**
	2017	173,706	1,111,875	179,972	1,258,609
Total	**2018**	**3,077,085**	**24,069,449**	**3,084,685**	**24,808,636**
	2017	2,780,398	21,944,670	2,789,979	22,984,024

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in euros		1. Fixed remuneration[1]	2. Other emoluments[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[3]	Total (1 to 5)	6. Service cost (IFRS)	Total remuneration pursuant to DCGK (Total of 1 to 6)
Hans Van Bylen (Chairman) (since 5/1/2016)	**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**
	2018 (min)	**1,200,000**	**71,457**	**1,271,457**	**0**	**0**	**0**	**1,271,457**	**770,220**	**2,041,677**
Board member since 7/1/2005	**2018 (max)**	**1,200,000**	**71,457**	**1,271,457**	**3,315,000**	**1,785,000**	**2,100,000**	**8,471,457**	**770,220**	**9,241,677**
	2017	1,200,000	56,648	1,256,648	2,308,691	1,243,141	1,400,000	6,208,480	767,944	6,976,424
Jan-Dirk Auris (Adhesive Technologies)	**2018**	**750,000**	**56,369**	**806,369**	**1,347,578**	**725,619**	**400,000**	**3,279,566**	**462,865**	**3,742,431**
	2018 (min)	**750,000**	**56,369**	**806,369**	**0**	**0**	**0**	**806,369**	**462,865**	**1,269,234**
Board member since 1/1/2011	**2018 (max)**	**750,000**	**56,369**	**806,369**	**1,950,000**	**1,050,000**	**1,200,000**	**5,006,369**	**462,865**	**5,469,234**
	2017	750,000	47,540	797,540	1,358,054	731,260	800,000	3,686,854	461,600	4,148,454
Carsten Knobel (Finance)	**2018**	**750,000**	**66,265**	**816,265**	**1,347,578**	**725,619**	**400,000**	**3,289,462**	**463,029**	**3,752,491**
	2018 (min)	**750,000**	**66,265**	**816,265**	**0**	**0**	**0**	**816,265**	**463,029**	**1,279,294**
Board member since 7/1/2012	**2018 (max)**	**750,000**	**66,265**	**816,265**	**1,950,000**	**1,050,000**	**1,200,000**	**5,016,265**	**463,029**	**5,479,294**
	2017	750,000	67,811	817,811	1,358,054	731,260	800,000	3,707,125	461,860	4,168,985
Kathrin Menges (Human Resources)	**2018**	**750,000**	**45,027**	**795,027**	**1,347,578**	**725,619**	**400,000**	**3,268,224**	**461,099**	**3,729,323**
	2018 (min)	**750,000**	**45,027**	**795,027**	**0**	**0**	**0**	**795,027**	**461,099**	**1,256,126**
Board member since 10/1/2011	**2018 (max)**	**750,000**	**45,027**	**795,027**	**1,950,000**	**1,050,000**	**1,200,000**	**4,995,027**	**461,099**	**5,456,126**
	2017	750,000	95,165	845,165	1,358,054	731,260	800,000	3,734,479	459,882	4,194,361
Bruno Piacenza (Laundry & Home Care)	**2018**	**750,000**	**49,842**	**799,842**	**1,347,578**	**725,619**	**400,000**	**3,273,039**	**460,072**	**3,733,111**
	2018 (min)	**750,000**	**49,842**	**799,842**	**0**	**0**	**0**	**799,842**	**460,072**	**1,259,914**
Board member since 1/1/2011	**2018 (max)**	**750,000**	**49,842**	**799,842**	**1,950,000**	**1,050,000**	**1,200,000**	**4,999,842**	**460,072**	**5,459,914**
	2017	750,000	47,588	797,588	1,358,054	731,260	800,000	3,686,902	458,721	4,145,623
Jens-Martin Schwärzler (Beauty Care)	**2018**	**750,000**	**73,405**	**823,405**	**1,078,062**	**580,495**	**320,000**	**2,801,962**	**467,400**	**3,269,362**
	2018 (min)	**750,000**	**73,405**	**823,405**	**0**	**0**	**0**	**823,405**	**467,400**	**1,290,805**
Board member since 11/1/2017	**2018 (max)**	**750,000**	**73,405**	**823,405**	**1,560,000**	**840,000**	**960,000**	**4,183,405**	**467,400**	**4,650,805**
	2017	125,000	25,218	150,218	189,741	102,168	106,667	548,794	179,972	728,766

[1] Payout in the relevant fiscal year.
[2] Average expected (not actual) payout and minimum / maximum amount.
[3] Value (not actually paid out) of the LTI tranche awarded to the serving members of the Management Board in the relevant fiscal year; payment is subject to the achievement of certain performance targets and due at the end of the three-year term, together with minimum / maximum amount; LTI tranche 2018: value based on an increase of 15 percent in adjusted EPS per preferred share in the period from 1/1/2018 – 12/31/2020, payout in 2021; LTI tranche 2017: value based on an increase of 30 percent in adjusted EPS per preferred share in the period from 1/1/2017 – 12/31/2019, payout in 2020.

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in euros		1. Fixed remuneration[1]	2. Other emoluments[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[3] 2016 tranche (term 1/1/2016 – 12/31/2018)	5. Long-term incentive[3] 2015 tranche (term 1/1/2015 – 12/31/2017)	Total (1 to 5)	6. Service cost (IFRS)	Total remuneration pursuant to DCGK (Total of 1 to 6)
Hans Van Bylen (Chairman) (since 5/1/2016)	**2018**	**1,200,000**	**71,457**	**1,271,457**	**2,242,538**	**1,207,521**	**721,264**		**5,442,780**	**770,220**	**6,213,000**
Board member since 7/1/2005	2017	1,200,000	56,648	1,256,648	2,486,755	1,339,022		894,853	5,977,278	767,944	6,745,222
Jan-Dirk Auris (Adhesive Technologies)	**2018**	**750,000**	**56,369**	**806,369**	**1,373,626**	**739,645**	**540,948**		**3,460,588**	**462,865**	**3,923,453**
Board member since 1/1/2011	2017	750,000	47,540	797,540	1,498,165	806,704		894,853	3,997,262	461,600	4,458,862
Carsten Knobel (Finance)	**2018**	**750,000**	**66,265**	**816,265**	**1,357,376**	**730,895**	**540,948**		**3,445,484**	**463,029**	**3,908,513**
Board member since 7/1/2012	2017	750,000	67,811	817,811	1,498,165	806,704		894,853	4,017,533	461,860	4,479,393
Kathrin Menges (Human Resources)	**2018**	**750,000**	**45,027**	**795,027**	**1,240,376**	**667,895**	**540,948**		**3,244,246**	**461,099**	**3,705,345**
Board member since 10/1/2011	2017	750,000	95,165	845,165	1,377,915	741,954		894,853	3,859,887	459,882	4,319,769
Bruno Piacenza (Laundry & Home Care)	**2018**	**750,000**	**49,842**	**799,842**	**1,211,126**	**652,145**	**540,948**		**3,204,061**	**460,072**	**3,664,133**
Board member since 1/1/2011	2017	750,000	47,588	797,588	1,449,415	780,454		894,853	3,922,310	458,721	4,381,031
Jens-Martin Schwärzler (Beauty Care)	**2018**	**750,000**	**73,405**	**823,405**	**968,900**	**521,716**	**0**		**2,314,021**	**467,400**	**2,781,421**
Board member since 11/1/2017	2017	125,000	25,218	150,218	188,922	101,727		0	440,867	179,972	620,839

[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; payout in the relevant following fiscal year.

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2. 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.

3. Remuneration of 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 Articles 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 in the performance of their supervisory function. In accordance with DCGK 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 takes into account 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.

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The Chair 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.

Remuneration of members of the Supervisory Board and of the Shareholders' Committee for fiscal 2018

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 1,559,000 euros plus VAT (previous year: 1,565,000 euros plus VAT). Of this amount, fixed fees accounted for 1,225,000 euros, attendance fees for 65,000 euros, and remuneration for committee activity (including associated attendance fees) for 269,000 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 2,295,206 euros (previous year: 2,215,754 euros). Of this amount, fixed fees were 1,122,603 euros and remuneration for subcommittee activity 1,172,603 euros.

In the year under review, no compensation or benefits were paid or granted for personally performed services, including in particular advisory or intermediation 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.

Supervisory Board remuneration

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in euros		Components of total remuneration			
		Fixed remuneration	Attendance fee	Fee for committee activity[1]	Total remuneration[2]
Dr. Simone Bagel-Trah[3], Chair	**2018**	**140,000**	**3,000**	**39,000**	**182,000**
	2017	140,000	4,000	39,000	183,000
Birgit Helten-Kindlein[3], Vice Chair (since 4/9/2018)	**2018**	**95,507**	**4,000**	**39,000**	**138,507**
	2017	70,000	3,000	39,000	112,000
Winfried Zander[3], Vice Chair (until 4/9/2018)	**2018**	**28,479**	**1,000**	**10,493**	**39,972**
	2017	105,000	4,000	39,000	148,000
Jutta Bernicke	**2018**	**70,000**	**5,000**	**–**	**75,000**
	2017	70,000	5,000	–	75,000
Dr. Kaspar von Braun	**2018**	**70,000**	**5,000**	**–**	**75,000**
	2017	70,000	5,000	–	75,000
Peter Emmerich (since 4/9/2018)	**2018**	**51,014**	**2,000**	**–**	**53,014**
	2017	–	–	–	–
Johann-Christoph Frey (until 4/9/2018)	**2018**	**18,986**	**2,000**	**–**	**20,986**
	2017	70,000	5,000	–	75,000

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Supervisory Board remuneration

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in euros		Components of total remuneration: Fixed remuneration	Attendance fee	Fee for committee activity[1]	Total remuneration[2]
Peter Hausmann[3] (until 4/9/2018)	**2018**	**18,986**	**1,000**	**10,493**	**30,479**
	2017	70,000	4,000	39,000	113,000
Benedikt-Richard Freiherr von Herman	**2018**	**70,000**	**4,000**	**–**	**74,000**
	2017	70,000	5,000	–	75,000
Timotheus Höttges	**2018**	**70,000**	**3,000**	**–**	**73,000**
	2017	70,000	4,000	–	74,000
Prof. Dr. Michael Kaschke[3]	**2018**	**70,000**	**2,000**	**38,000**	**110,000**
	2017	70,000	4,000	39,000	113,000
Angelika Keller (until 4/9/2018)	**2018**	**18,986**	**2,000**	**–**	**20,986**
	2017	70,000	5,000	–	75,000
Barbara Kux	**2018**	**70,000**	**5,000**	**–**	**75,000**
	2017	70,000	5,000	–	75,000
Andrea Pichottka	**2018**	**70,000**	**4,000**	**–**	**74,000**
	2017	70,000	4,000	–	74,000
Philipp Scholz (since 4/9/2018)	**2018**	**51,014**	**3,000**	**–**	**54,014**
	2017	–	–	–	–
Dr. Martina Seiler	**2018**	**70,000**	**5,000**	**–**	**75,000**
	2017	70,000	5,000	–	75,000
Prof. Dr. Theo Siegert[3]	**2018**	**70,000**	**4,000**	**74,000**	**148,000**
	2017	70,000	4,000	74,000	148,000
Dirk Thiede (since 4/9/2018)	**2018**	**51,014**	**3,000**	**–**	**54,014**
	2017	–	–	–	–
Edgar Topsch[3]	**2018**	**70,000**	**4,000**	**29,507**	**103,507**
	2017	70,000	5,000	–	75,000
Michael Vassiliadis[3] (since 4/9/2018)	**2018**	**51,014**	**3,000**	**28,507**	**82,521**
	2017	–	–	–	–
Total	**2018**	**1,225,000**	**65,000**	**269,000**	**1,559,000**
	2017	1,225,000	71,000	269,000	1,565,000

[1] Remuneration for service on the Audit Committee, including attendance fee; there is no separate remuneration payable for service on the Nominations Committee.
[2] Figures do not include VAT.
[3] Member of the Audit Committee. Audit Committee Chair: Prof. Dr. Theo Siegert.

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Shareholders' Committee remuneration

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in euros		Components of total remuneration		Total remuneration
		Fixed remuneration	Fee for committee activity	
Dr. Simone Bagel-Trah, Chair (Chair Human Resources Subcommittee)	**2018**	**200,000**	**200,000**	**400,000**
	2017	200,000	200,000	400,000
Dr. Christoph Henkel, Vice Chair (Chair Finance Subcommittee)	**2018**	**150,000**	**200,000**	**350,000**
	2017	150,000	200,000	350,000
Prof. Dr. Paul Achleitner (Member Finance Subcommittee)	**2018**	**100,000**	**100,000**	**200,000**
	2017	100,000	100,000	200,000
Boris Canessa (Member HR Subcommittee) (until 4/30/2017)	**2018**	**–**	**–**	**–**
	2017	32,877	32,877	65,754
Johann-Christoph Frey (Member HR Subcommittee) (since 4/9/2018)	**2018**	**72,603**	**72,603**	**145,206**
	2017	–	–	–
Stefan Hamelmann (Vice Chair Finance Subcommittee)	**2018**	**100,000**	**100,000**	**200,000**
	2017	100,000	100,000	200,000
Prof. Dr. Ulrich Lehner (Member Finance Subcommittee)	**2018**	**100,000**	**100,000**	**200,000**
	2017	100,000	100,000	200,000
Dr. Dr. Norbert Reithofer (Member Finance Subcommittee)	**2018**	**100,000**	**100,000**	**200,000**
	2017	100,000	100,000	200,000
Konstantin von Unger (Vice Chair HR Subcommittee)	**2018**	**100,000**	**100,000**	**200,000**
	2017	100,000	100,000	200,000
Jean-François van Boxmeer (Member HR Subcommittee)	**2018**	**100,000**	**100,000**	**200,000**
	2017	100,000	100,000	200,000
Werner Wenning (Member HR Subcommittee)	**2018**	**100,000**	**100,000**	**200,000**
	2017	100,000	100,000	200,000
Total	**2018**	**1,122,603**	**1,172,603**	**2,295,206**
	2017	1,082,877	1,132,877	2,215,754

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

According to Article 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.

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Fundamental principles of the Group

Operational activities

Overview

Henkel was founded in 1876. Therefore, the year under review marks the 142nd in our corporate history. At the end of 2018, Henkel's workforce worldwide numbered around 53,000. 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 all these 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. Henkel's 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 leads the global market with high-impact solutions. The business unit offers a broad portfolio of adhesives, sealants and functional coatings through 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, furniture and various 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.

1876

year of foundation.

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Our customers range from household appliance manufacturers through to operators of large-scale industrial plants, 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 in the infrastructure electronics of industrial facilities 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 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 via TV-based and online retailing.

Henkel around the world: Regional Centers

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Our **three business units** are managed on the basis of globally responsible strategic business units. These 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 strategies 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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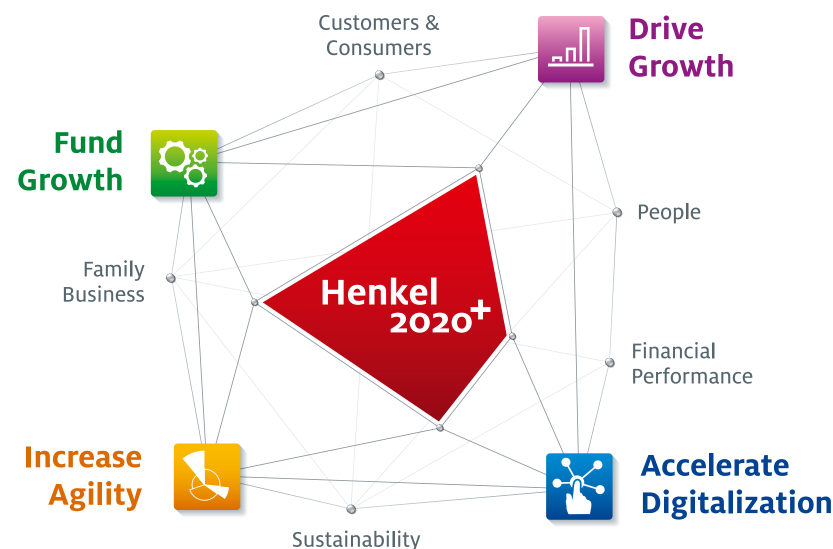
Henkel 2020+: Our ambitions and strategic priorities

To ensure sustainable profitable growth through to 2020 and beyond, Henkel has defined four strategic priorities: drive growth, accelerate digitalization, increase agility and fund growth. Our balanced and broadly diversified portfolio with strong brands, innovative technologies and leading positions in attractive markets and categories provides a strong foundation. Our passionate global team is united in a strong corporate culture with shared values.

Building on its strong foundation, Henkel is continuing to drive sustainable profitable growth. At the end of 2016, we presented our ambitions and strategic priorities that will drive the company through to 2020 and beyond.



Our ambitions

We have defined our ambitions in a very volatile market environment that is characterized by increasing globalization, accelerating digitalization, rapidly changing markets, and an increasing relevance of resource scarcity and social responsibility.

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.

To underpin Henkel's continued commitment to generate sustainable profitable growth and attractive returns, in January 2019 we expanded our mid- to long-term financial ambitions through to 2020 and beyond:

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

In addition, we plan to continue pursuing 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.

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Strategic priorities in summary

Drive growth

Driving growth in mature and emerging markets is a key strategic priority for Henkel. In order to achieve this, we are implementing a range of targeted initiatives to further deepen the relationships with customers and consumers worldwide, strengthen our leading brands and technologies, develop exciting innovations and services, and capture new sources of growth.

Accelerate digitalization

Accelerating digitalization helps us to successfully grow our business, strengthen the relationships with our customers and consumers, optimize our processes and transform the entire company. We are implementing a range of initiatives to drive our digital business, leverage Industry 4.0, and eTransform the organization.

Increase agility

In a highly volatile and dynamic business environment, increasing the agility of the organization is a critical success factor for Henkel. This requires energized and empowered teams, fastest time-to-market as well as smart and simplified processes.

Fund growth

In order to fund growth, we are implementing new approaches to optimize resource allocation, focus on “Net Revenue Management,” further increase efficiency in our structures, and continue to expand our Global Supply Chain organization. Together, these initiatives will contribute to further improving profitability and enable us to fund our growth ambitions for 2020 and beyond.

Acquisitions in fiscal 2018

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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
Unión Técnico Comercial S.R.L., Products for maintenance, repair and overhaul of durable goods	Peru	12/5/2017	1/3/2018	~10	13	84, 134–135
JemPak Corporation, Detergent and dishwashing retailer brands	USA, Canada	5/10/2018	6/1/2018	~85	76	84, 95, 134–135
Aislantes Nacionales S.A., Tile adhesives and building materials	Chile	7/16/2018	12/10/2018	~85	343	84, 134–135

[1] Proforma sales 2018.

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We continued to focus on driving these priorities and initiatives in fiscal 2018.

In driving growth, we have been able to acquire new customers and consumer target groups with our product and service innovations. We also expanded our venture capital activities further in 2018. Through investments in start-ups, we have strengthened our digital and technological expertise and have further expanded our network. Aside from organic growth, business was further strengthened in the year under review by several acquisitions (see table on page 66). The integration of the acquired businesses progressed well.

We continued to drive the digital transformation of the company. Our efforts included launching Henkel X – a platform for further fostering entrepreneurial spirit among all our employees.

We have increased agility by simplifying the organizational structures and processes in all business units.

We continued to drive the implementation of our "Fund growth" initiatives in 2018 and reached further milestones, including the successful rollout of our "Net Revenue Management" initiative into further countries.

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.

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.

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Management system and performance indicators

Henkel plans to continue generating sustainable profitable growth through to 2020 and beyond. To this end, we have defined four strategic priorities – drive growth, accelerate digitalization, increase agility and fund growth – as described on pages 65 to 67. To enable efficient management of the Group, we align our actions to these strategic priorities translated into strategy plans for our central functions, the three business units Adhesive Technologies, Beauty Care and Laundry & Home Care, and their respective business areas.

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

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

The key performance indicators are represented in both our year and the medium-term plans. A regular comparison of these plans with current developments and 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 ambition.

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

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in percent	2018	2019
Adhesive Technologies	10.50	10.00
Beauty Care	9.00	8.00
Laundry & Home Care	9.00	8.00
Henkel Group	**8.00**	**7.75**

WACC after tax by business unit

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in percent	2018	2019
Adhesive Technologies	7.25	7.25
Beauty Care	6.25	6.00
Laundry & Home Care	6.25	6.00
Henkel Group	**5.50**	**5.75**

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 29 to 32,
- pursuant to Sections 289f and 315d HGB – Corporate governance statement – please refer to pages 32 to 42, and
- pursuant to Sections 289a (2) and 315a (2) HGB – Remuneration report – please refer to pages 42 to 61,

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.

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 2018. It constitutes the separate, combined non-financial corporate report for the Henkel Group and Henkel AG & Co. KGaA for fiscal 2018 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

8.00 %

Group WACC before tax in fiscal 2018.

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Macroeconomic development

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

Overview: Moderate development under persistently difficult underlying conditions

Global economic growth was moderate in 2018. Gross domestic product increased by approximately 3 percent worldwide, which was more or less on a par with the prior year. The mature markets grew by approximately 2 percent, while the emerging markets achieved an increase of approximately 5 percent.

For the year as a whole, economic growth was close to 3 percent in North America and approximately 2 percent in Western Europe. The Japanese economy expanded by approximately 1 percent. Economic growth in Asia (excluding Japan) was approximately 6 percent, with China coming in slightly above this level. Eastern Europe posted growth of approximately 3 percent, to which Russia also contributed with an increase of around 2 percent. The Africa / Middle East region recorded an increase of around 3 percent. Growth in Latin America was around 2 percent during the period under review.

Unemployment: Global level unchanged year on year

Global unemployment remained close to the level of the previous year at around 7 percent. Year on year, the unemployment rates in both North America and Western Europe were lower at approximately 4 percent and approximately 7 percent respectively. Unemployment remained at a level of 9 percent in Latin America. Compared to prior year, the unemployment rates in Eastern Europe at 6.5 percent and in Asia (excluding Japan) at around 7 percent were slightly lower, respectively unchanged, year on year. At approximately 10 percent, unemployment in Africa / Middle East was on a par with the prior-year level.

Inflation: Moderate rise in global price levels

Global inflation was approximately 3 percent and thus unchanged year on year. In the mature markets, inflation was 2 percent up. Inflation in Western Europe was approximately on a par with the prior-year level, while there was a slight increase in North America and Japan. The inflation rate in emerging markets was approximately 4 percent. In Latin America and Asia (excluding Japan), inflation increased slightly year on year. The inflation rate in Africa / Middle East rose to approximately 7 percent. In Eastern Europe, inflation was slightly lower year on year.

Direct materials: Prices moderately higher than prior-year level

As expected, prices for direct materials (raw materials, packaging, and purchased goods and services) rose moderately in 2018 compared to the level of the previous year. This development was driven by higher prices for relevant input materials, particularly crude oil.

Currencies: High currency volatility

Most of the currencies in the emerging markets of relevance to Henkel devalued as an average over the year. The Turkish lira and Russian ruble lost most ground, while the US dollar depreciated strongly in the first quarter before appreciating again from the second quarter onward. It closed at 1.15 US dollars

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to the euro at year-end. Averaged out over the year as a whole, the US dollar lost ground to the euro.

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

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	2017	2018
Chinese yuan	7.63	**7.81**
Mexican peso	21.33	**22.71**
Polish zloty	4.26	**4.26**
Russian ruble	65.95	**74.04**
Turkish lira	4.12	**5.71**
US dollar	1.13	**1.18**

Source: ECB daily foreign exchange reference rates.

Development by sector

Moderate rise in global consumption

Private consumer spending grew moderately at a rate of approximately 3 percent across all sectors. Consumer spending in mature markets increased by 2 percent year on year. Consumers in North America increased their spending by around 3 percent. In Western Europe, consumer spending grew by around 1 percent compared to the previous year. Consumers in emerging markets spent 4.5 percent more.

Industrial production at prior-year level

At approximately 3 percent, the industrial production index (IPX) was on a par with the prior-year level worldwide. The mature markets contributed 2.5 percent to growth in 2018. In the emerging markets growth was 3.5 percent.

Review of overall business performance

In a challenging economic environment, Henkel continued its successful business performance of the previous year. 2018 proved to be a good year.

Sales totaled 19.9 billion euros in the year under review. We achieved good organic sales growth of 2.4 percent. Organic sales growth was very strong in the emerging markets at 6.3 percent, and slightly down year on year at – 0.4 percent in the mature markets.

+2.4 % organic sales growth.

Year on year, adjusted[1] gross margin decreased by – 0.6 percentage points to 46.5 percent. Savings from cost reduction measures and efficiency improvements accompanied by selective price increases were able to partially offset the impact of higher prices for direct materials (raw materials, packaging, and purchased goods and services).

As a result of our continued focus on cost management, strict implementation of our “Fund growth” initiatives, and the adjustment of our structures to our markets and customers, we were able to improve our profitability versus prior year. Adjusted[1] return on sales increased by 0.3 percentage points in 2018 to 17.6 percent (2017: 17.3 percent).

Adjusted[1] earnings per preferred share grew to 6.01 euros, equivalent to an increase of 2.7 percent versus 2017 (5.85 euros). Net working capital as a percentage of sales was 5.1 percent, an increase of 0.3 percentage points over the previous year. We generated free cash flow of 1,917 million euros. Our net financial position totaled – 2,895 million euros (2017: – 3,222 million euros).

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

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Results of operations of the Group

Sales

Nominally, sales in fiscal 2018 decreased slightly by – 0.6 percent to 19,899 million euros. Currency movements had a negative effect on sales of – 5.4 percent. Adjusted for foreign exchange effects, sales grew by 4.8 percent. Acquisitions / divestments accounted for 2.4 percent of the increase in sales.

Organic sales growth, i.e. adjusted for foreign exchange and acquisitions / divestments, was good at 2.4 percent. The increase was driven by both price and volume.

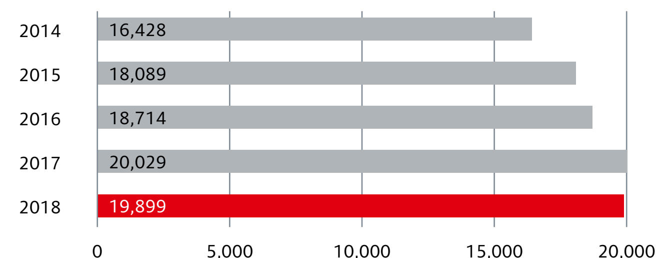
Sales development[1] 36

in percent	2018
Change versus previous year	**– 0.6**
Foreign exchange	**– 5.4**
Adjusted for foreign exchange	**4.8**
Acquisitions / divestments	**2.4**
Organic	**2.4**
of which price	**1.9**
of which volume	**0.5**

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

The Adhesive Technologies business unit achieved organic sales growth of 4.0 percent. Organic sales growth in the Beauty Care business unit was – 0.7 percent and thus lower than in 2017. The Laundry & Home Care business unit generated organic sales growth of 1.9 percent.

Sales 37
in million euros



Price and volume effects 38

in percent	Organic sales growth	of which price	of which volume
Adhesive Technologies	**4.0**	2.8	1.2
Beauty Care	**– 0.7**	0.0	– 0.7
Laundry & Home Care	**1.9**	1.7	0.2
Henkel Group	**2.4**	1.9	0.5

In a market environment that continues to be highly competitive, we increased sales in the Western Europe region to 6,107 million euros. Organic sales growth was positive, mainly driven by the positive performance in Germany. The share of sales from the region increased to 31 percent.

In the Eastern Europe region, we achieved sales of 2,843 million euros. Organically, sales grew by 7.6 percent. At 14 percent, the share of sales from the region was on a par with the prior-year level.

Sales

+2.4 %

organic sales growth.

EBIT

17.6 %

adjusted[1] return on sales (EBIT): up 0.3 percentage points.

EPS

6.01 euros

adjusted[1] earnings per preferred share (EPS): up 2.7 percent.

Dividend

1.85 euros

dividend per preferred share[2].

[1] Adjusted for one-time charges / gains and restructuring expenses.
[2] Proposal to shareholders for the Annual General Meeting on April 8, 2019.

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Our sales in the Africa / Middle East region decreased to 1,286 million euros. We were able to improve sales organically by 11.3 percent. At 6 percent, the share of sales from the region was unchanged year on year.

Sales in the North America region decreased to 5,040 million euros. Organically, sales declined by – 1.0 percent. This slight decline was due to the delivery difficulties in our consumer goods businesses of Beauty Care and Laundry & Home Care. The share of sales from the region decreased slightly to 25 percent.

Our sales in the Latin America region rose to 1,181 million euros. Organically, we increased sales by 9.3 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 3,314 million euros. Organic sales growth in the region was 0.9 percent. The share of sales from the Asia-Pacific region remained flat at 17 percent.

Sales in the emerging markets of Eastern Europe, Africa / Middle East, Latin America and Asia (excluding Japan) were slightly lower year on year at 8,071 million euros. Organically, sales grew by 6.3 percent. Thus the emerging markets were the main drivers of organic sales growth. At 40 percent, the share of sales from emerging markets was unchanged year on year.

Key financials by region[1]

39

in million euros	Western Europe	Eastern Europe	Africa / Middle East	North America	Latin America	Asia-Pacific	Total Regions	Corporate	Henkel Group
Sales[2] 2018	**6,107**	**2,843**	**1,286**	**5,040**	**1,181**	**3,314**	**19,771**	**128**	**19,899**
Sales[2] 2017	6,033	2,897	1,302	5,162	1,142	3,371	19,906	123	20,029
Change from previous year	1.2 %	– 1.8 %	– 1.2 %	– 2.4 %	3.5 %	– 1.7 %	– 0.7 %	–	– 0.6 %
Adjusted for foreign exchange	1.6 %	7.6 %	11.6 %	4.4 %	16.5 %	1.9 %	4.8 %	–	4.8 %
Organic	0.3 %	7.6 %	11.3 %	– 1.0 %	9.3 %	0.9 %	2.4 %	–	2.4 %
Proportion of Group sales 2018	**31 %**	**14 %**	**6 %**	**25 %**	**6 %**	**17 %**	**99 %**	**1 %**	**100 %**
Proportion of Group sales 2017	30 %	14 %	6 %	26 %	6 %	17 %	99 %	1 %	100 %
Operating profit (EBIT) 2018	**1,810**	**280**	**35**	**406**	**136**	**561**	**3,228**	**– 112**	**3,116**
Operating profit (EBIT) 2017	1,463	280	58	731	112	537	3,181	– 126	3,055
Change from previous year	23.7 %	0.1 %	– 39.4 %	– 44.5 %	21.6 %	4.5 %	1.5 %	–	2.0 %
Adjusted for foreign exchange	23.8 %	14.2 %	– 15.7 %	– 42.0 %	41.3 %	8.7 %	5.2 %	–	5.1 %
Return on sales (EBIT) 2018	**29.6 %**	**9.8 %**	**2.7 %**	**8.0 %**	**11.5 %**	**16.9 %**	**16.3 %**	**–**	**15.7 %**
Return on sales (EBIT) 2017	24.3 %	9.7 %	4.5 %	14.2 %	9.8 %	15.9 %	16.0 %	–	15.3 %

[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)

40

in million euros	2017	2018	+/–
EBIT (as reported)	**3,055**	**3,116**	**2.0%**
One-time gains	– 21	**– 11**	
One-time charges	182	**129**	
Restructuring expenses	245	**262**	
Adjusted EBIT	**3,461**	**3,496**	**1.0%**

In order to adapt our structures to our markets and customers, we spent 262 million euros on restructuring (previous year: 245 million euros). A significant portion of this amount is attributable to the optimization of our sales and production structures. Please refer to page 210 for more details on our restructuring expenses and an explanation of the one-time charges and gains.

Adjusted operating profit (adjusted EBIT) increased to 3,496 million euros, a rise of 1.0 percent on the prior-year figure of 3,461 million euros. We improved adjusted return on sales (adjusted EBIT margin) for the Group by 0.3 percentage points to 17.6 percent.

Adjusted return on sales in the Adhesive Technologies business unit showed an increase of 0.2 percentage points to 18.7 percent. Adjusted return on sales in the Beauty Care business unit was slightly down by – 0.1 percentage points year on year at 17.1 percent. The Laundry & Home Care business unit increased adjusted return on sales by 0.5 percentage points to 18.1 percent.

In all business units, we benefited from our successful innovations, the ongoing measures to reduce costs and improve efficiency, and synergy effects.

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 210.

Cost of sales was 0.4 percent higher year on year at 10,641 million euros. Gross profit decreased by – 1.8 percent to 9,258 million euros. Adjusted gross margin decreased by – 0.6 percentage points to 46.5 percent. Savings from cost reduction measures and efficiency improvements accompanied by selective price increases partially offset the impact of higher prices for direct materials (raw materials, packaging, and purchased goods and services).

At 4,513 million euros, marketing, selling and distribution expenses were below the prior-year figure of 4,665 million euros. Compared to fiscal 2017, the ratio to sales decreased to 22.6 percent. We spent a total of 471 million euros for research and development. The ratio to sales, at 2.4 percent, was more or less on a par with the prior year. Administrative expenses totaled 875 million euros – up from 870 million euros last year. At 4.4 percent, administrative expenses as a percentage of sales were largely unchanged year on year.

17.6 %

adjusted return on sales: up 0.3 percentage points.

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Reconciliation from sales to adjusted operating profit[1]

41

in million euros	2017	%	2018	%	Change
Sales	**20,029**	**100**	**19,899**	**100**	**– 0.6 %**
Cost of sales	– 10,598	– 52.9	**– 10,641**	**– 53.5**	0.4 %
Gross profit	**9,431**	**47.1**	**9,258**	**46.5**	**– 1.8 %**
Marketing, selling and distribution expenses	– 4,665	– 23.3	**– 4,513**	**– 22.6**	– 3.3 %
Research and development expenses	– 469	– 2.3	**– 471**	**– 2.4**	0.4 %
Administrative expenses	– 870	– 4.3	**– 875**	**– 4.4**	0.6 %
Other operating income / expenses	34	0.1	**97**	**0.5**	–
Adjusted operating profit (EBIT)	**3,461**	**17.3**	**3,496**	**17.6**	**1.0 %**

[1] Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Other operating income and expenses

At 97 million euros, the balance of adjusted other operating income and expenses increased year on year (2017: 34 million euros). The increase was attributable to numerous individual transactions.

Financial result

The financial result developed from – 67 million euros in 2017 to – 65 million euros in the reporting year. The higher financing expense caused by the acquisitions in 2017 and 2018 was offset by a lower interest expense relating to tax obligations and a higher investment result.

Net income and earnings per share (EPS)

Income before tax increased by 63 million euros to 3,051 million euros. Taxes on income amounted to 721 million euros. The tax rate of 23.6 percent was substantially higher year on year (2017: 15.0 percent). The tax burden eased in the prior year mainly because of the remeasurement of deferred taxes resulting from the tax reform that was passed in the USA in December 2017. This effect did not recur in the year under review. The adjusted tax rate decreased year on year by – 1.2 percentage points to 23.5 percent. Net income declined by – 8.3 percent from 2,541 million euros to 2,330 million euros. After taking into account 19 million euros attributable to non-controlling interests, net income attributable to shareholders of Henkel AG & Co. KGaA amounted to 2,311 million euros, – 8.3 percent lower than the prior-year figure (2017: 2,519 million euros). Adjusted net income after deducting non-controlling interests was 2,604 million euros compared to 2,534 million euros in fiscal 2017. 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 103 to 106.

€ 2,330 m

net income.

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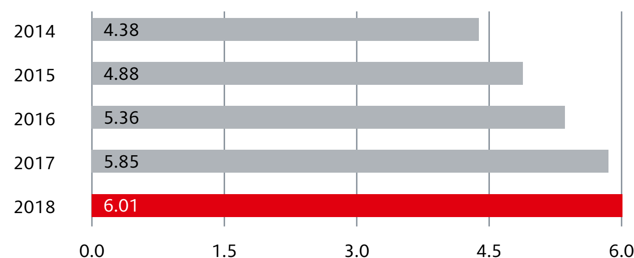
Earnings per preferred share (EPS) decreased from 5.81 euros to 5.33 euros. Earnings per ordinary share decreased from 5.79 euros to 5.31 euros.

Adjusted earnings per preferred share grew by 2.7 percent to 6.01 euros (2017: 5.85 euros). The figures are adjusted for one-time charges / gains and restructuring expenses.

Adjusted earnings per preferred share
in euros

42



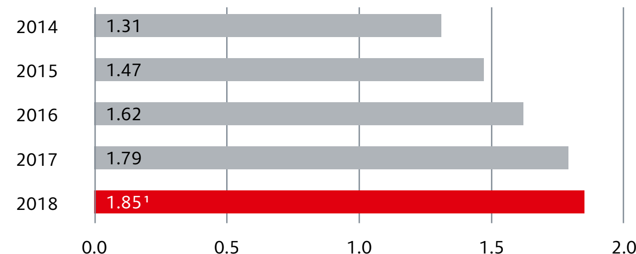
Dividend

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, amount to 25 percent to 35 percent of net income after non-controlling interests and adjusted for exceptional items. We will propose to the Annual General Meeting an increased dividend compared to the previous year: 1.85 euros per preferred share and 1.83 euros per ordinary share. The payout ratio would then be 30.9 percent.

Starting in fiscal 2019, dividends will be based on a higher target corridor of 30–40 percent for the payout ratio.

Preferred share dividend
in euros

43



[1] Proposal to shareholders for the Annual General Meeting on April 8, 2019.

Return on capital employed (ROCE)

At 15.5 percent, return on capital employed (ROCE) was below the prior-year figure of 16.3 percent due to acquisitions.

Economic Value Added (EVA®)

Economic Value Added (EVA®) decreased from 1,610 million euros to 1,510 million euros.

Comparison between actual business performance and guidance

In August 2018 we updated our guidance for fiscal 2018:

We confirmed our expectation for organic sales growth of 2 to 4 percent for the Henkel Group. Our expectations for organic sales growth were 4 to 5 percent for the Adhesive Technologies business unit, 0 to 2 percent for the Beauty Care business unit and 2 to 4 percent for the Laundry & Home Care business unit.

For adjusted return on sales (EBIT), we forecasted an increase to around 18 percent for fiscal 2018 and anticipated that all business units would contribute to this positive performance. We expected an increase in adjusted earnings per preferred share of 3 to 6 percent.

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With organic growth of 2.4 percent, we achieved our sales growth forecast of 2 to 4 percent. The Adhesive Technologies business unit was at the lower end of the forecast range, while Beauty Care fell short of the forecast range. Organic sales growth in the Laundry & Home Care business unit was slightly below the forecast bandwidth.

Adjusted return on sales of the Henkel Group increased by 0.3 percentage points to 17.6 percent and was therefore below the forecast range of around 18 percent.

The increase in adjusted earnings per preferred share of 2.7 percent to 6.01 euros (2017: 5.85 euros) was slightly below our updated forecast of 3 to 6 percent growth.

Our restructuring expenses totaled 262 million euros. In our guidance, we had predicted a range of between 200 million and 250 million euros. Capital expenditures on property, plant and equipment and intangible assets totaled 853 million euros in fiscal 2018. We had originally forecasted capital expenditures of between 750 million and 850 million euros.

Guidance versus performance 2018

44

	Guidance for 2018	Updated guidance for 2018[1]	Performance in 2018
Organic sales growth	Henkel Group: 2 – 4 percent All business units within this range	Henkel Group: 2 – 4 percent Adhesive Technologies: 4 – 5 percent Beauty Care: 0 – 2 percent Laundry & Home Care: 2 – 4 percent	Henkel Group: 2.4 percent Adhesive Technologies: 4.0 percent Beauty Care: – 0.7 percent Laundry & Home Care: 1.9 percent
Adjusted return on sales (EBIT)	Increase to more than 17.5 percent	Increase to around 18 percent	Increase to 17.6 percent
Adjusted earnings per preferred share	Increase of 5 – 8 percent	Increase of 3 – 6 percent	Increase of 2.7 percent

[1] Updated on August 16, 2018.

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Results of operations of the business units

Adhesive Technologies

Overview

Despite increasing economic and geopolitical risks, the economic environment in which the Adhesive Technologies business unit operates was characterized by a steady upward trend in global industrial production growth. From a regional perspective, economic performance was driven by strong growth in the emerging markets, while the mature markets showed a good development.

Within this general economic environment, Adhesive Technologies successfully continued on its profitable growth path. Through active portfolio management and innovative product solutions, our organic sales growth was strong, with a good performance in adjusted return on sales.

Sales

Sales generated by the Adhesive Technologies business unit rose nominally by 0.2 percent to 9,403 million euros in the year under review. Foreign exchange effects reduced sales growth by – 5.2 percent. Acquisitions / divestments accounted for 1.4 percent of the growth.

Organically (i.e. adjusted for foreign exchange and acquisitions / divestments), sales grew by 4.0 percent. Growth was driven by both price and volume.

In the following, we comment on our organic sales performance in the regions. Sales increased very strongly in our emerging markets, due particularly to double-digit sales growth in Eastern Europe and significant sales growth in

Sales growth

+4.0 %

organic sales growth.

Adjusted[1] operating profit

€ 1,761 m

adjusted[1] operating profit (EBIT): up 1.6 percent.

Adjusted[1] return on sales

18.7 %

adjusted[1] return on sales (EBIT): up 0.2 percentage points.

Key financials[2] 45

in million euros	2017	2018	+/–
Sales	9,387	**9,403**	0.2 %
Proportion of Henkel sales	47 %	**47 %**	–
Operating profit (EBIT)	1,657	**1,669**	0.7 %
Adjusted operating profit (EBIT)	1,734	**1,761**	1.6 %
Return on sales (EBIT)	17.7 %	**17.7 %**	0.0 pp
Adjusted return on sales (EBIT)	18.5 %	**18.7 %**	0.2 pp
Return on capital employed (ROCE)	20.3 %	**19.3 %**	– 1.0 pp
Economic Value Added (EVA®)	831	**762**	– 8.2 %

Sales development[3] 46

in percent	2018
Change versus previous year	**0.2**
Foreign exchange	**– 5.2**
Adjusted for foreign exchange	**5.4**
Acquisitions / divestments	**1.4**
Organic	**4.0**
of which price	**2.8**
of which volume	**1.2**

[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

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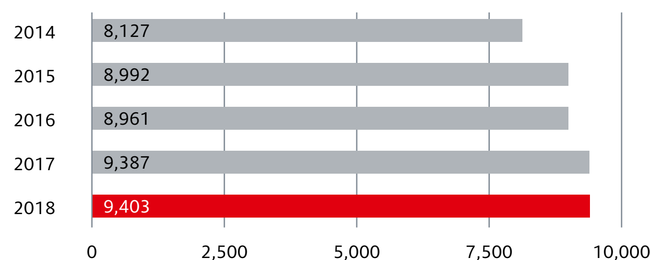
Latin America. Sales performance in the Asia (excluding Japan) and Africa / Middle East regions was good. Sales growth in the mature markets was also good. Sales growth was strong in the North America region and good in Western Europe, whereas performance in the mature markets of the Asia-Pacific region was negative.

In 2018, we generated more than 80 percent of all sales with our five technology cluster brands in the industrial business and our four strong brand platforms in the consumer business. The proportion of sales from products successfully launched onto the market in the last five years remains at around 30 percent.

Operating profit

Adjusted operating profit increased to 1,761 million euros. Adjusted return on sales reached 18.7 percent. Gross margin remained at the prior-year level. By raising prices and taking measures to optimize our organizational structures and improve production and supply chain efficiency, we were able to offset the impact of higher prices for direct materials.



At 11.8 percent, net working capital as a percentage of sales was above prior year. Return on capital employed (ROCE) was lower year on year at 19.3 percent. At 762 million euros, Economic Value Added (EVA®) was down – 69 million euros versus the previous year, mainly due to foreign exchange effects.

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 63 and 64.

Industrial business

Sales growth in the Packaging and Consumer Goods Adhesives business area was strong versus the previous year, thanks especially to our portfolio of high-impact, safe solutions for manufacturing packaging used in the food and beverage sectors. We posted a good increase in sales in our Transport and Metal business area, particularly due to our innovative and sustainable aircraft and aerospace solutions and to our broad and innovative metal packaging portfolio. Sales in the General Industry business area showed a significant increase, boosted by both our new solutions for designing and manufacturing household appliances and our innovative products for industrial plant maintenance, repair and overhaul. Our Electronics business area posted strong sales growth versus prior year. Growth was driven above all by innovative products for applications in the automotive sector and infrastructure electronics.

Adhesives for Consumers, Craftsmen and Building

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

Top brands

LOCTITE

TECHNOMELT

TEROSON

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Beauty Care

Overview

2018 saw an overall improvement in growth in the world's cosmetics markets and categories of relevance for the Beauty Care business unit. Apart from the global hair colorants category, all relevant categories achieved at least positive market growth.

In our Branded Consumer Goods business, performance in the mature markets was positive to good. The development of some key market segments in the North America region was good. Growth in the market in Western Europe was positive, despite sustained promotional activity, severe price and trade pressures, and declining average prices. Market growth was very strong in the Eastern Europe and Latin America regions. The Asia-Pacific region recorded significant market growth, while the Africa / Middle East region achieved a double-digit increase.

The professional hair salon market continued to be characterized by intense competition in 2018, especially in the mature markets. Positive growth stimulus came mainly from product innovations.

Overall, organic sales growth was slightly negative in the Beauty Care business unit in 2018. Organic sales growth in our Branded Consumer Goods business area was negative. The Hair Salon business area reported very strong organic growth, outperforming the market. This enabled us to further expand our position as the world number three in the professional hairdresser market. Adjusted return on sales in the Beauty Care business unit came in slightly below previous year.

Sales

Sales generated by the Beauty Care business unit increased nominally by 2.1 percent to 3,950 million euros in fiscal 2018. Foreign exchange effects reduced sales by – 4.8 percent. Acquisitions / divestments accounted for 7.6 percent of the growth.

Sales growth

–0.7 %

organic sales growth.

Adjusted[1] operating profit

€ 675 m

adjusted[1] operating profit (EBIT): up 1.6 percent.

Adjusted[1] return on sales

17.1 %

adjusted[1] return on sales (EBIT): down 0.1 percentage points.

Key financials[2] 48

in million euros	2017	2018	+/–
Sales	3,868	**3,950**	2.1 %
Proportion of Henkel sales	19 %	**20 %**	–
Operating profit (EBIT)	535	**589**	10.0 %
Adjusted operating profit (EBIT)	665	**675**	1.6 %
Return on sales (EBIT)	13.8 %	**14.9 %**	1.1 pp
Adjusted return on sales (EBIT)	17.2 %	**17.1 %**	– 0.1 pp
Return on capital employed (ROCE)	17.6 %	**14.8 %**	– 2.8 pp
Economic Value Added (EVA®)	262	**230**	– 12.1 %

Sales development[3] 49

in percent	2018
Change versus previous year	**2.1**
Foreign exchange	**– 4.8**
Adjusted for foreign exchange	**6.9**
Acquisitions / divestments	**7.6**
Organic	**– 0.7**
of which price	**0.0**
of which volume	**– 0.7**

[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

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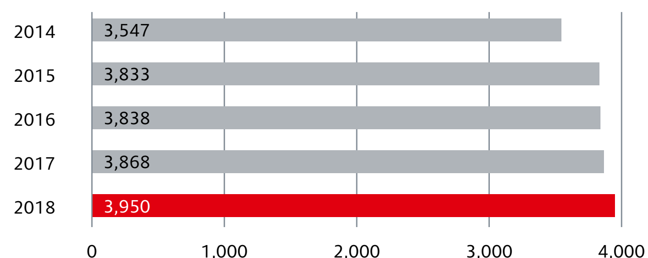
Organically (i.e. adjusted for foreign exchange and acquisitions / divestments), sales growth was slightly negative at – 0.7 percent. Sales performance was driven by volume.

In the following, we comment on our organic sales performance in the regions. From a regional perspective, business performance was strong in the emerging markets. In the Africa / Middle East region, the business unit achieved very strong organic sales growth. The Latin America region posted a significant increase. In Asia (excluding Japan), sales performance was negative. In Eastern Europe, growth was very strong. Organic sales growth was negative in the mature markets. In the North America region, sales fell below the prior-year level, mainly due to the delivery difficulties in our consumer goods business. In the Western Europe region, performance was negative. Sales in the mature markets of the Asia-Pacific region were lower year on year.

In 2018, we generated 90 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

50



Operating profit

Adjusted operating profit increased in the reporting year to 675 million euros. Adjusted return on sales was slightly negative at 17.1 percent. Gross margin was lower year on year. Our ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to partially offset the effects on gross margin exerted by higher prices for direct materials and sustained promotional intensity.

At 4.7 percent, net working capital as a percentage of sales increased versus the prior year. Return on capital employed (ROCE) declined to 14.8 percent year on year due to acquisitions. At 230 million euros, Economic Value Added (EVA®) was down.

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 64.

Branded Consumer Goods

Sales growth in our Branded Consumer Goods business area was negative in 2018. Our hair colorants business generated very strong sales growth. Overall sales performance was boosted by successful innovations under our Schwarzkopf brand, such as got2b, and under our Fa body care brand.

Hair Salon business

Performance by our Hair Salon business was again very strong in 2018, supported by our Schwarzkopf Professional brand with innovations in the Igora and BlondMe lines, and by our North American brands Kenra and Alterna.

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Laundry & Home Care

Overview

In 2018, growth in the relevant world market for laundry and home care products was good.

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

The emerging markets registered strong market development. The relevant markets in Eastern Europe and Latin America achieved very strong growth. Market development in the Africa / Middle East region was good, but negative in Asia (excluding Japan).

Although our relevant markets continued to be characterized by intense price and promotional competition, we were able to continue our path of profitable growth in 2018. Both the sustained success of our strong brands and the successful introduction of our innovations contributed to this good performance. Growth in adjusted return on sales was very strong.

Sales

Sales generated by the Laundry & Home Care business unit decreased nominally by – 3.5 percent to 6,419 million euros in fiscal 2018. Foreign exchange effects reduced sales growth by – 6.1 percent. Acquisitions / divestments contributed 0.7 percent to sales growth.

Organically (i.e. adjusted for foreign exchange and acquisitions / divestments), sales increased by 1.9 percent. Sales growth was mainly price-driven.

In the following, we comment on our organic sales performance in the regions. The emerging markets registered a sig-

Sales growth

+1.9 %

organic sales growth.

Adjusted[1] operating profit

€ 1,162 m

adjusted[1] operating profit (EBIT): down 0.7 percent.

Adjusted[1] return on sales

18.1 %

adjusted[1] return on sales (EBIT): up 0.5 percentage points.

Key financials[2] 51

in million euros	2017	2018	+/–
Sales	6,651	**6,419**	– 3.5 %
Proportion of Henkel sales	33 %	**32 %**	–
Operating profit (EBIT)	989	**970**	– 1.9 %
Adjusted operating profit (EBIT)	1,170	**1,162**	– 0.7 %
Return on sales (EBIT)	14.9 %	**15.1 %**	0.2 pp
Adjusted return on sales (EBIT)	17.6 %	**18.1 %**	0.5 pp
Return on capital employed (ROCE)	13.1 %	**13.1 %**	0.0 pp
Economic Value Added (EVA®)	309	**306**	– 1.0 %

Sales development[3] 52

in percent	2018
Change versus previous year	**– 3.5**
Foreign exchange	**– 6.1**
Adjusted for foreign exchange	**2.6**
Acquisitions / divestments	**0.7**
Organic	**1.9**
of which price	**1.7**
of which volume	**0.2**

[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

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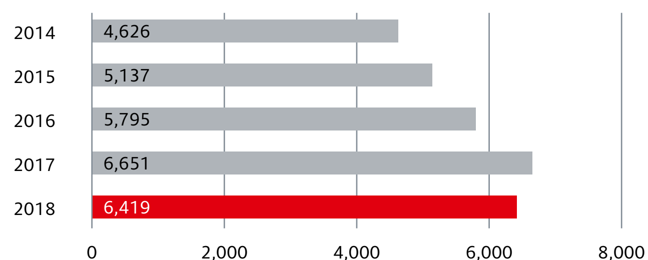
nificant increase in sales and were once again the primary driver of organic growth in Laundry & Home Care. The Africa / Middle East region contributed to this growth with a double-digit increase in sales. The Eastern Europe region posted very strong sales performance. Latin America achieved significant sales growth, while Asia (excluding Japan) was below prior year. Organic sales development in the mature markets eased, mainly due to negative performance in the North America region caused by the delivery difficulties and unrelenting price and promotional competition. In the Western Europe region, sales performance was flat. The mature markets of the Asia-Pacific region registered very strong sales growth.

In 2018, 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.

Sales Laundry & Home Care

in million euros

53



Operating profit

Adjusted operating profit was down year on year, at 1,162 million euros. Adjusted return on sales in the Laundry & Home Care business unit increased very strongly to 18.1 percent. Gross margin was lower year on year. Our ongoing measures to reduce costs and enhance production and supply chain efficiency, together with selective price increases, enabled us to partially offset the effects on gross margin exerted by higher prices for direct materials and sustained high promotional intensity.

Net working capital as a percentage of sales was below the previous year's level at – 3.9 percent. Return on capital employed (ROCE) was on a par with the prior-year level, at 13.1 percent. At 306 million euros, Economic Value Added (EVA®) was nearly on a par with 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 64.

Laundry Care

Sales performance in our Laundry Care business area was good, helped in particular by the introduction of successful innovations. 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 also good in 2018. Hand dishwashing products and WC products were the biggest drivers of growth.

Top brands

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Net assets and financial position

Acquisitions and divestments

Effective January 3, 2018, Henkel completed the acquisition of all shares in Unión Técnico Comercial S.R.L. based in Lima, Peru. The acquisition strengthens the market position of the General Industry business of Adhesive Technologies in the field of maintenance, repair and overhaul in Latin America.

Effective June 1, 2018, Henkel completed the acquisition of all shares in JemPak Corporation based in Concord, Canada. The acquisition complements and strengthens the existing Laundry & Home Care portfolio in North America; it will help to further expand Henkel's position in this attractive market.

Effective December 10, 2018, Henkel completed the acquisition of all shares in Aislantes Nacionales S.A., Santiago, Chile. Following this acquisition, Henkel is now active in the attractive Chilean market for tile adhesives and building materials where it occupies a strong position.

For further details of our acquisitions and divestments, please refer to pages 134 and 135 of the notes to the consolidated financial statements.

Neither the acquisitions and divestments nor other measures undertaken resulted in any material changes in our business and organizational structure. For detailed information on our organization and business activities, please refer to the disclosures on pages 63 and 64.

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 853 million euros. Investments in property, plant and equipment for existing operations totaled 576 million euros, following 590 million euros in 2017. Capital expenditures on property, plant and equipment totaled 240 million euros (previous year: 230 million euros) in the Adhesive Technologies business unit, 74 million euros (previous year: 80 million euros) in Beauty Care, and 252 million euros (previous year: 274 million euros) in Laundry & Home Care. We invested 277 million euros in intangible assets (previous year: 73 million euros).

Around two-thirds of the expenditures were channeled into expansion projects, innovations and streamlining measures, which included increasing our production capacity, introducing innovative product lines and optimizing our production structure and business processes.

The major projects of 2018 were as follows:

- Global optimization of our supply chain, consolidation and optimization of our IT system architecture for managing business processes
- Acquisition of a new technology for developing innovative products
- Expansion of basic detergent capsule production in Salt Lake City and Bowling Green, USA (Laundry & Home Care)
- Modifications to liquid detergent packaging plants in Europe (Laundry & Home Care)
- Construction of a new production facility for products used in the aviation industry in Montornès, Spain (Adhesive Technologies)
- Construction of a new production site for industrial adhesives and metal pretreatment products in Kurkumbh, India (Adhesive Technologies)

€ 853 m

investments in property, plant and equipment and intangible assets.

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

The acquisitions resulted in additions to intangible assets and property, plant and equipment in the amount of 428 million euros. Details of these additions can be found on pages 148 to 155 of the notes to the consolidated financial statements.

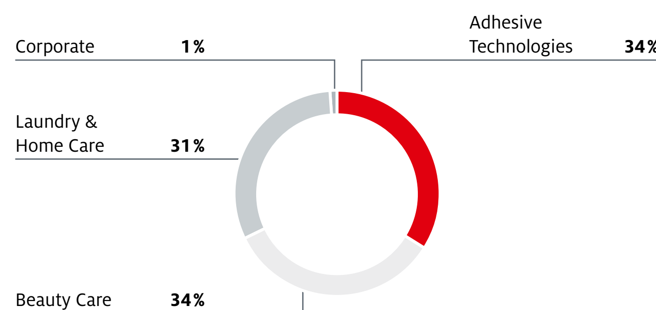
Capital expenditures 2018

54

in million euros	Existing operations	Acquisitions	Total
Intangible assets	277	396	**673**
Property, plant and equipment	576	32	**608**
Total	**853**	**428**	**1,281**

Capital expenditures by business unit[1]

55



[1] Existing operations.

Net assets

Compared to year-end 2017, total assets rose by 1.3 billion euros to 29.6 billion euros.

Under **non-current assets**, intangible assets increased by 920 million euros as a result of acquisitions and currency effects. Property, plant and equipment remained largely unchanged, with capital expenditures of 576 million euros being offset by scheduled depreciation of 405 million euros.

Current assets increased from 8.5 billion euros to 8.7 billion euros, mainly as a result of higher inventories and higher trade accounts receivable. Cash and cash equivalents also increased, by 144 million euros in the reporting period.

Compared to year-end 2017, **equity** including non-controlling interests increased by 1.5 billion euros to 17.1 billion euros. The individual components influencing equity development are shown in the consolidated statement of changes in equity on page 127. Equity rose with the addition of net income amounting to 2,330 million euros. The dividend distribution in April 2018 had the countervailing effect of reducing equity by –788 million euros. By year-end 2018, the equity ratio had increased by 2.5 percentage points to 57.7 percent.

Non-current liabilities decreased by –1.3 billion euros to 3.6 billion euros. This was mainly due to the reduction in non-current borrowings following premature repayment of our 1.1 billion US dollar syndicated bank loan and to the reclassification of a 0.8 billion US dollar bond.

Current liabilities increased by 1.1 billion euros to 8.9 billion euros. This was mainly due to the increase of 1.3 billion euros in current borrowings following the issuance of commercial paper, primarily for the purpose of repaying the syndicated bank loan. The increase resulting from reclassification of an 0.8 billion US dollar bond was reduced to 0.5 billion euros through redemption of a bond.

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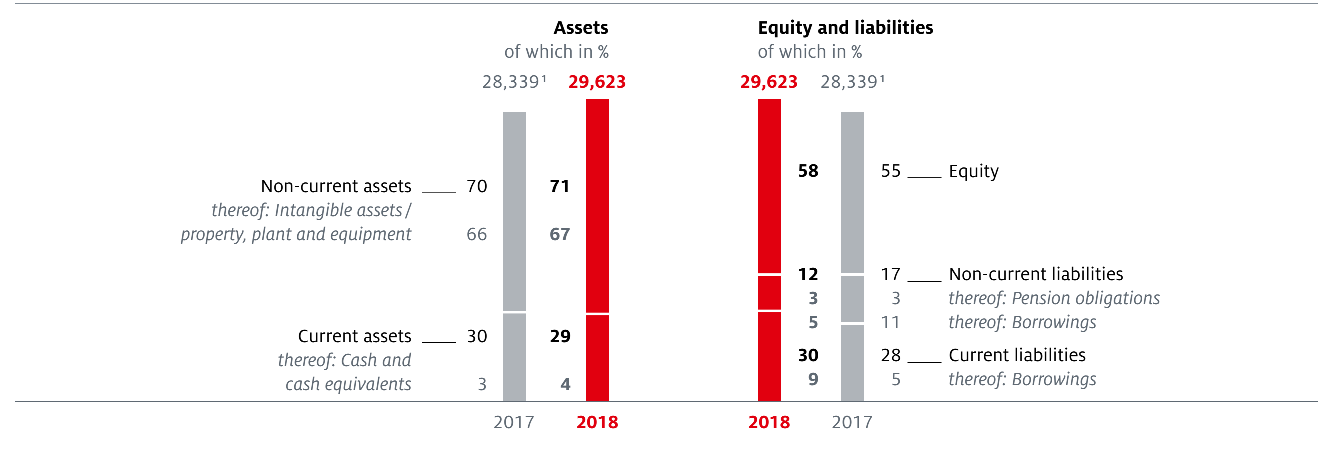
Financial structure

in million euros

56



Effective December 31, 2018, our **net financial position**[2] amounted to – 2,895 million euros (December 31, 2017: – 3,222 million euros). The change versus prior year was mainly due to the repayment of borrowings and to changes in free cash flow.

Net financial position

57

in million euros	
2014	– 153
2015	335
2016	– 2,301
2017	– 3,222
2018	**– 2,895**

Financial position

At 2,698 million euros, **cash flow from operating activities** in 2018 was higher versus the previous year (2,468 million euros). In addition to the higher operating profit, this was mainly due to lower outflows in respect of trade accounts payable, higher inflows relating to trade accounts receivable, and lower income tax payments.

At 5.1 percent, net working capital[3] as a percentage of sales was slightly above the prior-year level (4.8 percent).

The cash outflow in **cash flow from investing activities** (– 1,208 million euros) was below the figure of the prior-year period (– 2,451 million euros), mainly as a result of lower investments in subsidiaries and other business units.

€ **– 2,895** m

net financial position.

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

[2] Cash and cash equivalents plus readily monetizable financial instruments classified as measured at fair value through profit or loss or through other comprehensive income, less borrowings, plus positive and less negative fair values of hedging transactions.

[3] 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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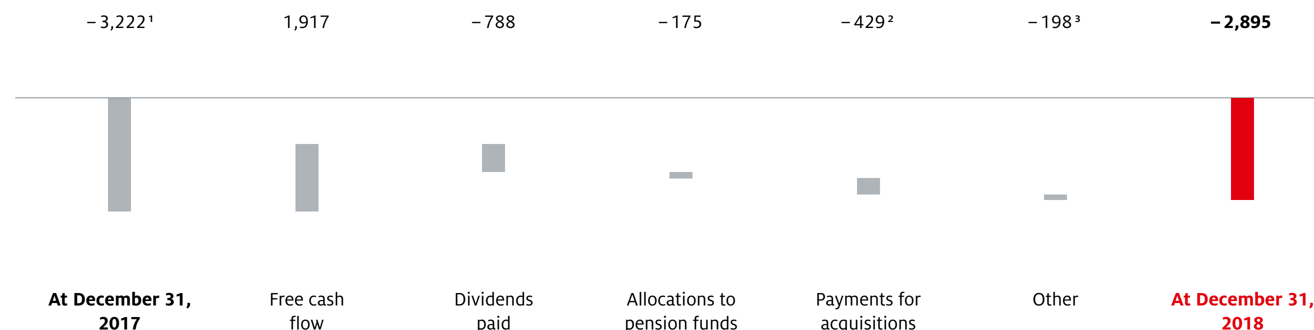
Net financial position

in million euros

58



[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).
[2] Including purchase of non-controlling interests with no change of existing control.
[3] Primarily foreign exchange effects.

Cash outflow in **cash flow from financing activities** was – 1,330 million euros compared to a cash outflow of – 412 million euros in the prior year. The figure was influenced by higher dividend payments and the repayment of borrowings. During the year under review we prematurely repaid our 1.1 billion US dollar syndicated bank loan and increased our commercial paper portfolio. The prior-year figure was greatly influenced by cash inflows resulting from a bond issuance.

Cash and cash equivalents increased compared to December 31, 2017, by 144 million euros to 1,063 million euros.

The increase in **free cash flow** to 1,917 million euros in 2018 (2017: 1,701 million euros) resulted from higher cash flow from operating activities and cash inflows under other changes in pension obligations following the reimbursement of pension payments. Higher capital expenditures on intangible assets and property, plant and equipment, including payments on account, had a countervailing effect.

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 next 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.

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In fiscal 2018, Henkel paid a higher dividend for both ordinary and preferred shares compared to 2017. Cash flows not required for capital expenditures, dividends and interest payments were used for allocations to pension funds, to reduce our net debt and to finance 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). Both Standard & Poor's and Moody's continue to rate Henkel as investment grade, which is the best possible category.

Credit ratings

59

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

At December 31, 2018

As of December 31, 2018, our borrowings totaled 4,175 million euros and mainly comprised bonds issued and commercial paper.

Henkel's financial risk management activities are explained in the risks and opportunities report on pages 107 to 118. Further detailed information on our financial instruments can be found in the financial instruments report on pages 179 to 202 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 2017. The interest coverage ratio has decreased to 56, still well above the minimum threshold of 9.

Key financial ratios

60

	2017 [1]	2018
Operating debt coverage (net income + amortization and depreciation, impairment and write-ups + interest element of pension obligations) / net borrowings and pension obligations)	80.9 %	**78.9 %**
Interest coverage ratio (EBITDA / interest result including interest element of pension obligations)	59.2	**56.0**
Equity ratio (equity / total assets)	55.2 %	**57.7 %**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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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, motivational and based on performance, to enable us to drive our 2020+ strategic priorities together. To achieve this goal, we create a modern and inspirational working environment where team spirit plays a key role – all of which builds on an open and appreciative leadership culture. We specifically nurture our employees and support their personal development to strengthen their loyalty and motivation.

What makes Henkel special

Everyone who works at Henkel moves in an environment characterized by its global nature and diversity. We are represented by around 53,000 employees (as at year-end 2018) with 120 different nationalities operating in 78 different countries. At December 31, 2018, the number of employees had decreased compared to around 53,700 as of year-end 2017. The slight decline was due to synergies resulting from our acquisitions and ongoing adjustments in all business units.

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.

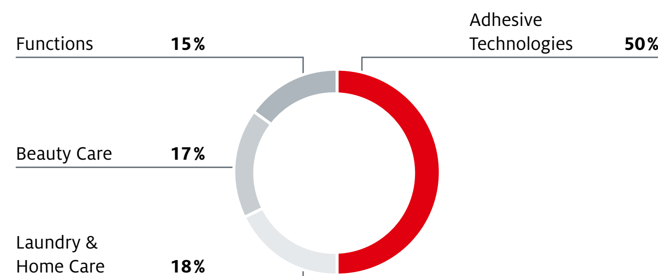
Payroll cost and average headcount

61

	2017	2018
Payroll cost in million euros	3,167	**3,128**
Average headcount	51,950	**53,450**

Employees by organizational unit

62



At December 31, 2018

We value diversity in our workforce. Women account for 34.7 percent of the managers in our company. Key here is the creation of 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 offer equal encouragement to all generations at Henkel and take different life phases into consideration. We want the diversity in our workforce to reflect the diversity in our customer structure.

Women in management

63

in percent	2014	2015	2016	2017	2018
Henkel	33.2	33.6	33.1	34.3	**34.4**
Managers	32.5	33.1	34.3	34.5	**34.7**
Top managers[1]	20.6	21.1	22.5	23.2	**22.9**

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

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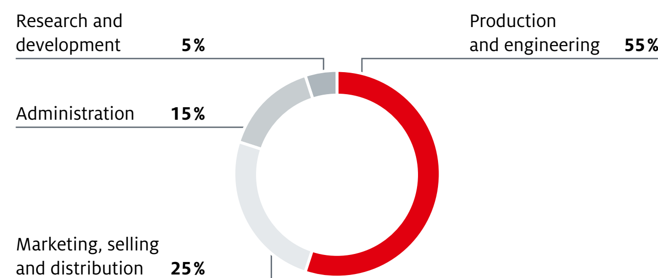
Energized and empowered teams

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. As part of our globally standardized assessment process, our senior managers discuss both performance and potential with their respective employees. Individual training programs and possible career moves are also discussed. We support our managers in these activities by providing digital HR systems that are being made increasingly available for mobile use.

Our employees also embrace the opportunities offered by digitalization, facilitating flexible working models and simplifying day-to-day work processes. In addition, we have created flexible office landscapes to enable employees to select where they want to work when performing specific assignments.

Employees by activity

64



At December 31, 2018

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 concern themselves individually with each of our applicants. We continue to focus particularly on actively addressing potential candidates through social networks. Our employees post aspects of their day-to-day work on our social media channels under #MyStory@Henkel, thus enabling us to provide ever better insights into our company.

We place great importance on in-house training and professional development. Our efforts include consideration of the various approaches to training at the local level. Henkel provides 23 apprenticeship and dual-track study programs in Germany. In 2018, we welcomed 161 new apprentices and students who started working 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.

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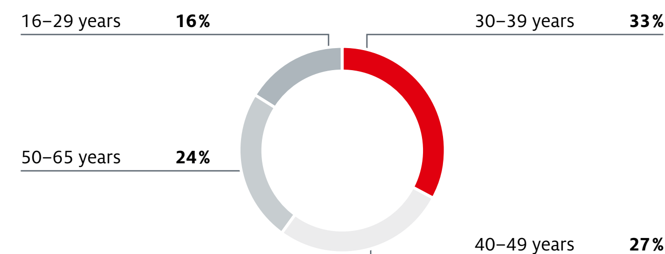
To continue driving digital transformation within the company, we are expanding our employee training and development programs for specific target groups. Tailored to a variety of job profiles, our employees have the chance to test their digital knowledge. After completing an online test, employees are given individual recommendations for training programs to help them grow their knowledge base. We want to make sure all employees can participate in this program in the future and are gradually rolling it out throughout the company.

Employees by age group

65



At December 31, 2018

Employees

66

(At December 31)	2014	%	2015	%	2016	%	2017	%	2018	%
Western Europe	14,900	30.0	14,900	30.2	14,450	28.1	14,750	27.5	**14,750**	**27.8**
Eastern Europe	10,000	20.1	9,800	19.8	9,500	18.5	9,950	18.5	**9,800**	**18.5**
Africa / Middle East	4,850	9.7	4,700	9.4	5,250	10.2	4,750	8.8	**4,200**	**7.9**
North America	6,200	12.5	6,250	12.7	8,300	16.2	9,050	16.9	**9,000**	**17.0**
Latin America	3,650	7.3	3,500	7.1	3,550	6.9	5,500	10.2	**5,800**	**11.0**
Asia-Pacific	10,150	20.4	10,300	20.8	10,300	20.1	9,700	18.1	**9,450**	**17.8**
Total	49,750	100.0	49,450	100.0	51,350	100.0	53,700	100.0	**53,000**	**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.

The markets for raw materials were very volatile in 2018 in light of geopolitical events and rising price levels. Prices for crude oil and petrochemicals increased strongly up until the end of the third quarter before dropping significantly again in the final quarter. On average, prices for crude oil and petrochemicals were substantially higher year on year. Prices of corrugated paper and cardboard were also considerably higher on average compared to the prior year. Prices of natural oils, such as palm kernel oil, decreased considerably below the prior-year level over the course of 2018. Taken together, these price trends for input materials were among the reasons why the prices of direct materials increased moderately in 2018 compared to the prior year.

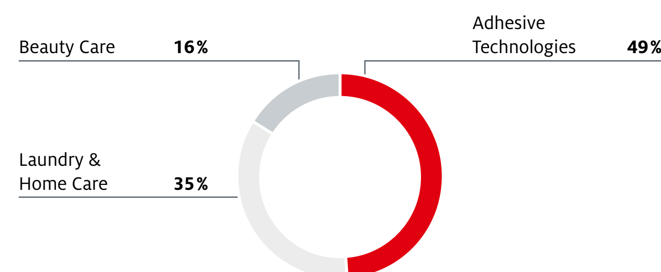
Direct material expenditures amounted to 8.5 billion euros and were therefore more or less on a par with the prior year. Savings from our global procurement strategy and cost reduction measures coupled with improvements in production and supply chain efficiency helped to offset the effects of rising material prices, higher sales volumes and acquisitions.

Our five most important groups of raw materials within the direct materials category 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 inorganic raw materials. These account for 36 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. Although gross prices in these areas rose moderately in 2018, we were able to compensate for the increases through our global procurement strategy and structural cost reduction measures. At 5.2 billion euros, expenditure on indirect materials and services in 2018 was higher year on year due to higher volumes overall.

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. Together with

Material expenditures by business unit 67



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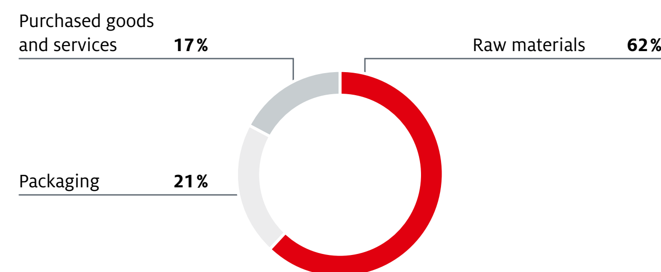
the three business units, Purchasing works continuously on reducing product complexity, optimizing the raw materials mix and further standardizing packaging and raw materials. We enter into long-term business relationships with selected suppliers to encourage the development of innovations, and to optimize manufacturing costs and logistics processes. At the same time, we ensure the risk of supply shortages is minimized. We also agree and implement individual targets with our strategic suppliers aimed at optimizing the supply of direct and indirect materials.

We were able to 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. We are constantly optimizing collaboration with our strategic suppliers through our digital communication platforms and increasing transparency along the value chain through new digital applications. And we are increasingly using new technologies – such as robotics and artificial intelligence – to further improve our processes. In addition, we continued to integrate our production, logistics and purchasing activities across all business units in one integrated Global Supply Chain organization managed from its head office in Amsterdam and from 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

68



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Production

In 2018, Henkel manufactured products at 185 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 when volumes are still small. We currently purchase around 10 percent in additional production tonnage from toll manufacturers each year.

Number of production sites

69

	2017	2018
Adhesive Technologies	146	**141**
Beauty Care	11	**11**
Laundry & Home Care	31	**33**
Total	**188**	**185**

The **Adhesive Technologies** business unit continued to optimize its global production network in 2018 with manufacturing shared between 141 production sites around the world (prior year: 146). Business growth and rising demand in the emerging markets prompted capital expenditures on expanding capacity in these regions. At the same time, we invest in the implementation of customer-specific requirements and in the ongoing optimization of our production in the mature markets. 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 cost-efficiently within a shared infrastructure at these sites. Our factory in India that started production during the year under review will be expanded to incorporate further technologies in 2019. We are also currently putting a new plant in Turkey into service. These sites are crucial to ensuring supply efficiency within the dynamically growing emerging market environment.

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

The number of sites in our **Beauty Care** production network remained unchanged at 11. The sites acquired through acquisitions in Latin America and the USA have been integrated into our production network and are being successively expanded. To ensure long-term growth, we are investing in capacities and technologies – especially in emerging markets – based on our supply chain strategy. Within Eastern Europe, we have continued the expansion of our factory in Russia, thus further increasing production capacity in all three key technologies – hair colorants, liquid products and aerosols. We have also specifically increased capacity at sites in North America and Europe.

Another focal point of the business unit is the further improvement of our delivery service to customers in a volatile market environment. By integrating our planning processes along the entire supply chain – from suppliers to production to the interface with our customers – we can improve our ability to predict customer needs. The implementation of various Industry 4.0 initiatives will also increase process transparency. The ability to

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rapidly analyze big data can both speed up the decision-making process and make it more efficient.

As a result of acquisitions, the production network in our **Laundry & Home Care** business unit grew by two to 33 sites in 2018. By expanding our production sites, we can align our capacity more closely to rising demand in growth categories. In 2018, we continued the successful integration of the production sites in North America, the Middle East and Africa that we had acquired through acquisitions in prior years. Further, the business unit implemented an innovative real-time reporting system at the global level to capture, consolidate and evaluate production parameters around the world, thus enabling prompt intervention and management of the relevant parameters.

To continuously improve our customer service, we implemented numerous Industry 4.0 initiatives aligned to driving the digitalization of our production and distribution processes. 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 production capacity utilization.

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 2018, 83 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 2018 increased year on year from 476 million euros to 484 million euros. Expressed as a percentage of sales, R&D expenses amounted to 2.4 percent (2017: 2.4 percent). Adjusted for restructuring expenses, R&D expenditures increased to 471 million euros. The ratio of adjusted expenses to sales was 2.4 percent (2017: 2.3 percent).

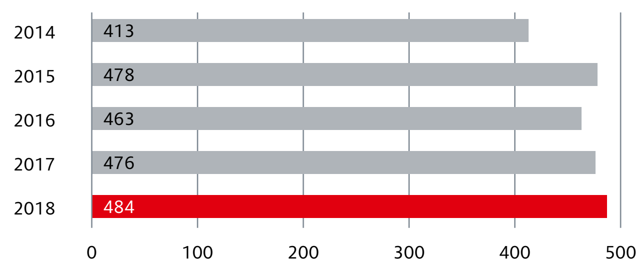
In 2018, internal personnel expenses accounted for around 60 percent of total R&D spending. Our research and development costs were fully expensed; no product- or technology-related development costs were capitalized in accordance with International Financial Reporting Standards (IFRS).

On an annual average, around 2,750 employees worked in research and development (2017: around 2,700). 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 expenditures[1]

in million euros

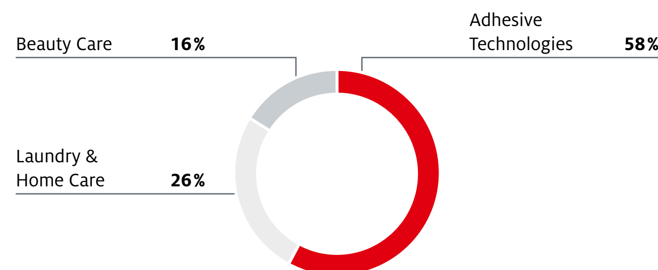
70



[1] Including restructuring expenses of 3 million euros (2014), 14 million euros (2015), 3 million euros (2016), 7 million euros (2017), and 13 million euros (2018).

R&D expenditures by business unit

71



At December 31, 2018

Our investments and the capabilities of our highly qualified employees form the foundation on which the success of our R&D activities is built. We continue to focus on highly efficient innovations and steadily reducing our resource consumption while maintaining or improving performance. Our Open Innovation strategy ensures the successful integration of external partners in our project delivery. We are further expanding our corporate venture capital activities and place additional focus on the increased use of digitalization in research and development.

Key R&D figures

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	2014	2015	2016	2017	2018
R&D expenditures[1] (in million euros)	410	464	460	469	**471**
R&D expenditures[1] (in percent of sales)	2.5	2.6	2.5	2.3	**2.4**
Employees[2] (annual average)	2,650	2,800	2,700	2,700	**2,750**

[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. Activities in 2018 focused on digitalization in research and development. They included the organization of international workshops, also with external experts involved. On the one hand, these focused on digital methods for acceleration, improving efficiency and optimization within product development, and – on the other – on specific applications of digitalization in the utilization of 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, start-ups with digital or technological expertise.

In 2018, we further expanded our venture capital activities within the Henkel Ventures unit and strengthened our expertise by investing in start-up companies. Our investment in Circularity Capital, Scotland, has secured our access to new recycling and sustainability technologies. We have strengthened our portfolio of innovative surface technologies through investment in Dutch start-up Kriya Materials. Our investment in China Materialia gives us access to new technologies and applications in China, a key emerging market. We strengthened our consumer goods portfolio by investing in Partech, France. We also expanded our investment in the strategic growth area of laundry and dry cleaning services. In addition, Henkel has bought into a seed and growth fund in the USA to strengthen the exchange with relevant players in Silicon Valley and to identify potential new trends for Henkel. Henkel has similarly invested in firstminute capital, a fund specializing in investments in early-stage technology start-ups in Europe.

Research and development worldwide

In addition to its central research laboratories, Henkel maintains regional 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 applied in the regional research and development sites to 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 markets and customers. The new base technologies needed for the relevant solutions are again developed centrally.

The **Adhesive Technologies** business unit builds on its broad technology portfolio and extensive expertise to offer its customers comprehensive and tailored design and application support. The global network of research and development centers will grow in 2020 with the addition of an Innovation Center in Düsseldorf. This Innovation Center, for which the foundation stone was laid in 2018, will set new standards of technology-spanning cooperation among our experts and will strengthen collaboration with our customers. In addition,

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a center for our strategic 3D printing research program was opened in 2018 in Dublin, Ireland. This is just one example of our strategic innovation programs with long-term growth potential.

With its acquisition of Zotos International Inc., the **Beauty Care** business unit has significantly expanded its research and development expertise in the field of hair care products in North America. Base technologies developed in the Competence Center in Europe form the springboard for product innovations in both our 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. In addition to our development centers in North America, Mexico, Colombia, China, Japan and South Africa, we have opened a test and development center in the United Arab Emirates to strengthen our research and development expertise in this growth region as well.

We have revised the content and structure of the research and development activities in our **Laundry & Home Care** business unit to ensure we are even better prepared for future changes in markets and technologies. A new Advanced Technologies function has been established, pooling the research focusing on chemistry and biotechnology and integrating the various engineering teams. All our disruptive innovation development expertise from the various disciplines is thus now combined into one powerful unit. The Central Development function in Europe works closely with the regional development centers within a global network. Central Development provides the base technologies which the regional development centers in the USA, Mexico, Russia, South Korea, the United Arab Emirates and Australia then translate into product innovations for their specific markets.

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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, 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.

Patents and registered designs

We hold around 9,600 patents to protect our technologies around the world. Nearly 5,950 patents are currently pending. And we have registered around 1,300 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

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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 leads the global market with high-impact solutions. We operate in the globally 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 develop solutions that are essential components in 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 brand platforms in the consumer business.

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

Our team of more than 6,500 experts fosters long-term relationships with our customers and partners from nearly all manufacturing sectors. In the process, we gain an in-depth understanding of various applications across all markets. In light of the significant complexity of many of our solutions and technologies, technical customer service and thorough user training are of key importance. Our global presence enables us to provide technical services to customers worldwide, as well as in-depth product training on site.

In 2018, we laid the foundations for developing specific solutions in collaboration with our customers and making our innovations accessible as a tangible experience for our partners and customers around the globe: Between now and the end of 2020, we are building a new global Innovation Center at the site of our headquarters in Düsseldorf. On a floor area of approximately 50,000 square meters, more than 350 experts will further drive our innovation leadership – for and with global customers and partners.

Our focus is on ensuring a positive experience for our customers whenever they seek contact, both personally and when they engage digitally with us. Our efforts range from our new website henkel-adhesives.com, which is closely aligned to customer needs, and the further expansion of our Henkel Adhesives eShop, to the provision of additional digital services for meetings with customers.

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 our 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. We develop new products and launch strategies with as much global synergy as is possible, while implementing them as locally as is necessary. Through our customer and consumer proximity, we are able to identify global trends at an early stage and quickly respond to these on an individual basis with innovative products. In consumer marketing, advancing digitalization alongside classic advertising and point-of-sale activities enables a

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significant increase in media efficiency. 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.

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

Having already hosted more than 400 customer 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 customers from around the world an interactive experience of all our beauty competences, with the focus very much on digitalization.

We are committed also to close cooperation with our customers in our Hair Salon business. Through our globally established Schwarzkopf Academies, we offer value-adding services in the form of state-of-the-art seminars and continuous training opportunities, with the focus on the professional hairdressers' role as an entrepreneur.

In the **Laundry & Home Care** business unit, we develop our global marketing strategies and product innovations for our strong laundry detergents 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. In doing so, we ensure central, efficient management of our brands aimed at strengthening their cores and responding to our consumers' desire for both functional benefits and emotional added value. We focus on an innovation process that enables us to recognize global consumer trends early on and to translate them quickly into new products.

Digitalization is an issue of key importance in our marketing processes, as reflected in the ongoing implementation of digital transformation measures in the business unit. One example of this is our data-driven marketing that enables us to identify consumer trends more efficiently and to align our media campaigns ever more closely to specific consumer groups. In harnessing new technologies such as the Internet of Things, we are driving the further development of our brands in the digital environment and adding value for our consumers.

Laundry & Home Care enters into strategic partnerships with its top customers aimed at delivering long-term and mutually profitable growth. The business unit focuses on five areas: innovation, shopper marketing, digitalization, eCommerce, sustainability, and supply chain. For example, we conduct surveys to examine digital shopping behaviors, and accumulate expert knowledge. 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 Center – our customer center – in Düsseldorf helps us to further deepen our relationships with customers. More than 270 customers have already visited the Center, using all their senses to explore the latest trends, products and sustainability concepts in the field of Laundry & Home Care.

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The importance of sustainability in our relationships with customers and consumers continues to grow in **all three business units**. Our customers expect their suppliers 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 able to offer our customers future-capable solutions. Also here, we cooperate closely with our customers in trade and industry.

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Henkel AG & Co. KGaA (condensed version according to the German Commercial Code [HGB])*

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 2018, some 8,200 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, adjusted return on sales (EBIT) and adjusted earnings per preferred share. 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 68).

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 page 71.

Results of operations

Sales and profits

At 3,641 million euros, sales of Henkel AG & Co. KGaA in 2018 were on a par with the previous year. This figure is consistent with our guidance for 2018. Despite a lower financial result, Henkel AG & Co. KGaA was able to meet its forecast of flat to slightly higher unappropriated profit. The lower financial result was mainly attributable to lower income generated with the plan assets.

The Adhesive Technologies business unit achieved sales of 1,045 million euros in 2018. This good sales growth versus prior year is attributable to developments in our Industrial Adhesives business areas, which also benefited from the merger of a German subsidiary. Sales in the Adhesives for Consumers, Craftsmen and Building business area were still adversely affected by the sale of the professional Western European building material business back in 2017.

* 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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Condensed income statement in accordance with the German Commercial Code [HGB]

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in million euros	2017	2018
Sales	3,637	**3,641**
Cost of sales	– 2,595	**– 2,636**
Gross profit	**1,042**	**1,005**
Marketing, selling, distribution and administrative expenses	– 803	**– 793**
Research and development expenses	– 311	**– 336**
Other operating income / expenses	193	**210**
Operating profit	**121**	**86**
Financial result	**1,070**	**903**
Income before tax	**1,191**	**989**
Taxes on income	– 85	**– 64**
Net income	**1,106**	**925**
Profit brought forward	330	**664**
Unappropriated profit	**1,436**	**1,589**

The Beauty Care business unit achieved sales of 510 million euros in 2018. The slight decrease year on year was mainly due to fiercer competitive and price pressures.

The Laundry & Home Care business unit generated sales of 970 million euros in 2018, thus exceeding the figure for 2017. Good performance by our top brands contributed substantially to this strong sales result.

Sales in the Corporate segment decreased from 1,158 million euros in 2017 to 1,116 million euros in 2018, mainly due to lower royalties and licensing fees from affiliated companies.

The operating profit of Henkel AG & Co. KGaA declined by 35 million euros versus 2017, to 86 million euros, mainly due to lower royalties and licensing fees and the non-recurring effect of switching to the Heubeck 2018 G mortality tables to evaluate the company's pension obligations.

Expense items

Compared to 2017, cost of sales increased by 41 million euros to 2,636 million euros, mainly as a result of higher scheduled depreciation in the wake of mergers and increased royalties and licensing fees paid to affiliated companies. Gross margin decreased by – 1.1 percentage points to 27.6 percent.

At 541 million euros, marketing, selling and distribution expenses were below the prior-year figure of 571 million euros. The proportion of sales was 14.8 percent, which was 0.9 percentage points down compared to the level of 2017.

Compared to 2017, administrative expenses increased by 20 million euros to 252 million euros. Their ratio to sales increased by 0.5 percentage points to 6.9 percent.

Expenditures for research and development increased in the reporting period by 25 million euros to 336 million euros. The proportion of sales rose accordingly compared to 2017, by 0.7 percentage points to 9.2 percent.

Restructuring expenses of 40 million euros, included in the expense items mentioned, were higher compared to 2017 (31 million euros).

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Other operating income / expenses

In 2018, other operating result, at 210 million euros, was higher compared to the prior-year period (193 million euros).

Year on year, other operating income increased by 19 million euros to 297 million euros in 2018, mainly as a result of income generated from recharging costs to affiliated companies.

At 87 million euros, other operating expenses in 2018 were more or less on a par with the prior-year figure of 85 million euros.

Financial result

The financial result decreased from 1,070 million euros in 2017 to 903 million euros in 2018. The decrease is substantially attributable to lower securities prices and the resulting lower returns on financial investments held as plan assets.

Taxes on income

In 2018, taxes on income amounted to – 64 million euros following – 85 million euros in 2017.

Result for the year

Net income amounted to 925 million euros and was therefore below the 2017 result of 1,106 million euros. The decrease was mainly attributable to the lower financial result in 2018.

Condensed balance sheet in accordance with the German Commercial Code [HGB] 75

in million euros	12/31/2017	12/31/2018
Intangible assets and property, plant and equipment	1,032	**1,378**
Financial assets	13,365	**13,190**
Non-current assets	**14,397**	**14,568**
Inventories	14	**13**
Receivables and miscellaneous assets	1,963	**1,660**
Marketable securities	4	**4**
Liquid funds	84	**335**
Current assets	**2,065**	**2,012**
Deferred income	28	**40**
Assets arising from the overfunding of pension obligations	**419**	**107**
Total assets	**16,909**	**16,727**
Equity	**6,823**	**6,956**
Special accounts with reserve element	84	**79**
Provisions	712	**589**
Liabilities / deferred charges	9,290	**9,103**
Total equity and liabilities	**16,909**	**16,727**

Net assets and financial position

As of December 31, 2018, the total assets of Henkel AG & Co. KGaA decreased compared to year-end 2017 by 182 million euros to 16,727 million euros.

Non-current assets increased to 14,568 million euros, a rise of 171 million euros compared to 2017. The increase in intangible assets and property, plant and equipment was mainly due to the acquisition of a new technology for developing innovative products and to additions resulting from a merger between two subsidiaries.

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Current assets decreased in 2018 from 2,065 million euros to 2,012 million euros, partly due to lower current receivables from affiliated companies.

At 107 million euros, overfunding from offsetting plan assets against pension obligations was lower year on year. The reduction was mainly due to the negative performance of the pension fund assets.

Equity increased from 6,823 million euros to 6,956 million euros. Provisions decreased by 123 million euros to 589 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 consolidated financial statements of Henkel AG & Co. KGaA.

Liabilities and deferred charges decreased in 2018 by a total of 187 million euros versus 2017, following repayment of the syndicated bank loan and redemption of a euro bond. The increase in commercial paper – issued primarily to repay the bank loan – had a 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 87 and 88.

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 of 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 107 to 118.

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 2019 to be on a par with the figure for 2018. 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 2019 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 119 and 120.

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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.

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.

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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 2018 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.

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 technology, 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

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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 compliance and reliability. 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 76

Risk category	Probability	Potential financial impact
Operating risks		
Procurement market risks	Moderate	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	High	Minor
Legal risks	Low	Major
IT risks	Low	Major
Personnel risks	Moderate	Moderate
Risks in connection with brand image or reputation of the company	Low	Major
Environmental and safety risks	Low	Major
Business strategy risks	Moderate	Moderate

Classification of risks in ascending order 77

Probability	
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

Major risk categories

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

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 2019. 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

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on in full. We therefore see risks arising beyond the forecasted increase in a low single-digit range in relation to important raw materials and packaging materials.

The segments in the industrial goods sector are affected to a greater extent by these price risks 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 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 202). 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 92 and 93. 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: Moderate probability rating, possible major impact on our earnings guidance.

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

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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 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 pages 115 and 116) 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 sales and marketing 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 100 to 102). 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 risk in the form of credit risks, liquidity risks, currency risks, interest rate risks, and risks arising from pension obligations.

For the description of credit risks, liquidity risks, currency risks and interest rate risks, please refer to the notes to the consolidated financial statements on pages 192 to 202. For the risks arising from our pension obligations, please see pages 170 to 173.

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 high 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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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 institutional 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 report on pages 26 to 42). 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.

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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.

Information technology risks

Description of risk: Information technology 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 critical IT services and the manipulation or loss of data constitute material risks for Henkel. 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. Henkel's reputation could also be damaged by such loss.

Measures: The technical and organizational safeguards for protecting information at Henkel are based on the international standards ISO 27001 and 27002. Major components include the classification of information, business processes, IT applications, and IT infrastructure safeguards with respect to confidentiality, availability, integrity and data protection requirements, as well as 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 to enable the early detection of threats and implementation of effective countermeasures.

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. We develop our systems using proven project management and program modification procedures.

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 instruct and train our employees in the proper and secure use of information systems as part of their regular duties.

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 talent, we compete globally for qualified professionals and executives. In many of our markets, we see clear signs of increasingly tough competi-

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tion 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 talent and specialized development programs.

Further information relating to our employees can be found on pages 89 to 91.

Impact: Moderate probability rating, possible moderate impact on our earnings guidance.

Risks in connection with the brand image or reputation of the company

Description of risk: As a globally active corporation, Henkel is exposed to potential damage to the reputation of its corporate brand or the image of Henkel's 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 113 and 114). These are designed to ensure that our production facilities and products are safe. We also pursue a policy of proactive 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 and crisis response planning.

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.

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Measures: We minimize these risks through the measures described under legal and regulatory risks (see pages 113 and 114), 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 pages 110 and 111, 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 page 112, 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

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.

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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 might 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: moderate gross domestic product growth of around 3 percent

Global economic growth is expected to remain moderate but below previous year in 2019. IHS expects gross domestic product to rise by close to 3 percent.

The mature markets should grow by approximately 2 percent. The North American economy is expected to grow by around 2 percent, while Japan's economy is forecasted to expand by approximately 1 percent. For Western Europe, IHS anticipates growth of around 1 percent.

The emerging markets are forecasted to achieve robust economic growth of approximately 4.5 percent in 2019, but developments are expected to vary between individual regions and countries: Asia (excluding Japan) is expected to increase its economic output by 5.5 percent. An increase of approximately 2 percent each is forecasted for the Latin America, Africa / Middle East and Eastern Europe regions.

Inflation: global inflation rate on prior-year level

Global inflation in 2019 is expected to be approximately 3 percent, thus remaining at the level of the previous year. IHS expects the mature markets to continue exhibiting a high degree of price stability, with inflation at around 2 percent. Inflation of around 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: continued high volatility

We anticipate continued high volatility in the currency markets. Some major currencies in the emerging markets could weaken further on average in 2019 compared to 2018. We expect the US dollar to remain relatively stable.

Development by sector

Consumption and retail: growth of approximately 3 percent

IHS expects that global private consumption will increase by approximately 3 percent overall in 2019. For the mature markets, IHS anticipates growth of 2 percent. Private spending in the emerging markets is expected to rise by around 4.5 percent.

Industrial production index: growth of approximately 2.5 percent

Year on year, IHS expects the industrial production index (IPX) to grow at a lower pace of approximately 2.5 percent worldwide. Industrial production is expected to grow by approximately 2 percent in the mature markets and by approximately 3 percent in the emerging markets.

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Outlook for the Henkel Group in 2019

We expect the Henkel Group to generate organic sales growth of 2 to 4 percent in fiscal 2019. Our expectation is that each business unit will generate organic sales growth within this range. The starting point for our expected organic sales growth is our diversified portfolio and leading competitive positions in key markets and categories.

We expect the contribution to the nominal sales growth of the Henkel Group from our acquisitions in 2018 to be in the low single-digit percentage range. The translation of sales in foreign currencies is expected to have a negative effect, also in the low single-digit percentage range.

In recent years we have introduced a number of measures that have had a positive effect on our cost structure. Again this year, we intend to continue adapting our structures to constantly changing market conditions and to maintain our strict cost discipline. At the same time, we plan to significantly increase our investments in brands, technologies, innovations and digitalization in 2019. The aim of these additional expenses is to sustainably strengthen our growth and our positions in key markets, especially in our consumer goods businesses.

This will affect our earnings performance in 2019. We expect adjusted[1] return on sales (EBIT) to be between 16 and 17 percent. Our expectations with regard to adjusted return on sales (EBIT) in our individual business units are between 18 and 19 percent for Adhesive Technologies, between 15 and 16 percent for Beauty Care, and between 16.5 and 17.5 percent for Laundry & Home Care. We expect adjusted earnings per preferred share to be in the mid-single-digit percentage range below prior year at constant exchange rates.

Furthermore, we have the following expectations for 2019:

- Restructuring expenses of 200 to 250 million euros
- Cash outflows from investments in property, plant and equipment and intangible assets of between 750 and 850 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 the range of 30 to 40 percent of net income after non-controlling interests, and adjusted for exceptional items.

Capital expenditures

In fiscal 2019, we plan cash outflows for investments in property, plant and equipment and intangible assets of approximately 750 to 850 million euros. In line with our strategic priorities, considerable investments are planned in strengthening our innovation capabilities and in expanding and further streamlining our production and logistics. Targeted investments in IT infrastructure will drive the digitalization of our processes.

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

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Assets

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in million euros	Note	2017[1]	%	2018	%
Intangible assets	1	15,681	55.3	**16,601**	**56.1**
Property, plant and equipment	2	3,007	10.6	**3,122**	**10.5**
Other financial assets	3	50	0.3	**65**	**0.2**
Income tax refund claims		7	–	**10**	**–**
Other assets	4	170	0.6	**184**	**0.7**
Deferred tax assets	5	949	3.3	**959**	**3.2**
Non-current assets		**19,864**	**70.1**	**20,941**	**70.7**
Inventories	6	2,079	7.3	**2,176**	**7.3**
Trade accounts receivable	7	3,544	12.5	**3,610**	**12.1**
Other financial assets	3	1,072	3.9	**1,030**	**3.5**
Income tax refund claims		325	1.1	**321**	**1.1**
Other assets	4	455	1.6	**406**	**1.4**
Cash and cash equivalents	8	919	3.2	**1,063**	**3.6**
Assets held for sale	9	81	0.3	**76**	**0.3**
Current assets		**8,475**	**29.9**	**8,682**	**29.3**
Total assets		**28,339**	**100.0**	**29,623**	**100.0**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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Equity and liabilities

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in million euros	Note	2017[1]	%	2018	%
Issued capital	10	438	1.5	**438**	**1.5**
Capital reserve	11	652	2.3	**652**	**2.2**
Treasury shares	12	– 91	– 0.3	**– 91**	**– 0.3**
Retained earnings	13	16,101	56.9	**17,399**	**58.6**
Other components of equity	14	– 1,527	– 5.4	**– 1,382**	**– 4.6**
Equity attributable to shareholders of Henkel AG & Co. KGaA		**15,573**	**55.0**	**17,016**	**57.4**
Non-controlling interests	15	74	0.2	**77**	**0.3**
Equity		**15,647**	**55.2**	**17,093**	**57.7**
Provisions for pensions and similar obligations	16	760	2.7	**794**	**2.7**
Income tax provisions	17	16	0.1	**152**	**0.5**
Other provisions	17	353	1.2	**285**	**1.0**
Borrowings	18	3,076	10.8	**1,556**	**5.2**
Other financial liabilities	19	87	0.3	**69**	**0.2**
Other liabilities	20	17	0.1	**18**	**0.1**
Deferred tax liabilities	5	632	2.2	**775**	**2.6**
Non-current liabilities		**4,941**	**17.4**	**3,649**	**12.3**
Income tax provisions	17	417	1.5	**305**	**1.0**
Other provisions	17	1,786	6.3	**1,768**	**6.0**
Borrowings	18	1,268	4.5	**2,619**	**8.8**
Trade accounts payable	21	3,721	13.1	**3,713**	**12.6**
Other financial liabilities	19	214	0.8	**145**	**0.5**
Other liabilities	20	340	1.2	**318**	**1.1**
Income tax liabilities		5	–	**13**	**–**
Current liabilities		**7,751**	**27.4**	**8,881**	**30.0**
Total equity and liabilities		**28,339**	**100.0**	**29,623**	**100.0**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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in million euros	Note	2017[1]	%	2018	%	+/–
Sales	23	**20,029**	**100.0**	**19,899**	**100.0**	**–0.6%**
Cost of sales	24	–10,680	–53.3	**–10,743**	**–54.0**	0.6%
Gross profit		**9,349**	**46.7**	**9,156**	**46.0**	**–2.1%**
Marketing, selling and distribution expenses	25	–4,876	–24.3	**–4,638**	**–23.3**	–4.9%
Research and development expenses	26	–476	–2.4	**–484**	**–2.4**	1.7%
Administrative expenses	27	–980	–4.8	**–991**	**–5.0**	1.1%
Other operating income	28	129	0.6	**154**	**0.8**	19.4%
Other operating expenses	29	–91	–0.5	**–81**	**–0.4**	–11.0%
Operating profit (EBIT)		**3,055**	**15.3**	**3,116**	**15.7**	**2.0%**
Interest income		18	0.1	**10**	**0.1**	–44.4%
Interest expense		–55	–0.3	**–71**	**–0.5**	29.1%
Other financial result		–26	–0.1	**–5**	**–**	–80.8%
Investment result		–4	–	**1**	**–**	**–**
Financial result	30	**–67**	**–0.3**	**–65**	**–0.4**	**–3.0%**
Income before tax		**2,988**	**15.0**	**3,051**	**15.3**	**2.1%**
Taxes on income	31	–447	–2.3	**–721**	**–3.6**	61.3%
Tax rate in %		15.0		**23.6**		
Net income		**2,541**	**12.7**	**2,330**	**11.7**	**–8.3%**
Attributable to non-controlling interests	32	22	0.1	**19**	**0.1**	–13.6%
Attributable to shareholders of Henkel AG & Co. KGaA		2,519	12.6	**2,311**	**11.6**	–8.3%
Earnings per ordinary share – basic and diluted in euros		5.79		**5.31**		–8.3%
Earnings per preferred share – basic and diluted in euros		5.81		**5.33**		–8.3%

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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See Notes 14 and 21 for further explanatory information

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in million euros	2017	2018
Net income	**2,541**	**2,330**
Results subject to possible future reclassification:		
Exchange differences on translation of foreign operations	– 1,334	**146**
Gains / losses from derivative financial instruments (Hedge reserve)	– 14	**– 1**
Gains / losses from equity and debt instruments (Equity and debt instruments reserve)	–	**–**
Results not subject to future reclassification:		
Remeasurement of net liability from defined benefit pension plans (net of taxes)	124	**– 134**
Other comprehensive income (net of taxes)	**– 1,224**	**11**
Total comprehensive income for the period	**1,317**	**2,341**
Attributable to non-controlling interests	13	**19**
Attributable to shareholders of Henkel AG & Co. KGaA	1,304	**2,322**

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	Issued capital					Other components of equity					
in million euros	Ordinary shares	Preferred shares	Capital reserve	Treasury shares	Retained earnings	Currency translation	Hedge reserve	Reserve for equity and debt instruments[1]	Shareholders of Henkel AG & Co. KGaA	Non-controlling interests	Total
At January 1, 2017	**260**	**178**	**652**	**–91**	**14,236**	**–7**	**–184**	**3**	**15,047**	**138**	**15,185**
Net income	–	–	–	–	2,519	–	–	–	2,519	22	**2,541**
Other comprehensive income	–	–	–	–	124	–1,325	–14	–	–1,215	–9	**–1,224**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**2,643**	**–1,325**	**–14**	**–**	**1,304**	**13**	**1,317**
Dividends	–	–	–	–	–698	–	–	–	–698	–38	**–736**
Sale of treasury shares	–	–	–	–	–	–	–	–	–	–	**–**
Changes in ownership interest with no change in control	–	–	–	–	–152	–	–	–	–152	–39	**–191**
Other changes in equity	–	–	–	–	72[2]	–	–	–	72	–	**72**
At Dec. 31, 2017 / Jan. 1, 2018	**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[3]	–	–	–	–	–59	–	–	–	–59	–	**–59**
At January 1, 2018 (adjusted)	**260**	**178**	**652**	**–91**	**16,042**	**–1,332**	**–198**	**3**	**15,514**	**74**	**15,588**
Net income	–	–	–	–	2,311	–	–	–	2,311	19	**2,330**
Other comprehensive income	–	–	–	–	–134	146	–1	–	11	–	**11**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**2,177**	**146**	**–1**	**–**	**2,322**	**19**	**2,341**
Dividends	–	–	–	–	–772	–	–	–	–772	–16	**–788**
Sale of treasury shares	–	–	–	–	–	–	–	–	–	–	**–**
Changes in ownership interest with no change in control	–	–	–	–	–	–	–	–	–	–	**–**
Other changes in equity	–	–	–	–	–48	–	–	–	–48	–	**–48**
At December 31, 2018	**260**	**178**	**652**	**–91**	**17,399**	**–1,186**	**–199**	**3**	**17,016**	**77**	**17,093**

[1] Available-for-sale reserve in 2017.
[2] Prior-year figures amended (please refer to the notes on pages 140 and 141).
[3] Retained earnings decreased by 59 million euros following application of IFRS 9 and IFRS 15. Of this amount, 13 million euros is attributable to an increase in valuation allowances on trade accounts receivable and 46 million euros to the application of IFRS 15, of which deferred taxes accounted for –14 million euros.

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in million euros	2017	2018
Operating profit (EBIT)	**3,055**	**3,116**
Income taxes paid	– 727	**– 586**
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment[1]	672	**578**
Net gains / losses on disposal of intangible assets and property, plant and equipment, and from divestments	– 36	**– 31**
Change in inventories	– 181	**– 156**
Change in trade accounts receivable	– 322	**– 89**
Change in other assets	29	**14**
Change in trade accounts payable	217	**32**
Change in other liabilities, provisions and equity	– 239	**– 180**
Cash flow from operating activities	**2,468**	**2,698**
Purchase of intangible assets and property, plant and equipment including payments on account	– 700	**– 837**
Acquisition of subsidiaries and other business units	– 1,830	**– 429**
Purchase of associated companies and joint ventures held at equity	– 5	**– 14**
Proceeds on disposal of subsidiaries and other business units	53	**4**
Proceeds on disposal of intangible assets and property, plant and equipment	31	**68**
Cash flow from investing activities	**– 2,451**	**– 1,208**
Dividends paid to shareholders of Henkel AG & Co. KGaA	– 698	**– 772**
Dividends paid to non-controlling shareholders	– 38	**– 16**
Interest received	22	**24**
Interest paid	– 56	**– 78**
Dividends and interest paid and received	*– 770*	***– 842***
Issuance of bonds	535	**–**
Repayment of bonds	–	**– 500**
Repayment of non-current bank liabilities	–	**– 947**
Other changes in borrowings	419	**1,158**
Allocations to pension funds	– 112	**– 175**
Other changes in pension obligations[2]	– 64	**42**
Payments for the acquisition of treasury shares	–	**– 33**

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in million euros	2017	2018
Purchase of non-controlling interests with no change of control	– 157	– 7
Other financing transactions[3]	– 263	– 26
Cash flow from financing activities	**– 412**	**– 1,330**
Net change in cash and cash equivalents	– 395	160
Effect of exchange rates on cash and cash equivalents	– 75	– 16
Change in cash and cash equivalents	**– 470**	**144**
Cash and cash equivalents at January 1	1,389	919
Cash and cash equivalents at December 31	**919[4]**	**1,063**

[1] Of which: Impairment in fiscal 2018: 24 million euros (fiscal 2017: 47 million euros).
[2] Other changes in pension obligations include payment receipts of 100 million euros in fiscal 2018 constituting the refund of pension payments to retirees for which a right of reimbursement exists with respect to Henkel Trust e.V. No reimbursements were paid in 2017.
[3] Other financing transactions in fiscal 2018 include payments of – 30 million euros for the purchase of short-term securities and time deposits as well as for the provision of financial collateral (fiscal 2017: – 231 million euros).
[4] Prior-year figures amended (please refer to the notes on pages 140 and 141).

Additional voluntary information: Reconciliation to free cash flow

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in million euros	2017	2018
Cash flow from operating activities	2,468	2,698
Purchase of intangible assets and property, plant and equipment including payments on account	– 700	– 837
Proceeds on disposal of intangible assets and property, plant and equipment	31	68
Net interest paid	– 34	– 54
Other changes in pension obligations	– 64	42
Free cash flow	**1,701**	**1,917**

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Group segment report by business unit[1]

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in million euros	Adhesives for Consumers, Craftsmen and Building	Industrial Business	Total Adhesive Technologies	Beauty Care	Laundry & Home Care	Operating business units total	Corporate	Henkel Group
Sales 2018	**1,781**	**7,622**	**9,403**	**3,950**	**6,419**	**19,771**	**128**	**19,899**
Proportion of Henkel sales	9%	38%	47%	20%	32%	**99%**	1%	**100%**
Sales 2017	1,832	7,556	9,387	3,868	6,651	**19,906**	123	**20,029**
Change from previous year	–2.8%	0.9%	0.2%	2.1%	–3.5%	**–0.7%**	4.3%	**–0.6%**
Adjusted for foreign exchange	2.3%	6.2%	5.4%	6.9%	2.6%	**4.8%**	–	**4.8%**
Organic	3.1%	4.2%	4.0%	–0.7%	1.9%	**2.4%**	–	**2.4%**
EBIT 2018	**261**	**1,408**	**1,669**	**589**	**970**	**3,228**	**–112**	**3,116**
EBIT 2017	297	1,360	1,657	535	989	**3,181**	–126	**3,055**
Change from previous year	–12.2%	3.6%	0.7%	10.0%	–1.9%	**1.5%**	–	**2.0%**
Return on sales (EBIT) 2018	**14.7%**	**18.5%**	**17.7%**	**14.9%**	**15.1%**	**16.3%**	**–**	**15.7%**
Return on sales (EBIT) 2017	16.2%	18.0%	17.7%	13.8%	14.9%	**16.0%**	–	**15.3%**
Adjusted EBIT 2018	**282**	**1,479**	**1,761**	**675**	**1,162**	**3,598**	**–102**	**3,496**
Adjusted EBIT 2017	281	1,452	1,734	665	1,170	**3,568**	–107	**3,461**
Change from previous year	0.3%	1.8%	1.6%	1.6%	–0.7%	**0.8%**	–	**1.0%**
Adjusted return on sales (EBIT) 2018	**15.9%**	**19.4%**	**18.7%**	**17.1%**	**18.1%**	**18.2%**	**–**	**17.6%**
Adjusted return on sales (EBIT) 2017	15.4%	19.2%	18.5%	17.2%	17.6%	**17.9%**	–	**17.3%**
Capital employed 2018[2]	**872**	**7,765**	**8,637**	**3,983**	**7,381**	**20,001**	**77**	**20,078**
Capital employed 2017[2]	808	7,429	8,237	3,038	7,557	**18,832**	38	**18,870**
Change from previous year	7.9%	4.5%	4.9%	31.1%	–2.3%	**6.2%**	–	**6.4%**
Return on capital employed (ROCE) 2018	**29.9%**	**18.1%**	**19.3%**	**14.8%**	**13.1%**	**16.1%**	**–**	**15.5%**
Return on capital employed (ROCE) 2017	36.8%	18.5%	20.3%	17.6%	13.1%	**17.0%**	–	**16.3%**

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in million euros	Adhesives for Consumers, Craftsmen and Building	Industrial Business	Total Adhesive Technologies	Beauty Care	Laundry & Home Care	Operating business units total	Corporate	Henkel Group
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 losses 2018	**–**	**15**	**15**	**–**	**9**	**24**	**–**	**24**
of which write-ups 2018	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment 2017	43	269	312	100	246	**658**	14	**672**
of which impairment losses 2017	1	40	41	–	6	**47**	–	**47**
of which write-ups 2017	–	–	–	–	–	**–**	–	**–**
Capital expenditures (excl. financial assets) 2018	**89**	**547**	**636**	**293**	**341**	**1,270**	**11**	**1,281**
Capital expenditures (excl. financial assets) 2017	76	1,213	1,289	865	351	**2,505**	6	**2,511**
Operating assets 2018[3]	**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[3]	**789**	**7,270**	**8,058**	**3,635**	**7,645**	**19,338**	**77**	**19,416**
Operating assets 2017[3]	1,420	9,263	10,683	4,491	10,441	**25,614**	528	**26,142**
Operating liabilities 2017	655	2,324	2,979	1,627	2,700	**7,305**	491	**7,796**
Net operating assets 2017[3]	765	6,939	7,704	2,864	7,741	**18,309**	38	**18,347**

[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] Including goodwill at net book value.

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Key financials by region[1]

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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
Sales[2] 2018	**6,107**	**2,843**	**1,286**	**5,040**	**1,181**	**3,314**	**19,771**	**128**	**19,899**
Sales[2] 2017	6,033	2,897	1,302	5,162	1,142	3,371	**19,906**	123	**20,029**
Change from previous year	1.2 %	– 1.8 %	– 1.2 %	– 2.4 %	3.5 %	– 1.7 %	**– 0.7 %**	–	**– 0.6 %**
Adjusted for foreign exchange	1.6 %	7.6 %	11.6 %	4.4 %	16.5 %	1.9 %	**4.8 %**	–	**4.8 %**
Organic	0.3 %	7.6 %	11.3 %	– 1.0 %	9.3 %	0.9 %	**2.4 %**	–	**2.4 %**
Proportion of Group sales 2018	**31 %**	**14 %**	**6 %**	**25 %**	**6 %**	**17 %**	**99 %**	**1 %**	**100 %**
Proportion of Group sales 2017	30 %	14 %	6 %	26 %	6 %	17 %	**99 %**	1 %	**100 %**
Operating profit (EBIT) 2018	**1,810**	**280**	**35**	**406**	**136**	**561**	**3,228**	**– 112**	**3,116**
Operating profit (EBIT) 2017	1,463	280	58	731	112	537	**3,181**	– 126	**3,055**
Change from previous year	23.7 %	0.1 %	– 39.4 %	– 44.5 %	21.6 %	4.5 %	**1.5 %**	–	**2.0 %**
Adjusted for foreign exchange	23.8 %	14.2 %	– 15.7 %	– 42.0 %	41.3 %	8.7 %	**5.2 %**	–	**5.1 %**
Return on sales (EBIT) 2018	**29.6 %**	**9.8 %**	**2.7 %**	**8.0 %**	**11.5 %**	**16.9 %**	**16.3 %**	**–**	**15.7 %**
Return on sales (EBIT) 2017	24.3 %	9.7 %	4.5 %	14.2 %	9.8 %	15.9 %	**16.0 %**	–	**15.3 %**

[1] Calculated on the basis of units of 1,000 euros.
[2] By location of company.

In 2018, the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA, generated sales of 2,435 million euros (previous year: 2,388 million euros). Sales realized by the affiliated companies domiciled in the USA amounted to 4,696 million euros in 2018 (previous year: 4,864 million euros). Affiliated companies domiciled in China generated sales of 1,612 million euros in 2018 (previous year: 1,632 million euros). In fiscal 2017 and 2018, 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, 2018 (excluding financial instruments and deferred tax assets) amounting to 19,920 million euros (previous year: 18,836 million euros), 2,468 million euros (previous year: 2,149 million euros) was attributable to the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA. The non-current assets (excluding financial instruments and deferred tax assets) recognized in respect of the affiliated companies domiciled in the USA amounted to 10,617 million euros at December 31, 2018 (previous year: 10,126 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, 2018, have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), 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, 2018, 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 31, 2019, 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, 2018, include 15 German and 206 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, 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 2018:

Scope of consolidation 87

At January 1, 2018	**242**
Additions	7
Mergers	– 23
Disposals	– 4
At December 31, 2018	**222**

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.

Acquisitions and divestments

Acquisitions

Effective January 3, 2018, Henkel completed the acquisition of all shares in Unión Técnico Comercial S.R.L. based in Lima, Peru. The final purchase price was 13 million euros, settled in cash. The acquisition strengthens the position of Adhesive Technologies in the market for maintenance, repair and overhaul in the General Industry business area in Latin America. Goodwill was recognized in the amount of 13 million euros.

Effective June 1, 2018, Henkel completed the acquisition of all shares in JemPak Corporation based in Concord, Canada. The final purchase price was 76 million euros, settled in cash. The acquisition complements and strengthens the existing Laundry & Home Care portfolio in North America and enables Henkel to further expand its position in this attractive market. Provisional goodwill was recognized in the amount of 53 million euros.

Effective December 10, 2018, Henkel completed the acquisition of all shares in Aislantes Nacionales S.A., Santiago, Chile. The purchase price was 343 million euros, settled in cash. A further purchase price component of 15 million euros maximum was agreed, depending on the amount of gross profit generated in 2019. In determining the transferred consideration, 10 million euros was recognized as contingent. Following this acquisition, Henkel is now active in the attractive Chilean market for tile adhesives and building materials where it occupies a strong position. Provisional goodwill was recognized in the amount of 323 million euros.

None of the goodwill relating to any of the acquisitions was recognized for tax purposes.

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The goodwill acquired through the acquisition of Unión Técnico Comercial S.R.L., JemPak Corporation and Aislantes Nacionales S.A. represents the growth potential of the acquired businesses, as well as both offensive and defensive synergies, achieved through integration in Henkel's existing organization.

Because the acquisition of Aislantes Nacionales S.A. was only recently completed, and the acquisition of JemPak 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 intangible assets, property, plant and equipment, provisions and deferred taxes has not yet been finalized.

Acquisitions

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in million euros	Acquisitions 2018 Fair value
Intangible assets	396
Property, plant and equipment	32
Other non-current assets	–
Non-current assets	**428**
Inventories	12
Trade accounts receivable	22
Liquid funds	3
Other current assets	2
Current assets	**39**
Total assets	**467**
Net assets	**442**
Non-current liabilities	**3**
Other current provisions / liabilities	15
Trade accounts payable	7
Current liabilities	**22**
Total equity and liabilities	**467**

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 Unión Técnico Comercial S.R.L., JemPak Corporation and Aislantes Nacionales S.A. – and thus their business activities – had been completed by January 1, 2018, sales for the Henkel Group for the reporting period January 1 to December 31, 2018, would be higher by 179 million euros and income after tax would be higher by 18 million euros, taking acquisition-related incidental costs into account.

The business activities actually contributed 66 million euros to sales and 2 million euros to income after tax. Acquisition-related incidental costs amounted to 4 million euros.

Reconciliation of the purchase price to provisional goodwill

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in million euros	2018
Acquisitions 2018	
Purchase price	432
Adjustment based on purchase agreement	10
Fair value of the acquired assets and liabilities	53
Provisional goodwill	**389**

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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 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.

In the recognition of acquisitions of less than 100 percent, non-controlling interests are measured at the fair value of the share of net assets that they represent. Contingent futures contracts on non-controlling interests are recognized by the anticipated acquisition method. Accordingly, the acquisition of the outstanding non-controlling interests is already included as part of the first-time consolidation in the form of a contingent purchase price liability.

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.

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Companies recognized by the equity method

Associated companies and joint ventures are recognized by the equity method.

An associated company is a company over which the Group can exercise material influence on the financial and operating policies without controlling it. Material 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 or a joint venture, the resulting profits or losses are eliminated in accordance with the share of the Group in that company.

The Group consolidates Vitriflex, Inc. and Zipjet Global S.à r.l. using the equity method. The carrying amount of the shareholdings recognized by the equity method as of December 31, 2018, was 3 million euros (previous year: 1 million euros).

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 never recognized by the equity method. They are always recognized at amortized cost.

Currency translation

The annual financial statements of the consolidated companies, including the hidden reserves and hidden charges of Group companies recognized by the purchase method, goodwill arising on consolidation, and the consolidated statement of cash flows, are translated into euros using the functional currency method outlined in International Accounting Standard (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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		Average exchange rate		Exchange rate on December 31	
	ISO code	2017	**2018**	2017	**2018**
Chinese yuan	CNY	7.63	**7.81**	7.80	**7.88**
Mexican peso	MXN	21.33	**22.71**	23.66	**22.49**
Polish zloty	PLN	4.26	**4.26**	4.12	**4.30**
Russian ruble	RUB	65.95	**74.04**	69.39	**79.72**
Turkish lira	TRY	4.12	**5.71**	4.55	**6.06**
US dollar	USD	1.13	**1.18**	1.20	**1.15**

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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 carrying amount and recoverable amount ("impairment only" method)
Other intangible assets	
with indefinite useful lives	Lower of carrying amount 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 through profit or loss
Fair value through other comprehensive income	Fair value with gains or losses recognized in other comprehensive income [1]
Fair value option	Fair value through profit or loss
Other assets	(Amortized) cost
Inventories	Lower of cost and fair value less costs to sell
Assets held for sale	Lower of cost and fair value less costs to sell

[1] Apart from permanent impairment losses and 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 through profit or loss
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 the report on our financial instruments (Note 22 on pages 179 to 202) are the disclosures relevant to International Financial Reporting Standard (IFRS) 7 showing the breakdown of our financial instruments by category, our methods for fair value measurement, and the derivative financial instruments that we use.

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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 that supersede the standard concerned. 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 taxes on income (Note 31 on pages 206 to 209), intangible assets (Note 1 on pages 148 to 153), provisions for pensions and similar obligations (Note 16 on pages 161 to 173), income tax provisions and other provisions (Note 17 on pages 173 to 175), financial instruments (Note 22 on pages 179 to 202), sales (Note 23 on pages 203 and 204) and share-based payment plans (Note 35 on pages 211 to 213).

Material discretionary judgments are made in respect of the demarcation of the cash-generating units as explained in Note 1 on pages 148 to 153 and the segment reporting as explained in Note 36 on pages 213 to 216. Contingent forward contracts for acquired minority interests are recognized by the anticipated acquisition method.

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 payment flows. As such, classification and the associated presentation as trade accounts payable is consistent with the recognition and presentation criteria of IFRS 9.

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Amendment of prior-year figures

The allocation of the purchase price for the acquisition of the global Darex Packaging Technologies business was finalized in fiscal 2018. The prior-year figures were subsequently amended as a result. In the course of the amendment, goodwill decreased by 1 million euros, retained earnings decreased by 3 million euros, other non-current provisions increased by 4 million euros, and deferred tax liabilities decreased by 2 million euros.

The allocation of the purchase price for the acquisition of all shares of Nattura Laboratorios, S.A. de C.V., Mexico, and associated companies in the USA, Colombia and Spain, was finalized in fiscal 2018. The prior-year figures were subsequently amended as a result. In the course of the amendment, goodwill increased by 2 million euros and other non-current financial liabilities also increased by 2 million euros.

The allocation of the purchase price for the acquisition of all shares of Zotos International Inc. was finalized in fiscal 2018. The prior-year figures were subsequently amended as a result. In the course of the amendment, goodwill increased by 27 million euros, property, plant and equipment increased by 2 million euros, inventories decreased by 1 million euros, cash increased by 3 million euros, deferred tax liabilities increased by 17 million euros, other current provisions increased by 10 million euros, and trade accounts payable increased by 4 million euros.

On September 5, 2018, the IFRS Technical Committee of the Accounting Standards Committee of Germany (DRSC) approved DRSC Interpretation 4 (IFRS) Accounting for Interest and Penalties Related to Income Taxes under IFRSs.

The interpretation addresses the treatment of interest and penalties in relation to income tax per IAS 12.5 (recognition of interest and penalties as income tax). It applies to the jurisdiction of Germany and also other jurisdictions where the income tax treatment of interest and penalties is structured in accordance with German tax law.

First-time application of the interpretation results in a change in the recognition of interest and penalties related to taxes on income. Interest and penalties are henceforth to be treated in accordance with IAS 37 and may no longer be recognized as income tax items (IAS 12). As this modified accounting treatment constitutes a change in policy under IAS 8, the relevant figures have had to be retrospectively amended.

Accordingly, effective December 31, 2017, 4 million euros was reclassified from current income tax refund claims to other current assets, and 1 million euros from non-current income tax refund claims to other non-current assets. In addition, effective December 31, 2017, 20 million euros was reclassified from current income tax provisions to other current provisions, and 11 million euros from non-current income tax provisions to non-current other provisions. In the prior-year figures in the consolidated statement of income, income taxes decreased by 16 million euros and other financial income increased by 2 million euros, while other financial expense increased by 18 million euros. This resulted in a change of 0.4 percentage points to the reported tax rate. It did not affect the earnings per share.

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Amendment of prior-year figures

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in million euros	Dec. 31, 2017 reported	Restatement	Dec. 31, 2017 restated
Consolidated statement of financial position			
Intangible assets	15,653	28	**15,681**
Property, plant and equipment	3,005	2	**3,007**
Income tax refund claims	8	– 1	**7**
Other assets	169	1	**170**
Non-current assets	19,834	30	**19,864**
Inventories	2,080	– 1	**2,079**
Income tax refund claims	329	– 4	**325**
Other assets	451	4	**455**
Cash	916	3	**919**
Current assets	8,473	2	**8,475**
Total assets	28,307	32	**28,339**
Retained earnings	16,104	– 3	**16,101**
Equity attributable to shareholders of Henkel AG & Co. KGaA	15,576	– 3	**15,573**
Equity	15,650	– 3	**15,647**
Income tax provisions	27	– 11	**16**
Other provisions	338	15	**353**
Other financial liabilities	85	2	**87**
Deferred tax liabilities	617	15	**632**
Non-current liabilities	4,920	21	**4,941**
Income tax provisions	437	– 20	**417**
Other provisions	1,756	30	**1,786**
Trade accounts payable	3,717	4	**3,721**
Current liabilities	7,737	14	**7,751**
Total equity and liabilities	28,307	32	**28,339**
Consolidated statement of income			
Other financial result	– 10	– 16	**– 26**
Financial result	– 51	– 16	**– 67**
Income before tax	3,004	– 16	**2,988**
Taxes on income	– 463	16	**– 447**
Tax rate in %	15.4	– 0.4 pp	**15.0**

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New international accounting regulations according to International Financial Reporting Standards (IFRSs)

Accounting regulations applied for the first time in the year under review

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	Mandatory for fiscal years beginning on or after
IFRS 2 (Amendment) Classification and Measurement of Share-Based Payment Transactions	January 1, 2018
IFRS 9 Financial Instruments	January 1, 2018
IFRS 15 Revenue from Contracts with Customers	January 1, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018
Improvements to IFRSs 2014–2016	January 1, 2018

IFRS 2 (Amendment)

The amendments to IFRS 2 relate to consideration of the exercise terms and conditions when measuring share-based payments settled in cash, to the classification of share-based payments providing net settlement for withholding taxes, and to the recognition of certain amendments to terms and conditions. The changes will not have any material impact on the consolidated financial statements of Henkel.

IFRS 9

IFRS 9 Financial Instruments, issued in July 2014, supersedes the existing rules in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised rules on the classification and measurement of financial instruments, including a new model for expected credit losses to calculate the impairment of financial assets, and the new general accounting rules for hedging transactions. IFRS 9 has also adopted the guidance on recognition and derecognition of financial instruments from IAS 39. Henkel's application of the classification and measurement regulations specified in the IFRS retrospectively, starting on January 1, 2018, is consistent with the transitional arrangements and the right to choose to report prior-year periods as per IAS 39. The rules for hedge accounting have been applied prospectively.

Classification: IFRS 9 contains three categories for classifying financial assets: "measured at amortized cost," "measured at fair value through profit or loss," and "measured at fair value through other comprehensive income." The standard eliminates the categories "held to maturity," "loans and receivables" and "available for sale" that were specified in IAS 39. Financial instruments are allocated to the IFRS 9 categories on the basis of the business model used to hold the financial instruments and of the contractual payment flows. Most of the financial instruments that Henkel used to measure at amortized cost under IAS 39 will continue to be "measured at amortized cost" under IFRS 9. The payment flows relating to these financial instruments are comprised entirely of interest and redemption payments and are held by Henkel in a business model designed to collect the contractual payment flows. Certain shares in money market funds that are recognized in cash and cash equivalents, as well as securities and time deposits, will be measured at fair value through profit or loss in future. Henkel holds these financial instruments with the intention of selling them if liquidity is required. A table on pages 182 and 183 reconciles the valuation categories and carrying amounts from IAS 39 to IFRS 9. The Group occasionally exercises its right to choose to recognize changes in the value of equity instruments through other comprehensive income. Accordingly, upon application of IFRS 9 starting on January 1, 2018, losses of less than 1 million euros were reclassified from retained earnings to the equity and debt instruments reserve.

IFRS 9 did not have any effect on the recognition of financial liabilities within the Henkel Group.

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Impairment: Under IAS 39, valuation allowances were only recognized for impairment that had occurred but was as yet unidentified (incurred loss model), whereas IFRS 9 specifies the use of the expected loss model when quantifying valuation allowances for expected credit losses. Valuation allowances are recognized for all financial assets measured at cost and for debt instruments measured at fair value through other comprehensive income.

For an explanation of these valuation allowances and our risk management, please consult pages 192 to 195.

First-time application of IFRS 9 on January 1, 2018, resulted in an increase of 13 million euros in valuation allowances on trade accounts receivable, recognized in retained earnings.

Hedge accounting: Henkel applies the new rules of IFRS 9 for hedge accounting. In doing so, 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 instruments.

Within the Henkel Group, forward exchange contracts are used to hedge future cash flows in foreign currencies. The Group only designates the spot component of these hedging transactions. The (effective) portion of the change in fair value of the spot component is recognized in the hedge reserve in equity. If payment flows for non-financial assets are hedged, the amounts are included as part of the acquisition cost when the underlying transaction is recognized. Amounts stated in the hedge reserve or as part of the acquisition cost are recognized through profit or loss in the same period in which the hedged transaction impacts profit or loss. The non-designated components are also recognized in the hedge reserve through other comprehensive income and – if the hedge relates to non-financial assets – included in the acquisition cost when the hedged underlying is recognized.

IFRS 15

In May 2014, the IASB published the new IFRS 15 Revenue from Contracts with Customers. IFRS 15 specifies a comprehensive framework for determining whether, when and in what amount revenue is recognized. Under IFRS 15, revenue is only recognized when no substantial adjustments to the cumulative recognized revenue is expected. When control of goods or intangible assets passes to a customer or a service is provided, the expected consideration for the transfer or provision must be recognized as revenue.

This principle is applied in five steps. In step 1, the contract with the customer is identified. In step 2, the distinct performance obligations in the contract are identified. In step 3, the transaction price is determined. In step 4, this transaction price is allocated to the distinct performance obligations. Finally, in step 5, revenue is recognized when the identified distinct performance obligations are satisfied, either over time or at a point in time.

The objective of the new standard is to bring together the different regulations contained in various other standards and interpretations. It replaces the existing guidance on revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts, and IFRIC 13 Customer Loyalty Programmes. Clarifying amendments to IFRS 15 were published in April 2016, primarily relating to the identification of separate performance obligations and the clear distinction between principals and agents.

Henkel applied the cumulative method to all contracts on adoption of IFRS 15. Accordingly, the effects of first-time application were recognized cumulatively in equity upon first-time application on January 1, 2018.

First-time application of IFRS 15 has resulted in changes to the recognition of variable considerations.

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This affects the accounting procedure for returned goods. If products are sold with a right of return, IFRS 15 does not permit the recognition of sales for goods whose return is expected. In case of expected product returns which can be reliably estimated, an asset representing the right of return and a provision for the respective refund are recognized.

Secondly, the new rules governing the accounting procedure for variable considerations impact the timing of sales deductions following invoice deductions by customers.

Overall, adoption of IFRS 15 resulted in an increase of 11 million euros in other current assets and an increase of 71 million euros in other current provisions, leading to a reduction in equity of 60 million euros before or 46 million euros after deduction of deferred taxes. The statement of financial position and statement of income for the comparable prior periods have not been amended. At December 31, 2018, the increase in other current assets arising from application of IFRS 15 amounted to 10 million euros, the increase in deferred tax assets to 14 million euros, and the increase in other current provisions to 76 million euros. Under the former rules, sales would have been 5 million euros higher at December 31, 2018, and cost of sales 1 million euros less.

Further details of sales can be found in the notes on sales and the principles of income recognition on pages 203 and 204.

IFRIC 22

IFRIC 22 addresses an issue relating to the application of IAS 21 The Effects of Changes in Foreign Exchange Rates. It clarifies the timing of the exchange rate for translating foreign currency transactions that include the receipt or payment of advance considerations. The clarification does not have any material impact on the consolidated financial statements of Henkel.

Improvements to IFRSs 2014–2016

The Annual Improvements to IFRSs (2014–2016) included amendments to three IFRSs, of which application of only the following two was mandatory in 2018: In IFRS 1, the remaining short-term exemptions in IFRS 1 Appendix E for first-time adopters have been deleted. In IAS 28, clarification was provided that the choice of measuring an investment in an associate or joint venture held by a venture capital or other qualifying company can be exercised differently, depending on the investment. Neither change has had any material impact on the consolidated financial statements of Henkel.

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Accounting regulations not applied in advance of their effective date

The following standards and amendments to existing standards of possible relevance to Henkel, which have been adopted into EU law (endorsement mechanism) but are not yet mandatory, have not been applied early:

Accounting regulations not applied in advance of their effective date

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	Mandatory for fiscal years beginning on or after
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

IFRS 9

The amendments to IFRS 9 that were published on March 26, 2018, relate to a limited adjustment to the relevant evaluation criteria for classifying financial assets. Financial assets containing prepayment features with negative compensation may be recognized at amortized cost or they may be recognized at fair value through other comprehensive income rather than through profit or loss, subject to certain requirements being met. 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. The accounting requirements for lessors are similar to the current standard, i.e. lessors must continue to distinguish between finance and operating leases.

IFRS 16 supersedes the existing 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.

The standard is mandatory for reporting periods beginning on or after January 1, 2019. Early application is permitted if IFRS 15 is also applied. Henkel has not applied IFRS 16 before the effective date.

Henkel will utilize the exemptions governing short-term leases and leases relating to low-value assets and will desist from recognition of such leases in its statement of financial position. Henkel will also exercise its right under IFRS 16.4 to choose not to apply IFRS 16 to certain intangible assets.

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When it adopts IFRS 16, the Group will recognize new assets and liabilities relating to its operating leases. These will mainly relate to office buildings and equipment, production buildings, warehouses, technical facilities, vehicles and IT equipment. Based on the information currently available, the estimated relevant amount will be in the range of 450 million euros to 600 million euros, with corresponding knock-on effects on key financial metrics such as the equity ratio.

In addition, the nature of expenses associated with these leases will change, as IFRS 16 replaces the linear recognition of expenses for operating leases with linear depreciation of right-of-use assets and degressive interest expenses for liabilities arising from the lease. The expenses incurred in connection with the application of IFRS 16 are therefore no longer exclusively a component of the operating profit. Henkel expects a one-off lasting improvement in its operating profit in the high single-digit or low double-digit millions, together with a corresponding adverse effect on its financial result. The effect on net income of the non-linear recognition of total expenses resulting from lease accounting under IFRS 16 will be in the range of low to medium single-digit millions both in the year of first-time application and in the following years.

Henkel does not expect the Group's finance leases to be impacted to any material extent.

Henkel plans to apply IFRS 16 retrospectively as per IFRS 16.C5(b). The effect of first-time application of the standard will be recognized in retained earnings. Prior-year figures will not be amended.

When switching over, Henkel plans to use the simplification regulation allowing the definition of a lease to be maintained. As such, Henkel will apply IFRS 16 to all contracts concluded prior to January 1, 2019, and identified as leases under IAS 17 and IFRIC 4.

IFRIC 23

The tax treatment of certain items and transactions is, in part, dependent on future recognition by the tax authorities or tax judiciary. IAS 12 Income Taxes regulates the accounting procedure for actual and deferred taxes. IFRIC 23, which the IFRS Interpretations Committee published on October 24, 2018, supplements the rules of IAS 12 with regard to the consideration of uncertainties relating to the income tax treatment of items and transactions. The changes will not have any material impact on Henkel's consolidated financial statements.

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Accounting regulations not yet adopted into EU law

In fiscal 2018, 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 95

	Mandatory for fiscal years beginning on or after
Framework (Amendment)	January 1, 2020
IAS 1 and IAS 8 (Amendment) Definition of Material	January 1, 2020
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 3 (Amendment) Definition of a Business	January 1, 2020
Improvements to IFRSs 2015–2017	January 1, 2019

These new standards and amendments to existing standards will be applied by Henkel starting in fiscal 2019 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 (net realizable value) and the value in use. Impairment losses are recognized if the recoverable amounts of the assets are lower than their carrying amounts. They are charged to the relevant functions.

The following unchanged, standardized useful lives are applied:

Useful life 96

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

1 Intangible assets

Cost 97

in million euros	Trademarks and other rights		Internally generated intangible assets with definite useful lives	Intangible assets in development	Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives				
At January 1, 2017	**3,067**	**1,722**	**391**	**81**	**11,658**	**16,919**
Acquisitions	215[1]	185[1]	–	–	1,268[1]	**1,668**
Divestments	–	–	–	–	–12	**–12**
Additions	–	7	2	64	–	**73**
Disposals	–	–13	–	–	–	**–13**
Reclassifications to assets held for sale	–	8	–	–	3	**11**
Reclassifications	–	–	60	–60	–	**–**
Translation differences	–275	–80	–10	–2	–1,067	**–1,434**
At Dec. 31, 2017 / Jan. 1, 2018	**3,007**	**1,829**	**443**	**83**	**11,850**	**17,212**
Acquisitions	–	7	–	–	389	**396**
Divestments	–	–	–	–	–	**–**
Additions	–	8	11	258	–	**277**
Disposals	–	–13	–	–	–	**–13**
Reclassifications to assets held for sale	–	–	–	–	–	**–**
Reclassifications	–	–	49	–49	–	**–**
Translation differences	101	45	–4	–1	276	**417**
At December 31, 2018	**3,108**	**1,876**	**499**	**291**	**12,515**	**18,289**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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Accumulated amortization / impairment

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in million euros	Trademarks and other rights		Internally generated intangible assets with definite useful lives	Intangible assets in development	Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives				
At January 1, 2017	**8**	**1,126**	**210**	**–**	**11**	**1,355**
Divestments	–	–	–	–	–	**–**
Write-ups	–	–	–	–	–	**–**
Scheduled amortization	–	180	44	–	–	**224**
Impairment losses	–	–	–	–	18	**18**
Disposals	–	–13	–	–	–	**–13**
Reclassifications to assets held for sale	–	6	–	–	–	**6**
Reclassifications	–	–	–	–	–	**–**
Translation differences	–	–51	–8	–	–	**–59**
At Dec. 31, 2017 / Jan. 1, 2018	**8**	**1,248**	**246**	**–**	**29**	**1,531**
Divestments	–	–	–	–	–	**–**
Write-ups	–	–	–	–	–	**–**
Scheduled amortization	–	107	42	–	–	**149**
Impairment losses	–	–	2	–	–	**2**
Disposals	–	–13	–	–	–	**–13**
Reclassifications to assets held for sale	–	–	–	–	–	**–**
Reclassifications	–	–	–	–	–	**–**
Translation differences	–	29	–10	–	–	**19**
At December 31, 2018	**8**	**1,371**	**280**	**–**	**29**	**1,688**

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Net book values

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in million euros	Trademarks and other rights		Internally generated intangible assets with definite useful lives	Intangible assets in development	Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives				
At December 31, 2018	**3,100**	**505**	**219**	**291**	**12,486**	**16,601**
At December 31, 2017	2,999	581	197	83	11,821	15,681

Goodwill represents the future economic benefit of assets that are acquired through business combinations and not individually identifiable and separately recognized, as well as expected synergies, and is recognized at cost. Trademarks and other rights acquired for valuable consideration are stated at purchase cost, while internally generated software is stated at 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 134 and 135.

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).

In fiscal 2017, goodwill impairment of 18 million euros was recognized in connection with the discontinuation of product lines in our General Industry business.

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.

In the course of our annual impairment test, we reviewed the carrying amounts of goodwill. The following table shows the cash-generating units together with the associated goodwill at book value at the reporting date. The description of the cash-generating units can be found in Note 36 on pages 213 to 215 and in the combined management report on pages 78 to 83.

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Book values – Goodwill

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Cash-generating units in million euros	At December 31, 2017 Goodwill	At December 31, 2017 Terminal growth rate	At December 31, 2017 Weighted average cost of capital	At December 31, 2018 Goodwill	At December 31, 2018 Terminal growth rate	At December 31, 2018 Weighted average cost of capital
Packaging and Consumer Goods Adhesives	1,882	1.50%	7.25%	**1,924**	**1.50%**	**7.25%**
Transport and Metal	1,103[1]	1.50%	7.25%	**1,131**	**1.50%**	**7.25%**
General Industry	442	1.00%	7.25%	**460**	**1.00%**	**7.25%**
Electronics	1,346	1.50%	7.25%	**1,397**	**1.50%**	**7.25%**
Adhesives for Consumers, Craftsmen and Building	374	1.00%	7.25%	**668**	**1.00%**	**7.25%**
Total Adhesive Technologies	**5,147**			**5,580**		
Branded Consumer Goods	1,324	1.00%	6.25%	**1,374**	**1.00%**	**6.00%**
Hair Salon business	717[1]	1.00%	6.25%	**747**	**1.00%**	**6.00%**
Total Beauty Care	**2,041**			**2,121**		
Laundry Care	3,514	1.30%	6.25%	**3,546**	**1.30%**	**6.00%**
Home Care	1,119	1.40%	6.25%	**1,239**	**1.40%**	**6.00%**
Total Laundry & Home Care	**4,633**			**4,785**		

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

We assess goodwill impairment according to the fair-value-less-costs-to-sell approach on the basis of future estimated cash flows which are obtained from the business budgets approved by the appropriate corporate bodies. The determination of fair value (before deduction of costs to sell) is allocated to valuation level 3 of the fair value hierarchy (see Note 22 on pages 179 to 202). The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. Budgets are prepared on the basis of a financial planning horizon of four years. For the period after that, a growth rate in a range between 1 and 2 percent (previous year: 1 and 2 percent) in the cash flows (which in particular takes into account the passing-on of expected inflation rises to our customers) is assumed for the purpose of impairment testing. The euro to US dollar exchange rate applied is 1.19. 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: 7.25 percent after tax for Adhesive Technologies, and 6.00 percent after tax for both Beauty Care and Laundry & Home Care.

In the Laundry & Home Care business unit, we have assumed an average increase in sales during the four-year detailed forecasting horizon of 3 to 4 percent per year (previous year: 3 to 4 percent), with a slight increase in market share. Average sales growth in the Beauty Care business unit over the four-year forecasting horizon is budgeted at 3 to 4 percent per year (previous year: 3 to 5 percent). Here, too, we expect a slight increase in market share. Sales in the Adhesive Technologies business unit are expected to grow by between 2 and 6 percent per year (previous year: 2 to 5.5 percent) on average over the detailed four-year forecasting horizon, thus exceeding the market average.

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

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

Book values – Trademarks and other rights 101

Cash-generating units (summarized) in million euros	At December 31, 2017 Trademarks and other rights with indefinite useful lives	At December 31, 2017 Terminal growth rate	At December 31, 2017 Weighted average cost of capital	At December 31, 2018 Trademarks and other rights with indefinite useful lives	At December 31, 2018 Terminal growth rate	At December 31, 2018 Weighted average cost of capital
Packaging and Consumer Goods Adhesives	51	1.50%	7.25%	**51**	**1.50%**	**7.25%**
Transport and Metal	18	1.50%	7.25%	**14**	**1.50%**	**7.25%**
General Industry	–	1.00%	7.25%	**–**	**1.00%**	**7.25%**
Electronics	90	1.50%	7.25%	**90**	**1.50%**	**7.25%**
Adhesives for Consumers, Craftsmen and Building	66	1.00%	7.25%	**69**	**1.00%**	**7.25%**
Total Adhesive Technologies	**225**			**224**		
Branded Consumer Goods	540	0.20–2.00%	6.25–8.84%	**559**	**0.20–2.00%**	**6.00–8.30%**
Hair Salon business	321[1]	0.20–2.00%	6.25–10.35%	**335**	**0.20–2.00%**	**6.00–8.08%**
Total Beauty Care	**861**			**894**		
Laundry Care	1,586	1.00–2.00%	6.25–13.78%	**1,643**	**1.00–2.00%**	**6.00–12.84%**
Home Care	327	1.00–2.00%	6.25–13.15%	**339**	**1.00–2.00%**	**6.00–13.21%**
Total Laundry & Home Care	**1,913**			**1,982**		

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

We assess impairment of trademarks and other rights with indefinite useful lives according to the fair-value-less-costs-to-sell approach at the level of the cash-generating unit, which consists of either global strategic business units (Adhesive Technologies) or regional strategic business units. We base the approach on future estimated cash flows which are obtained from business budgets. The determination of fair value (before deduction of costs to sell) is allocated to valuation level 3 of the fair value hierarchy (see Note 22 on pages 179 to 202). The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. Budgets are prepared on the basis of a financial planning horizon of four years. For the period after that, a growth rate in a range between 0.2 and 2 percent (previous year: 0.2 and 2 percent) in the cash flows (which in particular takes into account the passing-on of expected inflation rises to our customers) is assumed for the purpose of impairment testing. The euro to US dollar exchange rate applied is 1.19. Taking into account specific tax effects, the cash flows of the various cash-generat-

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ing units are discounted at different rates, with a range between 6.00 and 13.21 percent applied as the weighted average cost of capital (WACC) to each cash-generating unit.

The trademarks and other rights with indefinite useful lives with a net book value of 3,100 million euros (previous year: 2,999 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.

Our annual impairment tests on trademarks and other rights with indefinite useful lives required impairment losses of 0 million euros (previous year: 0 million euros).

The company also intends to continue using the brands disclosed as having definite useful lives. No impairment losses were registered with respect to trademarks and other rights with definite useful lives in 2018.

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, 2017	**2,214**	**3,479**	**1,095**	**264**	**7,052**
Acquisitions	94[1]	77[1]	5	4	**180**
Divestments	–11	–33	–3	–	**–47**
Additions	77	130	79	304	**590**
Disposals	–21	–98	–82	–	**–201**
Reclassifications to assets held for sale	–3	–	–	–	**–3**
Reclassifications	47	133	48	–228	**–**
Translation differences	–104	–176	–44	–13	**–337**
At Dec. 31, 2017 / Jan. 1, 2018	**2,293**	**3,512**	**1,098**	**331**	**7,234**
Acquisitions	19	12	1	–	**32**
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 December 31, 2018	**2,314**	**3,721**	**1,159**	**402**	**7,596**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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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, 2017	**1,094**	**2,260**	**811**	**–**	**4,165**
Divestments	– 4	– 23	– 2	–	**– 29**
Write-ups	–	–	–	–	**–**
Scheduled depreciation	65	226	110	–	**401**
Impairment losses	9	12	8	–	**29**
Disposals	– 16	– 93	– 76	–	**– 185**
Reclassifications to assets held for sale	–	–	–	–	**–**
Reclassifications	–	–	–	–	**–**
Translation differences	– 35	– 85	– 34	–	**– 154**
At Dec. 31, 2017 / Jan. 1, 2018	**1,113**	**2,297**	**817**	**–**	**4,227**
Divestments	–	– 1	–	–	**– 1**
Write-ups	–	–	–	–	**–**
Scheduled depreciation	72	224	109	–	**405**
Impairment losses	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 December 31, 2018	**1,145**	**2,463**	**866**	**–**	**4,474**

Net book values

104

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, 2018	**1,169**	**1,258**	**293**	**402**	**3,122**
At December 31, 2017	1,180	1,215	281	331	**3,007**

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Additions are stated at purchase or manufacturing cost. The latter includes direct costs and appropriate proportions of necessary overheads. Interest charges on borrowings are not included, as Henkel does not currently hold any qualifying assets in accordance with International Accounting Standard (IAS) 23 Borrowing Costs. Cost figures are shown net of investment grants and allowances. In fiscal 2018, investment grants of 19 million euros were deducted from purchase and manufacturing costs. Some of the grants are conditional 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. An overview of the primary investment projects undertaken during the fiscal year can be found on pages 84 and 85 in the combined management report.

At December 31, 2018, 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 148. Scheduled depreciation and impairment losses recognized are allocated to the relevant functions in the consolidated statement of income.

3 Other financial assets

Analysis

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in million euros	At December 31, 2017			At December 31, 2018		
	Non-current	Current	Total	Non-current	Current	Total
Receivables from non-consolidated affiliated companies and associated companies	–	1	1	**1**	**–**	**1**
Financial receivables from third parties	14	12	26	**11**	**12**	**23**
Derivative financial instruments	–	64	64	**–**	**37**	**37**
Investments accounted for using the equity method	1	–	1	**3**	**–**	**3**
Other investments	22	–	22	**35**	**–**	**35**
Receivable from Henkel Trust e.V.	–	605	605	**–**	**608**	**608**
Securities and time deposits	–	203	203	**–**	**221**	**221**
Financial collateral provided	–	37	37	**–**	**49**	**49**
Sundry financial assets	13	150	163	**15**	**103**	**118**
Total	**50**	**1,072**	**1,122**	**65**	**1,030**	**1,095**

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

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

Of the receivables from non-consolidated affiliated companies and associated companies, 1 million euros (previous year: 0 million euros) is attributable to non-consolidated affiliated companies.

Securities and time deposits are monies deposited as part of our short-term financial management arrangements. The monies involved are primarily time deposits.

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Sundry non-current financial assets include, among others, receivables from insurance companies. The sundry current financial assets include the following:

- Receivables from sureties and guarantee deposits amounting to 21 million euros (previous year: 35 million euros)
- Receivables from suppliers amounting to 26 million euros (previous year: 15 million euros)
- Receivables from employees amounting to 9 million euros (previous year: 11 million euros).

4 Other assets

Analysis

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in million euros	At December 31, 2017 Non-current	At December 31, 2017 Current	At December 31, 2017 Total	At December 31, 2018 Non-current	At December 31, 2018 Current	At December 31, 2018 Total
Tax receivables	–	247	247	**9**	**209**	**218**
Payments on account	–	79	79	**–**	**56**	**56**
Overfunding of pension obligations	30	–	30	**43**	**–**	**43**
Reimbursement rights related to employee benefits	102	10	112	**102**	**9**	**111**
Accruals	28	77	105	**28**	**86**	**114**
Sundry other assets	10[1]	42[1]	52	**2**	**46**	**48**
Total	**170**	**455**	**625**	**184**	**406**	**590**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

5 Deferred taxes

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

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

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

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The valuation, recognition and disaggregation of deferred taxes in respect of the various items in the statement of financial position are disclosed under Note 31 ("Taxes on income") on pages 206 to 209.

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 recognized 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 fair values. The resultant valuation allowance amounted to 137 million euros (previous year: 142 million euros). The carrying amount of inventories recognized at fair value less costs to sell amounted to 454 million euros (previous year: 346 million euros). The carrying amount of inventories pledged as security for liabilities was unchanged year on year at 0 million euros.

Analysis of inventories 107

in million euros	At December 31, 2017	At December 31, 2018
Raw materials and supplies	594[1]	**643**
Work in progress	109	**124**
Finished products and merchandise	1,359	**1,389**
Payments on account for merchandise	17	**23**
IFRS 9 basis adjustment	–	**–3**
Total	**2,079**	**2,176**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

7 Trade accounts receivable

Trade accounts receivable amounted to 3,610 million euros (previous year: 3,544 million euros). They are all due within one year. Valuation allowances have been recognized in respect of specific risks as appropriate. Overall, the net balance of depreciation / amortization and additions to / reversals of valuation allowances resulted in an expense of 2 million euros (previous year: income of 1 million euros). Valuation allow-

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ances are reported under selling and distribution costs. For an explanation of these valuation allowances and our risk management, please consult pages 192 to 195.

Trade accounts receivable 108

in million euros	At December 31, 2017	IFRS 9 adjustment	At January 1, 2018	At December 31, 2018
Trade accounts receivable, gross	3,647	–	3,647	**3,704**
less: cumulative valuation allowances on trade accounts receivable	103	13	116	**94**
Trade accounts receivable, net	**3,544**	**13**	**3,531**	**3,610**

Development of valuation allowances on trade accounts receivable 109

in million euros	2017	2018
Valuation allowances at January 1	**118**	**103**
IFRS 9 adjustment	–	**13**
Additions / Releases	– 3	**–**
Derecognition of receivables	– 10	**– 20**
Currency translation effects	– 2	**– 2**
Valuation allowances at December 31	**103**	**94**

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 919 million euros to 1,063 million euros. Of this figure, 939 million euros (previous year: 742 million euros) relates to cash and 124 million euros (previous year: 177 million euros) to cash equivalents. The change is shown in the consolidated statement of cash flows.

9 Assets and liabilities held for sale

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

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Compared to December 31, 2017, assets held for sale decreased by 5 million euros to 76 million euros. This item mainly relates to the Laundry & Home Care site in Scottsdale, Arizona, USA, which will probably be sold in fiscal 2019 due to the merger of the administrative functions as part of the process of integrating The Sun Products Corporation.

No liabilities were held for sale (December 31, 2017: 0 million euros).

Assets and liabilities held for sale

110

in million euros	At December 31, 2017	At December 31, 2018
Intangible assets and property, plant and equipment	80	**76**
Inventories and trade accounts receivable	–	**–**
Cash and cash equivalents	–	**–**
Other assets	1	**–**
Provisions	–	**–**
Borrowings	–	**–**
Other liabilities	–	**–**
Net assets	**81**	**76**

10 Issued capital

Issued capital

111

in million euros	At December 31, 2017	At December 31, 2018
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, 2018.

Art. 6 (5) of the Articles of Association governs the allocation of 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 12, 2020, up to a maximum nominal proportion of the capital stock of 10 percent. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may, 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. 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.

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

At December 31, 2018, Henkel held 3,680,552 preferred shares (December 31, 2017: 3,680,552), representing a nominal proportion of 3.7 million euros (0.84 percent) of the capital stock.

Between March 6, 2018, and March 26, 2018, Henkel purchased a total of 305,914 preferred shares, representing a nominal proportion of 0.3 million euros (0.07 percent) of the capital stock. An average price of 108.84 euros was paid for each preferred share on the stock exchange; in total, 33.29 million euros was paid to buy back preferred shares (excluding incidental costs). The preferred shares were purchased solely for the purpose of awarding preferred shares to the managers of Henkel AG & Co. KGaA or one of its subsidiaries who are eligible under the terms and conditions of the Global LTI Plan 2020+ for the 2017–2020 performance cycle. The shares were awarded – i.e. transferred to the eligible managers – immediately after completion of the buy-back.

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Due to changes that had meanwhile occurred in the group of eligible managers, a total of 327 shares representing a nominal proportion of around 327 euros (0.0001 percent) of the capital stock were no longer required for awarding and were consequently resold on the stock exchange, with the proceeds of the sale amounting to around 32,700 euros accruing to Henkel.

Details of the Global LTI Plan 2020+ are explained on pages 211 to 213.

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 anticipated acquisition method
- Effects of first-time application of IFRS 9 and IFRS 15.

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, 2018, the negative difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation was virtually unchanged year on year at –1,186 million euros (2017: –1,332 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.

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 42 to 61.

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 recipients of pension benefits are located in Germany and the USA. The pension obligations are primarily financed via various external trust assets that are legally independent of Henkel.

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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 age and disability pensions, the plan benefits include surviving spouse and surviving child benefits.

Employees who started at Henkel after April 1, 2011, participate in the pension plan "Altersversorgung 2011 (AV 2011)." AV 2011 is an employer-financed, fund-linked retirement plan funded by contributions based on the income development of the employee. Henkel 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 create provisions during the employees' service period and pay the promised benefits when they are claimed. The subsidies for medical benefits that are attributable to active employees are expensed for each period and not included in the provisions for pensions and similar obligations. Disputes relating to health insurance commitments (self-insurance) are pending in the USA. They relate to issues surrounding the reimbursement of costs for certain medical treatments and whether these costs are refundable under reinsurance agreements.

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 112 million euros (previous year: 97 million euros). In 2018, we paid 48 million euros to public sector institutions (previous year: 46 million euros) and 64 million euros to private sector institutions (previous year: 51 million euros).

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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 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 20 million euros (previous year: around 21 million euros). Payments into multi-employer plans in fiscal 2018 amounted to 1 million euros (previous year: 1 million euros). We expect contributions of around 1 million euros in fiscal 2019.

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. Changing to the 2018 mortality charts resulted in an increase of 31 million euros in the present value of pension obligations. This effect was recognized in other components of equity. In the USA, the assumptions are based on the modified "RP 2014" mortality table. The valuation of pension obligations in Germany is based essentially on the assumption of a 1.8 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 aligned with the currency and expected maturities of the post-employment pension obligation.

Actuarial assumptions

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	Germany		USA		Other countries[1]	
in percent	2017	**2018**	2017	**2018**	2017	**2018**
Discount rate	1.70	**1.80**	3.60	**4.15**	2.15	**2.45**
Income trend	3.25	**3.25**	3.00	**3.00**	3.10	**3.05**
Expected increases in costs for medical benefits	–	**–**	6.60	**6.30**	3.85	**3.80**
in years						
Life expectancy at age 65 as of the valuation date for a person currently						
65 years old	21.3	**21.8**	22.0	**22.0**	23.6	**23.5**
40 years old	24.5	**24.9**	24.0	**24.0**	25.8	**25.7**

[1] Weighted average.

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Development of defined benefit obligations at December 31, 2017

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in million euros	Germany	USA	Other countries	Total
At January 1, 2017	**3,120**	**1,237**	**1,204**	**5,561**
Changes in the Group	10	1	77	**88**
Translation differences	0	–154	–35	**–189**
Actuarial gains (–) / losses (+)	–38	71	–6	**27**
of which: from changes in demographic assumptions	–	–8	–14	**–22**
of which: from changes in financial assumptions	–29	73	27	**71**
of which: from experience adjustments	–9	6	–19	**–22**
Current service cost	46	14	30	**90**
Employee contributions	19	–	1	**20**
Gains (–) / losses (+) arising from the termination and curtailment of plans	–4	–	–2	**–6**
Interest expense	49	45	24	**118**
Retirement benefits paid out of plan assets	–126	–61	–40	**–227**
Employer payments for pension obligations	–2	–27	–15	**–44**
Other changes	–	–	–6	**–6**
At December 31, 2017	**3,074**	**1,126**	**1,232**	**5,432**
of which: obligations not covered by plan assets	100	145	83	**328**
of which: obligations covered by plan assets	2,974	869	1,149	**4,992**
of which: obligations covered by reimbursement rights	–	112	–	**112**

Development of plan assets at December 31, 2017

114

in million euros	Germany	USA	Other countries	Total
At January 1, 2017	**2,718**	**871**	**997**	**4,586**
Changes in the Group	–	–	44	**44**
Translation differences	–	–110	–27	**–137**
Employer contributions	28	37	47	**112**
Employee contributions	19	–	1	**20**
Retirement benefits paid out of plan assets	–126	–61	–40	**–227**
Planned income on plan assets	52	33	18	**103**
Remeasurements in equity	147	48	22	**217**
Other changes	–	–	–6	**–6**
At December 31, 2017	**2,838**	**818**	**1,056**	**4,712**

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Development of asset ceiling at December 31, 2017

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in million euros	Germany	USA	Other countries	Total
At January 1, 2017	**–**	**–**	**8**	**8**
Interest cost for asset ceiling	–	–	–	**–**
Remeasurements in equity	–	–	2	**2**
At December 31, 2017	**–**	**–**	**10**	**10**

Development of the net obligation at December 31, 2017

116

in million euros	Germany	USA	Other countries	Total
Net obligation at January 1, 2017	**402**	**366**	**215**	**983**
Recognized through profit or loss				
Current service cost	46	14	30	**90**
Gains (–) / losses (+) arising from the termination and curtailment of plans	– 4	–	– 2	**– 6**
Interest expense	– 3	12	6	**15**
Recognized in other comprehensive income				
Actuarial gains (–) / losses (+)	– 38	71	– 6	**27**
Remeasurements in equity	– 147	– 48	– 22	**– 217**
Change in the effect of the asset ceiling	–	–	2	**2**
Other items recognized in equity				
Employer payments	– 30	– 64	– 62	**– 156**
Changes in the Group	10	1	33	**44**
Translation differences	–	– 44	– 8	**– 52**
Net obligation at December 31, 2017	**236**	**308**	**186**	**730**
Overfunding of pension obligations	–	19	11	**30**
Recognized provision at December 31, 2017	**236**	**327**	**197**	**760**

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Development of defined benefit obligations at December 31, 2018

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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**

Development of plan assets at December 31, 2018

118

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 plan 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 at December 31, 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 the net obligation at December 31, 2018

120

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**
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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Analysis of reimbursement rights

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in million euros	2017	2018
At January 1	**115**	**112**
Changes in the Group	–	**–**
Translation differences	– 11	**9**
Employer contributions	8	**1**
Employee contributions	–	**–**
Retirement benefits paid	– 12	**– 6**
Interest income	4	**4**
Remeasurements in equity	8	**– 9**
At December 31	**112**	**111**

The total present value (defined benefit obligation – DBO) is comprised of:

- 1,827 million euros (previous year: 1,881 million euros) for active employees,
- 861 million euros (previous year: 914 million euros) for former employees with vested benefits, and
- 2,587 million euros (previous year: 2,637 million euros) for retirees.

The average weighted duration of pension obligations is 15 years (previous year: 15 years) for Germany, 8 years (previous year: 9 years) for the USA and 18 years (previous year: 19 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 14 million euros as the asset ceiling (previous year: 10 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. The employer contributions in respect of state pension provisions are included as "Social security contributions and staff welfare costs" under Note 34 on page 211. In 2018, allocations to the pension fund amounted to 174 million euros (previous year: 112 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 2019 are expected to total 51 million euros.

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Analysis of plan assets

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in million euros	At December 31, 2017			At December 31, 2018		
	Quotation on active markets	No quotation on active markets	Total	Quotation on active markets	No quotation on active markets	Total
Shares	**1,476**	**–**	**1,476**	**1,047**	**–**	**1,047**
Europe	709	–	709	**363**	**–**	**363**
USA	177	–	177	**174**	**–**	**174**
Others	590	–	590	**510**	**–**	**510**
Bonds and hedging instruments	**3,307**	**–28**	**3,279**	**3,454**	**19**	**3,473**
Government bonds	1,260	–	1,260	**1,685**	**–**	**1,685**
Corporate bonds	2,047	–	2,047	**1,769**	**–**	**1,769**
Derivatives	–	–28	–28	**–**	**19**	**19**
Alternative investments	**–**	**254**	**254**	**–**	**272**	**272**
Cash	**–**	**106**	**106**	**–**	**170**	**170**
Liabilities [1]	**–**	**–605**	**–605**	**–**	**–608**	**–608**
Other assets	**–**	**202**	**202**	**–**	**183**	**183**
Total	**4,783**	**–71**	**4,712**	**4,501**	**36**	**4,537**

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

Plan assets by country 2018

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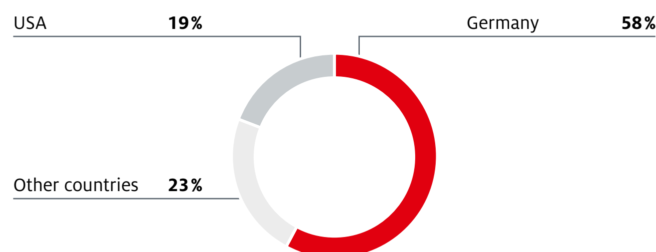

Classification of bonds by rating 2018

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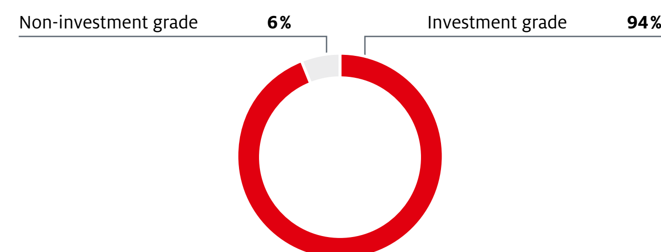

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The objective of the investment strategy for the global plan assets is the long-term security of pension payments. This is ensured by comprehensive risk management that takes into account the asset and liability portfolios of the defined benefit pension 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, 2018, other assets making up the plan assets included the present value of a non-current receivable of 60 million euros (previous year: 62 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 98 million euros (previous year: 106 million euros) against BASF Personal Care & Nutrition GmbH (formerly Cognis GmbH) for indemnification of pension obligations. 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 external funding, portfolio structure and actuarial assumptions. The objective of the financing strategy within the Group is to ensure that plan assets cover 90 to 100 percent of the present value of the funded pension obligations. The contributions and investment strategies are intended to ensure nearly complete coverage of the plans for the duration of the pension obligations.

Henkel's pension obligations are exposed to various market risks. These risks are counteracted by the degree of external funding and the structure of pension benefits. The risks relate primarily to changes in market interest rates, inflation, and life expectancy, as well as general market fluctuations. Pension obligations based on contractual provisions in Germany generally entail lifelong benefits payable 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

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initially divided into an annuity and lump-sum portion. 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 raised mainly through an allocation process based on the pension-eligible income of active employees. Restructuring contributions may also be made in order to close gaps in coverage. The risks of such plans arise largely from higher future contributions to close coverage gaps or through discontinuation by other companies obligated to make contributions.

The effects of changes to assumptions with respect to medical benefits for employees and retirees in the USA are shown in the sensitivities 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 financial 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
2019	145	121	35	**301**
2020	131	96	34	**261**
2021	133	95	36	**264**
2022	134	91	37	**262**
2023	143	87	40	**270**

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 78 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 6.3 percent (previous year: 6.6 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, 2017

126

in million euros	Germany	USA	Other countries	Total
Present value of obligations	3,074	1,126	1,232	**5,432**
In the event of:				
Increase in the discount rate by 0.5 pp	2,875	1,088	1,122	**5,085**
Reduction of the discount rate by 0.5 pp	3,299	1,185	1,356	**5,840**
Rise in future income increases by 0.5 pp	3,074	1,139	1,254	**5,467**
Reduction of future income increases by 0.5 pp	3,073	1,128	1,208	**5,409**
Rise in retirement benefits increases by 0.5 pp	3,234	1,133	1,307	**5,674**
Reduction of retirement benefits increases by 0.5 pp	2,928	1,133	1,170	**5,231**
Rise in medical costs by 0.5 pp	3,074	1,136	1,232	**5,442**
Reduction of medical costs by 0.5 pp	3,074	1,131	1,230	**5,435**

pp = percentage points

Sensitivities – Present value of pension obligations at December 31, 2018

127

in million euros	Germany	USA	Other countries	Total
Present value of obligations	3,024	1,082	1,169	**5,275**
In the event of:				
Increase in the discount rate by 0.5 pp	2,839	1,043	1,070	**4,952**
Reduction of the 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

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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 by the same absolute amount. Each sensitivity is independently calculated and is not subject to scenario analysis.

17 Income tax provisions and other provisions

Development in 2018

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in million euros	At December 31, 2017	Amendments[1]	At January 1, 2018	Acquisitions	Utilized	Released	Added	Other changes	At December 31, 2018
Income tax provisions	**464**	**– 31**	**433**	**0**	**– 283**	**– 37**	**348**	**– 4**	**457**
of which: non-current	27	– 11	16	0	– 18	– 8	157	5	**152**
of which: current	437	– 20	417	0	– 265	– 29	191	– 9	**305**
Restructuring provisions	**224**		**224**	**0**	**– 124**	**– 25**	**123**	**– 4**	**194**
of which: non-current	65		65	0	– 20	– 4	18	– 5	**54**
of which: current	159		159	0	– 104	– 21	105	1	**140**
Sundry provisions	**1,870**	**116**	**1,986**	**6**	**– 898**	**– 138**	**897**	**6**	**1,859**
of which: non-current	273	15	288	1	– 25	– 11	14	– 36	**231**
of which: current	1,597	101	1,698	5	– 873	– 127	883	42	**1,628**
Total	**2,558**	**85**	**2,643**	**6**	**– 1,305**	**– 200**	**1,368**	**–2**	**2,510**
of which: non-current	365	4	369	1	– 63	– 23	189	– 36	**437**
of which: current	2,193	81	2,274	5	– 1,242	– 177	1,179	34	**2,073**

[1] The amendments relate to prior-year figures (please refer to the notes on pages 140 and 141) and an adjustment of 71 million euros to the opening balance at January 1, 2018, due to first-time application of IFRS 15 (please refer to the notes on pages 143 and 144).

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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 0.0 and 2.2 percent (previous year: –0.1 and 2.2 percent).

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

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

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 distribution structures and to the integration of our acquisitions.

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

Provisions for 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 129

in million euros	At December 31, 2017[1]	At December 31, 2018
Sales	**944**	**1,084**
of which: non-current	8	**7**
of which: current	936	**1,077**
Payroll	**588**	**468**
of which: non-current	158	**115**
of which: current	430	**353**
Production and engineering	**48**	**46**
of which: non-current	24	**23**
of which: current	24	**23**
Various sundry obligations	**335**	**261**
of which: non-current	98	**86**
of which: current	237	**175**
Total	**1,915**	**1,859**
of which: non-current	288	**231**
of which: current	1,627	**1,628**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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.

On December 18, 2014, in an action relating to infringements between 2003 and 2006, the French antitrust authorities

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imposed fines amounting to around 951 million euros in total against various international companies in the cosmetic and detergent industries. Henkel received a fine of 109 million euros, which was paid provisionally on May 15, 2015. A final decision on the appeal filed by Henkel with regard to the amount of the fine is still pending.

Henkel and its Group companies are also defendants in or parties to other judicial, arbitrational, 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.

18 Borrowings

Borrowings

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	At December 31, 2017			At December 31, 2018		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Bonds	2,157	509	2,666	**1,556**	**664**	**2,220**
Commercial paper[1]	–	729	729	**–**	**1,931**	**1,931**
Liabilities to banks[2]	916	30	946	**–**	**24**	**24**
Other borrowings	3	–	3	**–**	**–**	**–**
Total	**3,076**	**1,268**	**4,344**	**1,556**	**2,619**	**4,175**

[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.

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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		Maturity
in million euros			2017	2018	2017	2018	2017	2018	2017	2018	
Henkel AG & Co. KGaA	Bond	500 million euros	500	–	501	–	501	–	0% p.a.	–	09/13/2018
Henkel AG & Co. KGaA	Bond	700 million euros	698	**699**	700	**700**	700	**700**	0% p.a.	**0% p.a.**	09/13/2021
Henkel AG & Co. KGaA	Bond	750 million US dollars	624	**654**	619	**648**	622	**651**	1.5% p.a.	**1.5% p.a.**	09/13/2019
Henkel AG & Co. KGaA	Bond	300 million GB pounds[2]	336	**334**	335	**328**	336	**329**	0.875% p.a.	**0.875% p.a.**	09/13/2022
Henkel AG & Co. KGaA	Bond	600 million US dollars	499	**523**	498	**518**	503	**524**	2.0% p.a.	**2.0% p.a.**	06/12/2020
Total bonds			**2,657**	**2,210**	**2,653**	**2,194**	**2,662**	**2,204**			

[1] Market value of the bonds derived from the stock market price at December 31.
[2] A cross-currency swap is in place to convert the interest and principal payments on the bond denominated in British pounds into euro payments.

During the reporting period, we repaid our 1.1 billion US dollar syndicated bank loan prematurely, and increased our commercial paper portfolio by 1.2 billion euros to 1.9 billion euros. The interest rate hedge on the variable US dollar interest payments for the syndicated bank loan was also closed prematurely. A 500 million euro bond was redeemed on schedule in the reporting period.

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19 Other financial liabilities

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in million euros	At December 31, 2017			At December 31, 2018		
	Non-current	Current	Total	Non-current	Current	Total
Liabilities to non-consolidated affiliated companies and associated companies	–	7	7	**–**	**7**	**7**
Liabilities to customers	–	45	45	**–**	**50**	**50**
Derivative financial instruments	28	72	100	**38**	**41**	**79**
Sundry financial liabilities	59 [1]	90	149	**31**	**47**	**78**
Total	**87**	**214**	**301**	**69**	**145**	**214**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

Of the liabilities to non-consolidated affiliated companies and associated companies, 7 million euros (previous year: 7 million euros) is attributable to non-consolidated affiliated companies. Included in the sundry financial liabilities are outstanding purchase price liabilities of 9 million euros (previous year: 52 million euros) relating to the acquisition of the Darex Packaging Technologies business, as well as the contingent purchase price liability of 29 million euros relating to our acquisition in Nigeria (previous year: 27 million euros), and liabilities from finance leases of 5 million euros (previous year: 13 million euros).

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20 Other liabilities

Analysis

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	At December 31, 2017			At December 31, 2018		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Other tax liabilities	–	178	178	–	152	152
Liabilities to employees	7	37	44	2	38	40
Liabilities relating to employee deductions	–	44	44	–	40	40
Liabilities in respect of social security	–	24	24	–	20	20
Sundry other liabilities	10	57	67	16	68	84
Total	**17**	**340**	**357**	**18**	**318**	**336**

The sundry other liabilities primarily comprise various income deferrals for other accounting periods amounting to 18 million euros (previous year: 22 million euros) and payments on account received in the amount of 5 million euros (previous year: 5 million euros).

21 Trade accounts payable

Trade accounts payable decreased from 3,721 million euros to 3,713 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.

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22 Financial instruments report

Financial instruments explained by category

The effects of first-time application of IFRS 9 starting on January 1, 2018, are explained in the section on accounting principles and methods applied in preparation of the consolidated financial statements on pages 142 and 143.

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 party to the contractual provisions of the financial instrument. The recognition of financial assets takes place at the settlement date, with the exception of derivative financial instruments, which are recognized at the transaction date. All financial instruments are initially reported at their fair value. Only those trade accounts receivable without any material financing component are recognized at transaction price as defined in IFRS 15. Transaction costs are only capitalized if the financial instruments are not subsequently remeasured at fair value through profit or loss.

Classification rules must be complied with at the time of recognition. The classification of a financial asset or financial liability dictates how it is to be subsequently remeasured.

IFRS 9 contains three categories for classifying financial assets: "measured at amortized cost," "measured at fair value through profit or loss" and "measured at fair value through other comprehensive income." The standard eliminates the categories: "held to maturity," "loans and receivables," and "available for sale," that were specified in IAS 39. Financial instruments are allocated to the IFRS 9 categories initially on the basis of the contractual cash flows. The classification of financial assets whose cash flows are comprised entirely of interest and redemption payments is then dictated by the business model. Financial instruments held so as to collect contractual cash flows are recognized at amortized cost. 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 recognized at amortized cost. If the business model essentially requires the assets to be held, albeit with sales 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 interest and redemption payments but which are not held within one of the two aforementioned business models, are recognized at

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fair value through profit or loss. Financial instruments whose cash flows are not comprised entirely of interest and redemption payments are always recognized at fair value through profit or loss. At Henkel, this is the case with derivative financial instruments, shares in open-end investment funds held to manage liquidity, and cash deposits with embedded derivatives. Henkel exercises its right to choose to recognize individual equity instruments, including shares in closed-end investment funds, at fair value through other comprehensive income. If these equity instruments are sold or written down, the valuation effects accumulated up to then in other comprehensive income are reclassified to retained earnings and not included in the statement of income.

Derivative financial instruments are always 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 188 to 192.

As a rule, financial liabilities are recognized at amortized cost using the effective interest method. Financial liabilities for which hedging transactions have been concluded that meet the requirements of IFRS 9 with respect to designated hedging relationships are recognized according to hedge accounting rules. Within the Henkel Group, certain trade accounts payable are included in cash flow hedge accounting.

Henkel currently does not exercise the fair value option for financial assets, nor for financial liabilities.

The carrying amounts of the financial assets recognized at amortized cost closely approximate their fair value due to their predominantly short-term nature. Expected credit losses are reflected in corresponding valuation allowances.

Within Henkel Group, certain securities and time deposits, and the money market funds included in cash equivalents, are – in addition to derivative financial instruments and other investments – recognized at fair value.

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

Under IAS 39, financial instruments were assigned to the following classes for purposes of remeasurement:

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

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Different valuation categories were allocated to these two classes. Financial instruments assigned to the valuation categories "available for sale" and "held for trading" were generally measured at fair value. Other securities and time deposits as well as other investments not measured using the equity method, both recognized under other financial assets, were categorized as "available for sale." Only the derivative financial instruments held by the Henkel Group which were not included in hedge accounting were designated as "held for trading." All other financial instruments including the financial assets categorized as "loans and receivables" were recognized at amortized cost using the effective interest method. The measurement categories "held to maturity" and "fair value option" were not used within the Henkel Group.

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

Financial instruments in the category "available for sale" were non-derivative financial assets and were recognized at fair value, provided that this was reliably determinable. If the fair value could not be reliably determined, they were recognized at cost. Value changes between the reporting dates were essentially recognized in equity through other comprehensive income (revaluation reserve) without affecting profit or loss, unless the cause lay in permanent impairment. Impairment losses were recognized through profit or loss. Once the assets were sold, the amounts recognized in the revaluation reserve were released through profit or loss. In the Henkel Group, the securities and time deposits recognized under other financial assets were categorized together with other investments as "available for sale." The fair values of the securities and time deposits were based on quoted market prices, or derived from market data. As the fair values of other investments could not be reliably determined, they were measured at amortized cost. As of December 31, 2017, Henkel was not planning to sell any of the financial instruments recognized under other investments.

The following table summarizes the classification categories of IFRS 9 and reconciles the original valuation categories under IAS 39 to the new categories:

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Reconciliation of valuation categories and carrying amounts from IAS 39 to IFRS 9

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in million euros		At December 31, 2017	At December 31, 2017		At January 1, 2018	At December 31, 2018	At December 31, 2018
Financial assets	**IAS 39 category**[1]	**IAS 39 carrying amount**	**Fair value**	**IFRS 9 category**[1]	**IFRS 9 carrying amount**	**IFRS 9 carrying amount**	**Fair value**
Trade accounts receivable	Loans and receivables	3,544	3,544	Amortized cost	3,531[2]	3,610	3,610
Other financial assets		1,122	1,122		1,122	1,095	1,095
Receivables from non-consolidated affiliated companies and associated companies	Loans and receivables	1	1	Amortized cost	1	1	1
Financial receivables from third parties	Loans and receivables	26	26	Amortized cost	26	23	23
Derivative financial instruments not included in a designated hedging relationship	Financial assets held for trading (level 2)	54	54	Fair value through profit or loss (level 2)	54	31	31
Derivative financial instruments included in a designated hedging relationship	Derivative financial instruments included in a designated hedging relationship (level 2)	10	10	Not categorized (level 2)	10	6	6
Investments in non-consolidated subsidiaries and associated companies	No financial instruments	16	16	No financial instruments	16	18	18
Other investments	Available for sale (level 3)	7	7	Fair value through other comprehensive income (level 3)	7	20	20
Receivables from Henkel Trust e.V.	Loans and receivables	605	605	Amortized cost	605	608	608
Floating-interest securities and time deposits	–	–	–	Amortized cost	–	6	6
Floating-interest securities and time deposits	–	–	–	Fair value through other comprehensive income (level 1)	–	15	15
Floating-interest securities and time deposits	Available for sale (level 2)	203	203	Fair value through profit or loss (level 2)	203	200	200
Financial collateral provided	Available for sale	37	37	Amortized cost	37	49	49
Sundry financial assets	Loans and receivables	163	163	Amortized cost	163	118	118
Cash and cash equivalents	Loans and receivables	773	773	Amortized cost	773	972	972
Cash and cash equivalents	Loans and receivables	143	143	Fair value through profit or loss (level 2)	143	91	91
Total		**5,582**	**5,582**		**5,569**	**5,768**	**5,768**

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Reconciliation of valuation categories and carrying amounts from IAS 39 to IFRS 9 (continued)

134

in million euros		At December 31, 2017	At December 31, 2017		At January 1, 2018	At December 31, 2018	At December 31, 2018
Financial liabilities	**IAS 39 category**[1]	**IAS 39 carrying amount**	**Fair value**	**IFRS 9 category**[1]	**IFRS 9 carrying amount**	**IFRS 9 carrying amount**	**Fair value**
Trade accounts payable	Amortized cost	3,721[3]	3,721	Amortized cost	3,721	3,268	3,268
Trade accounts payable	–	–	–	Amortized cost, included in a designated hedging relationship (level 2)	–	445	445
Bonds	Amortized cost (level 1)	2,666	2,662	Amortized cost (level 1)	2,666	2,220	2,204
Other borrowings	Amortized cost	1,678	1,678	Amortized cost	1,678	1,955	1,955
Other financial liabilities		301[3]	301		301	214	214
Derivative financial instruments not included in a designated hedging relationship	Financial assets held for trading (level 2)	61	61	Fair value through profit or loss (level 2)	61	28	28
Derivative financial instruments included in a designated hedging relationship	Derivative financial instruments included in a designated hedging relationship (level 2)	39	39	Not categorized (level 2)	39	50	50
Derivative financial instruments included in a designated hedging relationship	–	–	–	Not categorized (level 3)	–	1	1
Other financial liabilities	Amortized cost	201[3]	201	Amortized cost	201	135	135
Total		**8,366**	**8,362**		**8,366**	**8,102**	**8,086**

[1] Indication of the fair value hierarchy for the figures in the "Fair value" columns.
[2] The carrying amount of trade accounts receivable decreased by 13 million euros following first-time application of IFRS 9 due to higher valuation allowances.
[3] Prior-year figures amended (please refer to the notes on pages 140 and 141).

According to the regulations of IFRS 13, fair value represents 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 for determining the fair values of derivative financial instruments can be found on pages 188 and 189.

The changes in the fair values of the level 3 financial instruments are discussed in the following:

Development of level 3 assets and liabilities

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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	–
Gains / losses recognized in other comprehensive income	–1	–	–	2
Currency effects / Other changes	–	1	–	–
Carrying amount at December 31, 2018	**–1**	**20**	**33**	**29**

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. The changes are included in full in the overall result of the hedge reserve. Reclassification to the cost of hedged inventories is performed when the derivatives are realized. This occurs when the hedged inventories are recognized.

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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 11 million euros (previous year: 6 million euros). Shares in investment funds totaled 9 million euros (previous year: 1 million euros). The carrying amounts of each individual investment do not exceed 2 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 free cash flow. Appropriate risk-adjusted costs of capital are applied when using the discounted cash flow method. Since none of these investments were sold, no valuation results in equity have been reclassified to retained earnings. If the EBIT multiple and the costs of capital were to change by 10 percent in each case – a supposition regarded as realistic – the change in the carrying amounts revealed by sensitivity analysis would be in the range of the very low single-digit millions. The changes would be included in full in the overall figure for other changes in equity.

The fair value of the puttable instruments for minority shareholders arising from our acquisition in Nigeria, which are recognized in other financial liabilities, was determined using the discounted cash flow method, taking into account the free cash flow of the acquired company, based on a detailed planning horizon through to 2025. The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. A discount rate was applied as derived from the capital costs in euros. Accordingly, in addition to the free cash flows of the company based on an average of 8 million euros, the material valuation parameters are the terminal growth rate reflected in the perpetual annuity of 1.5 percent, the weighted average cost of capital (WACC) of 10.7 percent applied as the discount rate, and the exchange rate of the Nigerian naira. A rise in interest rates or a depreciation of the naira would result in a lower negative fair value of the liability. An interest rate reduction or an appreciation of the naira would result in a higher negative fair value. Sensitivity analysis revealed that the carrying amount of the liability would differ by +7 million euros or –5 million euros if – as a supposition regarded as realistic – the parameters relevant for valuation were to have changed by 10 percent in each case as of the closing date. The changes would be included in full in equity under other changes in equity.

The fair value of the contingent consideration relating to the acquisition in Chile was determined on the basis of the expected trend in gross profit that is the basis for the payment of the contingent purchase price component. In addition to the gross profit, the exchange rate of the Chilean peso is a further material valuation parameter. If gross profit were to be 10 percent lower, or the Chilean peso were to devalue by 10 percent, the resulting fair value would be lower by 10 million euros or 1 million euros respectively. If gross profit were to be 10 percent higher, or the Chilean peso were to appreciate by 10 percent, the resulting fair value would be higher by 3 million euros or 1 million euros respectively. Sensitivity analysis revealed, moreover, a probability of 95 percent that – taking possible future exchange rate developments into account – the fair value would not increase from 10 million euros to more than 15 million euros. The changes would be included in full in the statement of income.

The fair value of the performance-related purchase price component relating to the acquisition in fiscal 2018 of the outstanding non-controlling shares in the United Arab Emirates was determined on the basis of the expected trend in earnings before interest, taxes, impairment, depreciation and amortization (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

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UAE dirham were to devalue by 10 percent, the resulting fair value would be lower by 12 million euros or 2 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 12 million euros or 3 million euros respectively. The changes would be included in full in the statement of income.

We did not perform any reclassifications between the valuation categories or transfers within the fair value hierarchy either in fiscal 2018 or in the previous year.

Net gains and losses from financial instruments by category

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

Net results by measurement category and reconciliation to financial result

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2017 IAS 39 valuation categories in million euros	Total net results	of which interest	of which valuation allowances	of which payments received for written-off and derecognized financial instruments	of which fees	of which other effects recognized through profit or loss	of which valuation effects recognized through other comprehensive income	of which reclassifications of valuation effects recognized through other comprehensive income
Loans and receivables	18	18	0	–	–	–	–	–
Financial assets available for sale	–	–	–	–	–	–	–	–
Financial assets and liabilities held for trading, including derivatives in a designated hedging relationship	– 385	–	2	–	–	– 389	–	2
Financial liabilities measured at amortized cost	– 61	– 57	–	–	– 4	–	–	–
Total net results 2017	**– 428**	**– 39**	**2**	**–**	**– 4**	**– 389**	**–**	**2**

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2018 IFRS 9 valuation categories in million euros	Total net results	of which interest	of which valuation allowances	of which payments received for written-off and derecognized financial instruments	of which fees	of which other effects recognized through profit or loss	of which valuation effects recognized through other comprehensive income	of which reclassifications of valuation effects recognized through other comprehensive income
Financial assets measured at amortized cost	11	10	–5	3	–	3	–	–
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 measured at fair value through profit or loss (debt instruments)	–	–	–	–	–	–	–	–
Derivative financial instruments with and without a designated hedging relationship	85	–	–	–	–	86	–37	36
Financial liabilities measured at amortized cost	–85	–72	–	–	–5	–8	–	–
Financial liabilities recognized in hedge accounting	2	–	–	–	–	–	2	–
Total net results 2018	**12**	**–62**	**–5**	**3**	**–5**	**81**	**–36**	**36**

Reconciliation of net results to financial result

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in million euros	2017	2018
Total net results	**–428**	**12**
less / plus results included in operating profit or in other comprehensive income	–	**12**
Foreign exchange effects	402	**–85**
Interest expense of pension obligations less interest income from plan assets and reimbursement rights	–11	**–5**
Other financial result (not related to financial instruments)	–29	**1**
Financial result	**–67**	**–65**

The realization and valuation of financial assets and liabilities in foreign currencies (without derivative financial instruments) resulted in an expense of 85 million euros (previous year: income of 402 million euros).

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

Derivative financial instruments are measured at their fair value at the reporting date. Recognition of the gains and losses arising from fair value changes of derivative financial instruments is dependent upon whether the requirements of IFRS 9 are fulfilled with respect to hedge accounting. 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 to the large majority of derivative financial instruments. We recognize through profit or loss the fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of the Group strategy. These are largely compensated by fair value changes in the hedged items. In hedge accounting, derivative financial instruments are qualified as instruments for hedging the fair value of a recognized underlying ("fair value hedge"), as instruments for hedging future cash flows ("cash flow hedge") or as instruments for hedging a net investment in a foreign entity ("hedge of a net investment in a foreign entity"). 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. This method ensures that 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:

Derivative financial instruments

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At December 31 in million euros	Nominal value		Positive fair value[2]		Negative fair value[2]	
	2017	2018	2017	2018	2017	2018
Forward exchange contracts[1]	4,899	**5,046**	61	**37**	– 68	**– 31**
(of which: for hedging loans within the Group)	(2,710)	**(2,171)**	(48)	**(20)**	(– 49)	**(– 19)**
(of which: designated as cash flow hedge)	(554)	**(651)**	(7)	**(6)**	(– 7)	**(– 3)**
Foreign exchange options[1]	8	**–**	–	**–**	–	**–**
Interest rate swaps[3]	917	**–**	3	**–**	–	**–**
(of which: designated as cash flow hedge)	(917)	**–**	(3)	**–**	–	**–**
Cross-currency swaps[4]	338	**335**	–	**–**	– 21	**– 30**
(of which: designated as cash flow hedge)	(338)	**(335)**	–	**–**	(– 21)	**(– 30)**
Equity forward contracts	128	**74**	–	**–**	– 11	**– 17**
(of which: designated as cash flow hedge)	(128)	**(74)**	–	**–**	(– 11)	**(– 17)**
Commodity forwards	–	**9**	–	**–**	–	**– 1**
(of which: designated as cash flow hedge)	–	**(9)**	–	**–**	–	**– 1**
Total derivative financial instruments	**6,290**	**5,464**	**64**	**37**	**– 100**	**– 79**

[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: 1.1 billion US dollars.
[4] Nominal value: 300 million British pounds.

We determine the fair value of forward exchange contracts and cross-currency 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

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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 hedges 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.

Interest rates in percent p.a.

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At December 31 Terms	Euro		US dollar	
	2017	2018	2017	2018
1 month	–0.37	**–0.36**	1.56	**2.50**
3 months	–0.33	**–0.31**	1.69	**2.81**
6 months	–0.27	**–0.24**	1.84	**2.88**
1 year	–0.19	**–0.12**	2.11	**3.01**
2 years	–0.15	**–0.18**	2.08	**2.67**
5 years	0.31	**0.20**	2.25	**2.58**
10 years	0.89	**0.81**	2.40	**2.72**

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 2018 amounts to 0 million euros (previous year: 0 million euros). The addition was recognized through profit or loss under financial result.

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

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

Fair value hedges

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

The Henkel Group did not use any fair value hedges in fiscal 2018 nor in fiscal 2017.

Cash flow hedges

A cash flow hedge hedges fluctuations in future cash flows from recognized assets and liabilities, and also transactions that are either planned or highly probable, or firmly contracted unrecognized financial commitments, from which an interest-rate, currency, or share price risk arises. The effective portion of a cash flow hedge is recognized through the hedge reserve in equity. The ineffective portion arising from the change in value of the hedging instrument is recognized through profit or loss in the financial result or operating profit, depending on the underlying. Since first-time application of IFRS 9 starting on January 1, 2018, Henkel has exercised its right to choose to also recognize changes in value of non-designated components – such as the forward component of currency forwards – in equity. If cash flows for non-financial assets are hedged, the amounts recognized in equity are included as part of the acquisition cost when the underlying transaction is recognized. Amounts recognized in the hedge reserve or as part of the acquisition cost are released through profit or loss in the same period in which the hedged transaction impacts profit or loss.

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Cash flow hedges (after income taxes) 141

in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	Disposal (recognized in acquisition cost)	End balance
2018	**–233**	**–37**	**33**	**3**	**–234**
2017	–215	–10	–8	–	–233

The initial value of the cash flow hedges recognized in equity relates substantially to currency hedges for past acquisitions and for planned inventory purchases. Of the ending balance of –234 million euros, –2 million euros is attributable to non-designated components. A further 2 million euros is attributable to currency hedges on planned inventory purchases, which will be reclassified from equity to acquisition cost upon receipt of the hedged inventories.

Currency risk

The hedged risk arises from fluctuations of budgeted sales and inventory purchases in foreign currencies due to changing spot rates. In these cases, no ineffective portions arise since the Group only designates the spot component of the budgeted currency exposures. Currency forwards or booked foreign currency liabilities are used as hedges. They are all due within one year. The hedge ratio is determined individually, depending on the relevant strategy for each currency. The hedging rates for major currencies are shown on the right:

Currency derivatives in cash flow hedge accounting 142

	2018	
in euros	Nominal	Weighted hedging rate
US dollar	548	1.14
British pound	62	0.89
Canadian dollar	49	1.55
Chinese yuan	38	8.10
Russian ruble	32	77.56

An addition of 27 million euros after income taxes relates to currency hedges of planned inventory purchases and currency hedges of budgeted sales against fluctuating spot rates. Of the gains recognized in equity in the reporting period, –34 million euros was reclassified to cost of hedged inventories without affecting profit or loss or – within the framework of hedging budgeted sales – to the 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 6 million and –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 profit or loss in the next fiscal year when the inventories are used and the sales realized.

In addition to the currency derivatives, corresponding trade accounts payable were designated as hedges for budgeted sales. The carrying amount of these liabilities is 445 million euros. The cash flows from these liabilities and the cash flows from the hedged sales are expected to occur and affect profit or loss in the next fiscal year.

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Interest rate risk

The hedged risk arises from fluctuations in future interest payments due to changing market interest rates. The hedged interest payments are designated in full. A cross-currency swap was used to convert into euro payments the future interest and principal payment obligations relating to the 300 million British pound bond that we issued in 2016. The transaction was hedged at a rate of 0.8361 British pounds. An addition of –3 million euros after income taxes relates to hedges of future interest payments. The negative fair value of the cross-currency swap amounted to –30 million euros. The cash flows from the cross-currency swap that are attributable to the interest payments were recognized proportionately for the reporting period through profit or loss as an interest expense.

Interest rate swaps were used in fiscal 2017 to convert into fixed-rate payments the floating-rate interest payments in US dollars due for the 1.1 billion US dollar syndicated bank loan recognized under liabilities to banks. In fiscal 2018, we repaid our syndicated bank loan prematurely and closed the interest hedge relating to the same. The total starting balance of 2 million euros at January 1, 2018, was recognized after income taxes in the financial result through profit or loss, as the hedged cash flows will no longer occur.

Commodity price risk

The hedged risk arises from fluctuations in budgeted inventory purchases due to changing commodity prices. In fiscal 2018, commodity forwards were contracted for the first time to hedge against fluctuations in the prices of our budgeted inventory purchases. 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, commodity exposure in connection with clearly identifiable ethylene components amounted to 32 million euros. An ethylene volume of 9 million euros was hedged at an average rate of 0.29 euros per pound. A 10 percent higher (lower) forward price on the reporting date would have resulted in other comprehensive income increasing (decreasing) by 1 million euros.

The negative changes in value of these derivatives of 1 million euros after deduction of income taxes were recognized as additions to equity. Of the losses recognized in equity in the reporting period, 0 million euros was reclassified to cost of hedged inventories without affecting profit or loss.

Share price risk

The hedged risk arises from potential fluctuations in future payroll cost for budgeted payouts relating to our Long Term Incentive (LTI) 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 90 million euros. A volume of 74 million euros is hedged at an average price of 115 euros.

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An addition of – 3 million euros after income taxes arose from the hedge of this budgeted exposure relating to our Long Term Incentive (LTI) scheme. Of the gains recognized in equity, – 3 million euros was reclassified to operating profit in the reporting period. The negative fair values of the equity forward contracts totaled – 17 million euros. The cash flows relating to these derivatives will occur over the next four fiscal years, as will the cash flows from the hedged LTI payments.

Hedges of a net investment in a foreign entity

The accounting treatment of hedges of a net investment in a foreign entity against translation risk is similar to that applied to cash flow hedges. The gain or loss arising from the effective portion of the hedging instrument is recognized in equity through other comprehensive income; the gain or loss of the ineffective portion is recognized directly through profit or loss. Since first-time application of IFRS 9 starting on January 1, 2018, Henkel has exercised its right to choose to also recognize changes in value of non-designated components – such as the forward component of currency futures – in equity. The gains or losses recognized directly in equity remain there until disposal or partial disposal of the net investment.

The initial balance recognized in equity relates essentially to translation risks arising from net investments in Swiss francs, US dollars, Chinese yuans and Russian rubles for which the associated hedges were entered into and settled in previous years. The ending balance of 35 million euros does not contain any non-designated components.

Hedges of a net investment in a foreign entity (after income taxes)

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in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	Without affecting profit or loss	End balance
2018	**35**	**–**	**–**	**–**	**35**
2017	31	4	–	–	35

Risks arising from financial instruments; 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 underlying constitute a unit in terms of countervailing fluctuations.

Management of currency, interest rate and liquidity risks is based on the treasury guidelines introduced by the Management Board, which are binding on the entire corporation. They define the targets, principles and competences of the Corporate Treasury 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

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87 and 88. 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 a contractual party not fulfilling its obligations.

The maximum credit risk – notwithstanding any collateral provided – is represented by the carrying value of the financial assets recognized in the statement of financial position (excluding financial investments recognized using the equity method), as indicated in the following table:

Maximum risk position

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in million euros	2017	2018
Trade accounts receivable	3,544	**3,610**
Derivative financial instruments not included in a designated hedging relationship	54	**31**
Derivative financial instruments included in a designated hedging relationship	10	**6**
Other financial assets	1,058	**1,058**
Cash and cash equivalents	916	**1,063**
Total carrying values	**5,582**	**5,768**

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 608 million euros (previous year: 605 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 credit rating has been downgraded significantly (level 3). The simplified approach is adopted 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 lifetime expected losses of the financial instruments.

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. The default rates have initially been determined with the aid of data from external sources and on the basis of actual defaults. In future, this information will be based solely on expected defaults.

If a counterparty defaults, all outstanding amounts relating to that counterparty are subjected to a valuation allowance. The default is determined on the basis of individual assessment – prompted by noticeable changes in payment behavior, for example, or application for bankruptcy. A financial instrument is derecognized if it is reasonably judged to be unlikely that a financial asset will be recoverable in part or in whole, for example after completion of insolvency proceedings, or after consideration of other local law circumstances.

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

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 China and the USA accounted for more than 10 percent of all trade accounts receivable. Of the total trade accounts receivable, customers based in China and the USA account for 10 percent and 20 percent, respectively. Receivables from customers with a high credit risk rating account for about 10 percent of all trade accounts receivable. These risks are monitored regularly at global and regional level and steps are taken to mitigate the risk.

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.

Valuation allowances on trade accounts receivable by risk category

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Risk categories	Equivalent to S&P rating	Weighted probability of default	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
Low risk	AA– to A+	0.1 %	1,899	1,197	1
Moderate risk	BBB– to BB+	0.3 %	1,000	644	2
High risk	B– to C	8.1 %	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
			3,543	**2,342**	**94**

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Of the gross amount before deduction of collateral and value-added tax of 3,543 million euros, items worth 1,201 million euros were deducted for which no valuation allowances were required. Of the latter amount, 1,004 million euros is attributable to collateral provided and 197 million euros to refundable value-added tax. Accordingly, the net base for determining valuation allowances was 2,342 million euros.

Overall, we added valuation allowances of 2 million euros for trade accounts receivable in 2018 (previous year: release of 1 million euros). The carrying amount of trade accounts receivable with terms renegotiated because they would have otherwise been overdue by more than 30 days was 3 million euros (previous year: 0 million euros). Receivables of 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 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 0 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	
	2017	2018	2017	2018	2017	2018	2017	2018
Financial assets	64	**37**	55	**26**	5	**6**	4	**5**
Financial liabilities	100	**79**	55	**26**	37	**48**	8	**5**

[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 (CDS) by 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).

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 six 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.

The maturity structure of the original and derivative financial liabilities within the scope of International Financial Reporting Standard (IFRS) 7 based on undiscounted cash flows, and thus the risk concentration in respect of liquidity risk, is shown in the following table:

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Cash flows from financial liabilities

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in million euros	Dec. 31, 2017 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	Dec. 31, 2017 Total cash flow
Bonds	**2,666**	522	2,205	–	**2,727**
Commercial paper[1]	**729**	742	–	–	**742**
Liabilities to banks	**946**	55	933	–	**988**
Trade accounts payable	**3,721**	3,721	–	–	**3,721**
Sundry financial instruments[2]	**204**	143	54[3]	9	**206**
Original financial instruments	**8,266**	**5,183**	**3,192**	**9**	**8,384**
Expected inflow from cross-currency swaps	**21**	3	350	–	**353**
Expected outflow for cross-currency swaps		–	359	–	**359**
Other derivative financial instruments	**79**	72	7	–	**79**
Derivative financial instruments	**100**	**69**	**16**	**–**	**85**
Total	**8,366**	**5,252**	**3,208**	**9**	**8,469**

[1] From the euro and US dollar commercial paper program (total volume: 2 billion US dollars and 1 billion euros).
[2] Sundry financial instruments include amounts due to customers, and finance bills.
[3] Prior-year figures amended (please refer to the notes on pages 140 and 141).

Cash flows from financial liabilities

148

in million euros	Dec. 31, 2018 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	Dec. 31, 2018 Total cash flow
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 cross-currency swaps	**30**	3	345	–	**348**
Expected outflow for cross-currency swaps		–	359	–	**359**
Other derivative financial instruments	**49**	41	8	–	**49**
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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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] scheme).

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 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

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exchange contracts and currency 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.

Currency risk exposure[1]

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	2017			2018		
in million euros	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	195	178	102	**463**	**670**	**184**
Chinese yuan	156	116	74	**177**	**139**	**102**
Russian ruble	149	105	105	**151**	**102**	**71**
British pound	139	123	65	**139**	**128**	**66**
Canadian dollar	149	135	74	**119**	**108**	**59**
Others	1,057	811	721	**1,272**	**644**	**984**
	1,845	**1,468**	**1,141**	**2,321**	**1,791**	**1,466**

[1] Transaction risk.

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The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2018 amounted to 120 million euros after hedging (previous year: 95 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 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, normally 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 funding and 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.

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 issued to secure Group liquidity, the securities and time deposits used for cash investments, and the other 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 bond, Henkel entered into a cross-currency swap to convert the bond denominated in British pounds into a fixed-rate euro obligation. Two fixed-rate bonds denominated in US dollars were also issued. Commercial paper with interest rates fixed for at least three months are also included as fixed-rate instruments in the calculation of interest risk exposure. Following premature repayment of our syndicated bank loan, the corresponding interest hedge was also closed in fiscal 2018. 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

150

in million euros	Carrying amounts			
	2017		2018	
Fixed-interest financial instruments	Interest rate risk exposure before interest hedge	Interest rate risk exposure after interest hedge	Interest rate risk exposure before interest hedge	Interest rate risk exposure after interest hedge
Euro	–1,535	–1,535	**–1,838**	**–1,838**
US dollar	–1,131	–2,048	**–1,186**	**–1,186**
	–2,666	**–3,583**	**–3,024**	**–3,024**
Floating-interest financial instruments				
Euro	94	94	**364**	**364**
US dollar	–1,666	–749	**–1,161**	**–1,161**
Chinese yuan	316	316	**241**	**241**
Russian ruble	24	24	**31**	**31**
Others	673	673	**654**	**654**
	–559	**358**	**129**	**129**

The calculation of the interest rate risk is based on sensitivity analyses. The analysis of cash flow risk examines all the floating-interest financial instruments as of the reporting date. Fixed-interest financial instruments that mature in the following period are included on a time-weighted basis in the calculation to reflect the reinvestment or refinancing risk. Net financial position is defined as cash and cash equivalents plus readily monetizable financial instruments measured at amortized cost or at fair value through profit or loss, less borrowings, and plus positive and less negative fair values of hedging transactions. The interest rate risk figures shown in the table are based on this calculation at the relevant reporting date. When analyzing fair value risk, we assume a parallel shift in the interest curve of 100 basis points for all currencies and calculate the hypothetical fair value loss or gain of the relevant interest rate derivatives at the reporting date.

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

Interest rate risk

151

in million euros	2017	2018
Based on an interest rate change of 100 basis points per currency	14	**7**
of which:		
Cash flow through profit and loss	4	**6**
Fair value recognized in equity through other comprehensive income	10	**1**

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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 pages 110 and 111. 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 derivatives are only used at 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 derivatives. Developments in fair values and the resultant risks are continuously monitored.

Due to our long-term incentive scheme, Henkel is exposed to fluctuations in the price of its own shares. Details of our long-term incentive plans are discussed on pages 211 to 213. Henkel uses equity forward contracts to hedge against the share price risk.

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23 Sales and principles of income recognition

Sales decreased year on year to 19,899 million euros (previous year: 20,029 million euros).

Henkel applied the new IFRS 15 Revenue from Contracts with Customers for the first time in the fiscal year just ended. All of the sales reported for the year under review relate to revenue from contracts with customers as defined in IFRS 15. With first-time adoption of IFRS 15, Henkel has applied the cumulative method to all contracts. The prior-year figures have not been amended and therefore reflect the accounting procedure of IAS 18 Revenue.

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.

Prior-year sales figures were recognized under IAS 18 as soon as the goods were delivered or the service provided. This was always the case upon physical delivery of the goods at the time of the so-called transfer of risk. At this point in time, Henkel transferred the material risks and rewards associated with the title to the sold goods to the buyer, at the same time relinquishing any existing right to, or effective power over, the sold goods. Recognition was also subject to the likelihood of the economic benefits associated with the transaction flowing to the Group, and the costs incurred with respect to the transaction being reliably measurable.

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.

Henkel agrees payment terms that are standard in our industry; contracts with customers do not contain any material financing components.

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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 2018, please refer to our discussion of trade accounts receivable in Note 7 on pages 157 and 158.

A disaggregation of sales according to IFRS 15.114 f. can be found in the Group segment report by business unit and in the discussion of regional development on page 132.

Henkel exercises its right under IFRS 15.121 and refrains 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.

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.

24 Cost of sales

The cost of sales increased from 10,680 million euros to 10,743 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.

25 Marketing, selling and distribution expenses

Marketing, selling and distribution expenses amounted to 4,638 million euros (previous year: 4,876 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.

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26 Research and development expenses

Research and development expenses increased year on year to 484 million euros (previous year: 476 million euros). Expenditures directly attributable to research and development activities amounted to 471 million euros (previous year: 469 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 International Accounting Standard (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.

27 Administrative expenses

Administrative expenses amounted to 991 million euros (previous year: 980 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.

28 Other operating income

Other operating income

152

in million euros	2017	2018
Gains on disposal of non-current assets	18	**39**
Release of provisions[1]	10	**18**
Insurance claim payouts	10	**5**
Payments on derecognized receivables	–	**1**
Write-ups on non-current assets	–	**–**
Impairment reversal on assets held for sale	–	**–**
Sundry operating income	91	**91**
Total	**129**	**154**

[1] Including income from the release of provisions for pension obligations (curtailment gains) of 6 million euros in 2018 (2017: 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.

29 Other operating expenses

Other operating expenses

153

in million euros	2017	2018
Losses on disposal of non-current assets	– 5	**– 6**
Other taxes	–	**–**
Amortization, depreciation of other assets	–	**–**
Sundry operating expenses	– 86	**– 75**
Total	**– 91**	**– 81**

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Sundry operating expenses include a number of individual items arising from ordinary operating activities, such as fees, provisions for litigation and third party claims, sundry taxes, and similar expenses.

30 Financial result

Financial result

154

in million euros	2017	2018
Interest result	– 37	**– 61**
Other financial result	– 26[1]	**– 5**
Investment result	– 4	**1**
Total	**– 67**	**– 65**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

Interest result

155

in million euros	2017	2018
Interest and similar income from third parties	18	**10**
Interest to third parties	– 55	**– 71**
Total	**– 37**	**– 61**

Other financial result

156

in million euros	2017	2018
Interest result from net obligation (pensions)	– 15	**– 9**
Interest income from reimbursement rights (IAS 19)	4	**4**
Other financial expenses	– 420[1]	**– 131**
Other financial income	405[1]	**131**
Total	**– 26**	**– 5**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

Other financial expenses include – 107 million euros (previous year: – 380 million euros) from currency losses. Other financial income includes 113 million euros (previous year: 395 million euros) from currency gains. Please see page 187 of the financial instruments report for information on the net results of the valuation categories under International Financial Reporting Standard (IFRS) 7, and the reconciliation to financial result.

Investment result
The investment result includes 1 million euros for income from the valuation of companies that are recognized by the equity method (2017: – 4 million euros).

31 Taxes on income

Income tax expense / income breaks down as follows:

Income before tax and analysis of taxes

157

in million euros	2017	2018
Income before tax	**2,988[1]**	**3,051**
Current taxes	638[1]	**618**
Deferred taxes	– 191	**103**
Taxes on income	**447**	**721**
Tax rate in percent	15.0 %	**23.6 %**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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Main components of tax expense and income

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in million euros	2017	2018
Current tax expense / income in the reporting year	664	**635**
Current tax adjustments for prior years	– 26	**– 17**
Deferred tax expense / income from temporary differences	50	**102**
Deferred tax expense / income from unused tax losses	46	**23**
Deferred tax expense from tax credits	1	**1**
Deferred tax income from changes in tax rates	– 289	**– 2**
Increase / decrease in valuation allowances on deferred tax assets	1	**– 21**

Deferred tax expense by items on the statement of financial position

159

in million euros	2017	2018
Intangible assets	– 281	**43**
Property, plant and equipment	– 16	**14**
Financial assets	– 56	**– 35**
Inventories	9	**11**
Other receivables and other assets	1	**–**
Special tax items	– 3	**– 3**
Provisions	52	**86**
Liabilities	55	**– 15**
Tax credits	1	**– 1**
Unused tax losses	47	**3**
Financial statement figures	**– 191**	**103**

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.

Tax reconciliation statement

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in million euros	2017	2018
Income before tax	2,988[1]	**3,051**
Tax rate (including trade tax) of Henkel AG & Co. KGaA	31 %	**31 %**
Expected tax charge	**926**	**946**
Tax reductions due to differing tax rates abroad	– 100	**– 153**
Tax increases / reductions for prior years	– 4	**7**
Tax increases / reductions due to changes in tax rates	– 289	**– 2**
Tax increases / reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	1	**– 21**
Tax reductions due to tax-free income and other items	– 192	**– 137**
Tax increases / reductions arising from additions and deductions for local taxes	– 6	**– 14**
Tax increases due to withholding taxes	53	**52**
Tax increases due to non-deductible expenses	58	**43**
Tax charge disclosed	**447**	**721**
Tax rate	**15.0 %**	**23.6 %**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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.

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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

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	Deferred tax assets		Deferred tax liabilities	
in million euros	December 31, 2017	December 31, 2018	December 31, 2017[1]	December 31, 2018
Intangible assets	381	**351**	739	**781**
Property, plant and equipment	29	**27**	76	**102**
Financial assets	–	**–**	101	**68**
Inventories	37	**25**	2	**1**
Other receivables and other assets	26	**24**	42	**40**
Special tax items	–	**–**	30	**26**
Provisions	677	**681**	8	**86**
Liabilities	147	**140**	39	**12**
Tax credits	6	**6**	–	**–**
Unused tax losses	51	**46**	–	**–**
Amounts netted	–405	**–341**	–405	**–341**
Financial statement figures	**949**	**959**	**632**	**775**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

The deferred tax assets of 681 million euros (previous year: 677 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 781 million euros (previous year: 739 million euros) relating to intangible assets are mainly attributable to business combinations.

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. Deferred taxes have not been recognized with respect to unused tax losses of 171 million euros (previous year: 249 million euros), as it is not probable that sufficient taxable profit will be available against which they may be utilized. Of these tax losses carried forward, 63 million euros expire after two years and 53 million euros (previous year: 171 million euros) expire after more than three years. Thereof 51 million euros (previous year: 48 million euros) are attributable to state taxes of our US subsidiaries (tax rate around 2.4 percent). Of the tax losses carried forward, 56 million euros are non-expiring (previous year: 52 million euros). Deferred tax liabilities of 34 million euros (previous year: 52 million euros) relating to the retained earnings of foreign subsidiaries have been recognized due to the fact that these earnings will be distributed in 2019.

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. In addition to the unused tax losses listed in the table, an interest expense of 8 million euros (previous year: 12 million euros) is available which may be carried forward in full with no expiration.

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Expiry dates of unused tax losses and tax credits

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in million euros	Unused tax losses		Tax credits	
	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018
Expire within				
1 year	24	**7**	1	**1**
2 years	1	**65**	–	**–**
3 years	128	**3**	–	**–**
more than 3 years	403	**311**	5	**4**
May be carried forward without restriction	95	**103**	–	**–**
Total	**651**	**489**	**6**	**5**

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.

Tax loss carryforwards in the amount of 203 million euros (previous year: 257 million euros) are attributable to our US subsidiaries. Of this amount, 198 million euros (previous year: 251 million euros) relate exclusively to state taxes.

Equity-increasing deferred taxes of 16 million euros were recognized (previous year: equity-decreasing deferred taxes of 71 million euros). Within this figure, income of 1 million euros (previous year: expense of 66 million euros) results from actuarial gains and losses on pension obligations. The expense attributable to hedges of net investments in foreign entities was 0 million euros (previous year: expense of 2 million euros), while currency effects resulted in income of 3 million euros (previous year: expense of 3 million euros).

32 Non-controlling interests

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

Their share of net income was 19 million euros (previous year: 22 million euros).

The non-controlling interests included in the Henkel Group at the end of fiscal 2018 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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33 Reconciliation of adjusted net income

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in million euros		2017	2018	+/–
EBIT (as reported)		3,055	**3,116**	**2.0%**
One-time gains		–21	**–11**	–
One-time charges		182	**129**	–
Restructuring expenses		245	**262**	–
Adjusted EBIT		3,461	**3,496**	**1.0%**
Adjusted return on sales	in %	17.3	**17.6**	0.3 pp
Financial result		–67[1]	**–65**	–3.0%
Taxes on income (adjusted)		–837[1]	**–806**	–3.7%
Adjusted tax rate	in %	24.7[1]	**23.5**	–1.2 pp
Adjusted net income		2,557	**2,625**	**2.7%**
Attributable to non-controlling interests		23	**21**	–8.7%
Attributable to shareholders of Henkel AG & Co. KGaA		2,534	**2,604**	2.8%
Adjusted earnings per ordinary share	in euros	**5.83**	**5.99**	**2.7%**
Adjusted earnings per preferred share	in euros	**5.85**	**6.01**	**2.7%**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

The one-time gains recognized in 2018 relate to the successful renegotiation of an unfavorable supply agreement that Henkel had acquired (2017: 0 million euros).

The adjusted charges for fiscal 2018 include expenses of 93 million euros relating to the integration of The Sun Products Corporation (2017: 131 million euros), 21 million euros to the optimization of our IT system architecture for managing business processes (2017: 23 million euros), 11 million euros to provisions for legal disputes (2017: 0 million euros) and 4 million euros to acquisition-related incidental costs (2017: 11 million euros).

Of the restructuring expenses in fiscal 2018, 90 million euros fall under cost of sales (2017: 77 million euros) and 103 million euros fall under marketing, selling and distribution expenses (2017: 122 million euros). A further 13 million euros is assigned to research and development expenses (2017: 7 million euros), and 56 million euros to administrative expenses (2017: 39 million euros).

Taxes on income amounting to 806 million euros reflect the tax effects of the adjustments to EBIT. Moreover, the figure for fiscal 2017 was adjusted for the one-time impacts of the tax

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reform in the USA. This adjustment resulted in an earnings effect totaling 270 million euros.

34 Payroll cost and employee structure

Payroll cost[1]

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in million euros	2017	2018
Wages and salaries	2,552	**2,503**
Social security contributions and staff welfare costs	447	**450**
Pension costs	168	**175**
Total	**3,167**	**3,128**

[1] Excluding personnel-related restructuring expenses of 87 million euros (previous year: 87 million euros).

Number of employees per function[1]

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	2017	2018
Production and engineering	28,150	**28,600**
Marketing, selling and distribution	13,650	**14,200**
Research and development	2,700	**2,750**
Administration	7,450	**7,900**
Total	**51,950**	**53,450**

[1] Basis: annual average headcount of full-time employees, excluding apprentices and trainees, work experience students and interns; figures rounded.

35 Share-based payment plans

Global Long Term Incentive Plan (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 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 2017 – 2020 cycle, a gross investment amount of 47 million euros was determined, based on target achievement. In fiscal 2018, after deduction of taxes and social insurance contributions, 305,914 treasury shares with a total value of 33 million euros were purchased and will be made freely available to qualifying employees on January 1, 2021. The shares were purchased at an average price of 108.84 euros. Recognition of the payment of the gross investment amount resulted in a reduction of equity.

Global LTI Plan 2020+ 166

	Number of shares
Vested entitlements and awards on April 1, 2018	305,587
Forfeited entitlements in fiscal 2018	6,079
Entitlements that became vested in fiscal 2018	267
Outstanding vested entitlements on December 31, 2018	**299,241**

Of the shares already acquired for the 2017 cycle, 267 have now become vested. They will be made freely available to qualifying employees on April 1, 2019. 6,079 shares becoming available due to forfeited entitlements were resold. At year-end 2018 therefore, 299,241 treasury shares were transferred to employees. The employees will be able to dispose of them freely at the end of 2020.

In fiscal 2018, an equity-increasing payroll cost of 1 million euros (previous year: equity-increasing cost of 21 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 95.40 euros (closing price of Henkel preferred shares on December 28, 2018; on December 29, 2017: 110.35 euros) per CPU. The overall payout of the long-term incentive is subject to a cap.

The twelfth four-year cycle, which was issued in 2014, became due for payment in 2018. At December 31, 2018, the CPU Plan worldwide comprised 372,186 CPUs (December 31, 2017: 520,448 CPUs) from the four-year tranche issued in 2015, and 362,558 CPUs (December 31, 2017: 502,700 CPUs) from the tranche issued in 2016. This resulted in an additional expense in the reporting year of 3.2 million euros (December 31, 2017: 43.0 million euros). The corresponding provision amounted to 63.9 million euros (December 31, 2017: 122.9 million euros), of which 37.4 million euros (December 31, 2017: 53.1 million euros) is vested.

36 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 a single operating segment of the same name, 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.

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

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earnings and accounting 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. Our economies of scale allow us to offer attractive solutions for standard and volume applications.

The Transport and Metal operating segment serves major international customers in the automotive and metal-processing industries, offering tailor-made 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, 68 million euros (previous year: 69 million euros) is attributable to Adhesive Technologies, 59 million euros (previous year: 76 million euros) to Beauty Care and 132 million euros (previous year: 90 million euros) to Laundry & Home Care.

For reconciliation with the figures for the Henkel Group, Group overheads are reported under Corporate together with income and expenses that cannot be allocated to the individual business 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
in million euros	Annual average[1] 2017	December 31, 2017	December 31, 2017	Annual average[1] 2018	December 31, 2018	December 31, 2018
Goodwill at book value	11,601	11,821[4]	11,821[4]	12,005	12,486	**12,486**
Other intangible assets and property, plant and equipment (including assets held for sale)	6,759	6,948[4]	6,948[4]	7,169	7,313	**7,313**
Deferred taxes	–	–	949	–	–	**959**
Inventories	2,066	2,079[4]	2,079[4]	2,261	2,176	**2,176**
Trade accounts receivable from third parties	3,560	3,544	3,544	3,799	3,610	**3,610**
Intra-group accounts receivable	1,520	1,874	–	1,839	1,721	**–**
Other assets and tax refund claims[2]	636	599	2,079[4]	624	555	**2,016**
Cash and cash equivalents			919[4]			**1,063**
Operating assets / Total assets	**26,142**	**26,865**	**28,339**	**27,697**	**27,861**	**29,623**
Operating liabilities	7,796	8,063	–	8,282	7,885	**–**
of which: Trade accounts payable to third parties	3,735	3,721[4]	3,721[4]	3,869	3,713	**3,713**
Intra-group accounts payable	1,520	1,874	–	1,839	1,721	**–**
Other provisions and other liabilities[2] (financial and non-financial)	2,540	2,472	2,797	2,574	2,451	**2,603**
Net operating assets	18,347	18,773	–	19,416	19,976	**–**
– Goodwill at book value	11,601	–	–	12,005	–	**–**
+ Goodwill at cost[3]	12,124	–	–	12,667	–	**–**
Capital employed	18,870	–	–	20,078	–	**–**

[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 140 and 141).

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37 Earnings per share

Earnings per share

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in million euros (rounded)	2017		2018	
	Reported	Adjusted	Reported	Adjusted
Net income attributable to shareholders of Henkel AG & Co. KGaA	**2,519**	**2,534**	**2,311**	**2,604**
Dividends, ordinary shares	460	460	**475**	**475**
Dividends, preferred shares	312	312	**323**	**323**
Total dividends	772	772	**798**	**798**
Retained earnings, ordinary shares	1,045	1,054	**905**	**1,080**
Retained earnings, preferred shares	702	708	**608**	**726**
Retained earnings	**1,747**	**1,762**	**1,513**	**1,806**
Number of ordinary shares	259,795,875	259,795,875	**259,795,875**	**259,795,875**
Dividend per ordinary share in euros	1.77[3]	1.77[3]	**1.83**[3]	**1.83**[3]
of which preliminary dividend per ordinary share in euros[1]	0.02	0.02	**0.02**	**0.02**
Retained earnings per ordinary share in euros	4.02	4.06	**3.48**	**4.16**
Earnings per ordinary share in euros	**5.79**	**5.83**	**5.31**	**5.99**
Number of outstanding preferred shares[2]	174,482,323	174,482,323	**174,482,323**	**174,482,323**
Dividend per preferred share in euros	1.79[3]	1.79[3]	**1.85**[3]	**1.85**[3]
of which preferred dividend per preferred share in euros[1]	0.04	0.04	**0.04**	**0.04**
Retained earnings per preferred share in euros	4.02	4.06	**3.48**	**4.16**
Earnings per preferred share in euros	**5.81**	**5.85**	**5.33**	**6.01**
Number of ordinary shares	259,795,875	259,795,875	**259,795,875**	**259,795,875**
Dividend per ordinary share in euros	1.77[3]	1.77[3]	**1.83**[3]	**1.83**[3]
of which preliminary dividend per ordinary share in euros[1]	0.02	0.02	**0.02**	**0.02**
Retained earnings per ordinary share in euros (after dilution)	4.02	4.06	**3.48**	**4.16**
Diluted earnings per ordinary share in euros	**5.79**	**5.83**	**5.31**	**5.99**
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	1.79[3]	1.79[3]	**1.85**[3]	**1.85**[3]
of which preferred dividend per preferred share in euros[1]	0.04	0.04	**0.04**	**0.04**
Retained earnings per preferred share in euros (after dilution)	4.02	4.06	**3.48**	**4.16**
Diluted earnings per preferred share in euros	**5.81**	**5.85**	**5.33**	**6.01**

[1] See combined management report, Corporate governance, Composition of issued capital / Shareholders' rights on pages 29 and 30.
[2] Weighted annual average of preferred shares.
[3] Proposal to shareholders for the Annual General Meeting on April 8, 2019.

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38 Consolidated statement of cash flows

We prepare the consolidated statement of cash flows in accordance with International Accounting Standard (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 and property, plant and equipment – supplemented by changes in provisions, changes in other assets and liabilities, and also changes in net working capital. We disclose payments made for income taxes under operating cash flow.

Cash flows from investing activities occur essentially 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 investments accounted for by the equity method, and joint ventures. Here, we also recognize inflows of funds from the sale of intangible assets and property, plant and equipment, subsidiaries and other business units. 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 – 429 million euros (previous year: – 1,830 million euros), as well as outflows for investments in intangible assets and property, plant and equipment, including payments on account, in the amount of – 837 million euros (previous year: – 700 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 134 and 135.

In cash flow from financing activities, we recognize interest and dividends paid and received, the change in borrowings and 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.

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Reconciliation of assets and liabilities reflected in cash flow from financing activities

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in million euros	Derivative assets and liabilities	Securities, time deposits and financial collateral provided	Receivable from Henkel Trust e.V. and reimbursement rights	Provisions for pensions and similar obligations	Borrowings	Finance leases	Total
At January 1, 2017	**1**	**9**	**616**	**– 1,007**	**– 3,725**	**– 17**	**– 4,123**
Change in cash flow from financing activities[1]	354	231	104	72	– 886	2	– 123
of which:							
Interest paid	– 2	–	–	–	51	0	49[2]
Issuance of bonds	–	–	–	–	– 535	–	– 535
Other changes in borrowings	360	–	–	–	– 402	2	– 40[3]
Allocations to pension funds	–	–	–	112	–	–	112
Other changes in pension obligations	–	–	104	– 40	–	–	64
Other financing transactions	– 4	231	–	–	–	–	227
Interest expense / income	2	0	4	– 15	– 57	0	– 66
Purchase or sale of subsidiaries	–	–	–	– 44	– 4	–	– 48
Foreign exchange	–	–	– 11	52	69	2	112
Changes in fair value	– 382	–	4	190	259	–	71
Sundry	–	–	–	– 8	–	–	– 8
At December 31, 2017	**– 25**	**240**	**717**	**– 760**	**– 4,344**	**– 13**	**– 4,185**

[1] The received interest disclosed in the cash flow from financing activities is mainly attributable to cash and cash equivalents; their reconciliation is derived from the cash flow statement.
[2] Does not include cash outflow of 7 million euros for fees and other financial charges relating to the procurement of money and loans.
[3] 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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Reconciliation of assets and liabilities reflected in cash flow from financing activities

170

in million euros	Derivative assets and liabilities	Securities, time deposits and financial collateral provided	Receivable from Henkel Trust e.V. and reimbursement rights	Provisions for pensions and similar obligations	Borrowings	Finance leases	Total
At January 1, 2018	**– 25**	**240**	**717**	**– 760**	**– 4,344**	**– 13**	**– 4,185**
Change in cash flow from financing activities[1]	– 55	18	–	133	370	–	466
of which:							
Interest paid	3	–	–	–	71	–	74[2]
Redemption of bonds	–	–	–	–	1,447	–	1,447
Other changes in borrowings	– 66	–	–	–	– 1,148	–	– 1,214[3]
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	–	– 84
Purchase or sale of subsidiaries	–	–	–	– 5	–	– 5	– 10
Foreign exchange	–	–	9	– 11	– 43	–	– 45
Changes in fair value	59	–	– 10	– 125	– 83	–	– 159
Sundry	–	12	–	– 17	–	13	8
At December 31, 2018	**– 24**	**270**	**719**	**– 794**	**– 4,175**	**– 5**	**– 4,009**

[1] The received interest disclosed in the cash flow from financing activities is mainly attributable to cash and cash equivalents; their reconciliation is derived from the cash flow statement.
[2] Does not include cash outflow of 4 million euros for fees and other financial charges relating to the procurement of money and loans.
[3] 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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39 Contingent liabilities

Analysis

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in million euros	December 31, 2017	December 31, 2018
Liabilities under guarantee and warranty agreements	10	**9**

40 Lease and other unrecognized financial commitments

Operating leases as defined in IAS 17 comprise all forms of rights of use of assets, including rights of use arising from rent and leasehold agreements. Payment commitments under operating lease agreements are shown 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

172

in million euros	December 31, 2017	December 31, 2018
Due in the following year	79	**137**
Due within 1 to 5 years	168	**265**
Due after 5 years	147	**133**
Total	**394**	**535**

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 (previous year: 80 million euros).

Finance lease commitments 2017

173

in million euros At Dec. 31, 2017	Future payments relating to finance lease commitments	Interest portion	Present value of future lease installments
Due in the following year	2	0	2
Due within 1 to 5 years	7	1	6
Due after 5 years	6	0	5
Total	**15**	**1**	**13**

Finance lease commitments 2018

174

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	0	0	0
Due within 1 to 5 years	2	2	0
Due after 5 years	11	4	7
Total	**13**	**6**	**7**

As of the end of 2018, commitments arising from orders for property, plant and equipment amounted to 103 million euros (previous year: 68 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, 2018 amounted to 24 million euros (previous year: 4 million euros).

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41 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 affiliated companies 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 42 to 61 of Henkel's Annual Report 2018. 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 on October 12, 2018, the proportion of voting rights held by the members of the Henkel family share-pooling agreement represented 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) (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 affiliated entities 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 page 155). The receivable does not bear interest.

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42 Exercise of exemption options

Adopting the same approach as in 2017, the following German companies included in the consolidated financial statements of Henkel AG & Co. KGaA exercised exemption options in fiscal 2018:

- 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)
- The Bergquist Company GmbH, Halstenbek (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.

43 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 1,559,000 euros plus value-added tax (previous year: 1,565,000 euros) and 2,295,206 euros (previous year: 2,215,754 euros) respectively. The total remuneration (Section 285 (9a) and Section 314 (1) (6a) HGB) of the Management Board and members of the Management Board of Henkel Management AG amounted to 21,111,180 euros (previous year: 25,326,382 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 100,940,669 euros (previous year: 102,214,945 euros). The total remuneration for this group of persons (Section 285 (9b) and Section 314 (1) (6b) HGB) in the reporting year amounted to 7,205,023 euros (previous year: 7,265,411 euros).

The following expenditure was recognized in fiscal 2018 under IFRS for remuneration paid to members of the Management Board, Supervisory Board and Shareholders' Committee in office in the year under review:

Remuneration of the corporate bodies 175

in euros	2017*	2018
Management Board remuneration		
Short-term remuneration[1]	20,006,185	**18,226,124**
Expense for long-term incentive	5,923,244	**247,567**
Service cost of pension obligations	3,167,459	**3,084,685**
Total	29,096,888	**21,558,376**
Supervisory Board remuneration		
Fixed fee and meeting attendance[2]	1,565,000	**1,559,000**
Shareholders' Committee remuneration		
Fixed fee[2]	2,215,754	**2,295,206**
Total expenses relating to the corporate bodies	32,877,642	**25,412,582**

[1] Fixed remuneration, other emoluments, short-term incentive.
[2] Including committee activity.
* Figures for 2017 relate to the members of the corporate bodies who served in 2017.

In the year under review, no benefits relating to the termination of service on the Management Board (e.g. severance pay) were paid (previous year: 5,120,400 euros).

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 42 to 61.

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44 Declaration of compliance with the Corporate Governance Code [DCGK]

In February 2018, 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 [DCGK] 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

45 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

46 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 2017 and 2018 were as follows:

Type of fee 176

in million euros	2017	of which Germany	2018	of which Germany
Audits	10.3	2.5	**9.7**	**2.0**
Other attestation services	0.5	0.3	**0.4**	**0.2**
Tax advisory services	1.0	0.3	**1.6**	**0.7**
Other services	0.8	0.8	**0.6**	**0.5**
Total	**12.6**	**3.9**	**12.3**	**3.4**

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 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, the audit of the tax compliance management system, and provision of support on ongoing tax issues.

Other services mainly comprised advisory services relating to cyber and IT security, 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, 2018, there were no reportable events of particular significance for the net assets, financial position and results of operations of the Henkel Group.

Düsseldorf, January 31, 2019

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board
Hans Van Bylen,
Jan-Dirk Auris, Carsten Knobel, Kathrin Menges,
Bruno Piacenza, Jens-Martin Schwärzler

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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 and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, 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, 2018, 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, 2018. In accordance with the German legal requirements we have not audited the content the Corporate governance statement which is included in section "Fundamental principles of the Group" 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 at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, 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 the 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 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) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1)

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

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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, 2018. 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, 2018, goodwill of EUR 12,486 million and trademarks and other rights with indefinite useful lives of EUR 3,100 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 combination in which the goodwill arose or from the utilization of the intangible assets. Concerning goodwill, these cash-generating units are generally represented by the strategic business units, while the Beauty Care and Laundry & Home Care trademarks are allocated to regional business units.

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 on 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 associated herewith 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 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 future development and to estimate their effects on the forecasts for the cash flows. We

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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 CONCLUSIONS

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 generally reasonable as a whole.

The related disclosures in the notes to the consolidated financial statements are appropriate.

The global transformation of purchasing, production and logistics activities

See pages 93 and 95 in the combined management report for explanatory notes on the global transformation of purchasing, production and logistics activities

THE FINANCIAL STATEMENT RISK

Since 2014, Henkel has pooled its global purchasing activities to achieve greater efficiency and improved cooperation with its strategic suppliers worldwide. This is part of the close integration of purchasing activities with production and logistics activities. Across all business units, the so called supply chain will be further standardized, optimized and combined in a central supply chain organization operating worldwide. This organizational realignment will be supported by a globally uniform IT platform that maps the new processes accompanying the transition.

In financial year 2018, the business in North America was integrated into Henkel's central supply chain organization.

The transition of purchasing, production and logistics activities resulted in changes in the legal and organizational structure within the Henkel Group and changes in intragroup transactions, which all impact accordingly on key operating processes and the accounting-related control system associated with those processes.

This results in the risk that the adjustments to the accounting-related internal control system required due to the transformation may be incomplete and the effectiveness of the

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accounting-related internal control system may be compromised. Furthermore, there is the risk that the data migration to a global IT platform, which was carried out as part of the integration of the IT systems, may have been deficient or incomplete. In addition, the adjustment to the respective purchasing, production and logistics activities also has income tax implications for the Henkel Group, in particular concerning the appropriateness of transfer pricing.

OUR AUDIT APPROACH

Based on our understanding of the processes, we assessed the setup, implementation and effectiveness of the significant and relevant internal controls that had been modified as part of the converted purchasing, production and logistics processes. The audit procedures performed for this matter included an assessment of the setup and effectiveness of the internal controls.

A further focus was placed on the audit of the proper migration of accounting-relevant data to the standardized IT platform. We carried out this audit with the involvement of our IT specialists in order to verify that the data transfer was complete and the IT system settings were correct.

Furthermore, as part of our audit, with the assistance of our tax specialists, we particularly assessed the appropriateness of the setup and implementation of the transfer pricing system. In the course of our audit of intragroup agreements, the expert opinions of the external tax experts engaged by Henkel concerning the appropriateness of the transfer pricing system were evaluated, and we were able to verify the competence and objectivity of the external tax experts.

The regional focus of our work in respect of the audit procedures outlined above was on North America, as this region was integrated into Henkel's centralized supply chain in financial year 2018.

OUR OBSERVATIONS

We were able to verify that, after the adjustments concerning the transformation of the purchasing, production and logistics activities, the accounting-related internal control system has been properly set up and implemented, and is effective.

The data migration related to the introduction of a uniform IT platform was carried out appropriately and completely.

Moreover, we were able to verify that the income tax effects arising from the changes to intragroup transactions have been appropriately presented in the financial statements.

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.

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

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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.

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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.

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 by the annual general meeting on April 9, 2018. We were engaged by the supervisory board, represented by the Audit Committee Chair, on May 11, 2018. We have been the group 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 31, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Klaus Becker
Wirtschaftsprüfer
[German Public Auditor]

Marcus Rohrbach
Wirtschaftsprüfer
[German Public Auditor]

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

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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 1,589,068,831.62 euros for fiscal 2018 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) Carried forward as retained earnings	= 784,041,061.62 euros
	1,589,068,831.62 euros

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 31, 2019

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board

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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 31, 2019

Henkel Management AG

Management Board
Hans Van Bylen,
Jan-Dirk Auris, Carsten Knobel, Kathrin Menges,
Bruno Piacenza, Jens-Martin Schwärzler

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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 2019

Honorary Chairman of the Henkel Group: Dipl.-Ing. Albrecht Woeste

Supervisory Board of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah
Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: April 14, 2008

Memberships:
Henkel Management AG (Chair)[1]
Henkel AG & Co. KGaA
(Shareholders' Committee, Chair)[2]
Bayer AG[1]
Heraeus Holding GmbH[1]

Birgit Helten-Kindlein*
Vice Chair since April 9, 2018
Chairwoman of the General Works Council of Henkel AG & Co. KGaA and Chairwoman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1964
Member since: April 14, 2008

Winfried Zander*
(until April 9, 2018)
Vice Chair,
Chairman of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1954
Member from: May 17, 1993

Jutta Bernicke*
Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born 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*
(since April 9, 2018)
Member of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Herborn-Schönbach site

Born in 1966
Member since: April 9, 2018

Johann-Christoph Frey
(until April 9, 2018)
Private Investor, Klosters

Born in 1955
Member from: April 11, 2016

Peter Hausmann*
(until April 9, 2018)
Member of the Executive Board of IG Bergbau, Chemie, Energie and responsible for Wages / Finance, Hannover

Born in 1954
Member from: April 15, 2013

Memberships:
Continental AG[1]
Covestro AG[1]
Vivawest GmbH (Vice Chair)[1]
50 Hertz Transmission AG (Vice Chair)[1]

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, Bonn

Born in 1962
Member since: April 11, 2016

Memberships:
BT Group plc, Great Britain[2]
FC Bayern München AG[1]
Telekom Group:
Telekom Deutschland GmbH (Chair)[1]
T-Mobile US, Inc. (Chair), USA[2]

* Employee representatives.
[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

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Prof. Dr. sc. nat. Michael Kaschke
Chairman of the Executive Board,
Carl Zeiss AG, Oberkochen

Born in 1957
Member since: April 14, 2008

Memberships:
Deutsche Telekom AG [1]
Robert Bosch GmbH [1]
Carl Zeiss Group:
Carl Zeiss Industrielle Messtechnik GmbH (Chair) [1]
Carl Zeiss Meditec AG (Chair) [1]
Carl Zeiss SMT GmbH (Chair) [1]
Carl Zeiss Co. Ltd. (Chair), South Korea [2]
Carl Zeiss (Shanghai) Co. Ltd. (Chair), China [2]
Carl Zeiss Far East Co. Ltd. (Chair), China / Hong Kong [2]
Carl Zeiss India (Bangalore) Private Ltd., India [2]
Carl Zeiss Pte. Ltd. (Chair), Singapore [2]

Angelika Keller *
(until April 9, 2018)
Member of the General Works Council of
Henkel AG & Co. KGaA and
Chairwoman of the Works Council of
Henkel AG & Co. KGaA, Munich site

Born in 1965
Member from: January 1, 2017

Barbara Kux
Private Investor, Zurich

Born in 1954
Member since: July 3, 2013

Memberships:
Engie S.A., France [2]
Firmenich S.A. (Vice Chair), Switzerland [2]
Pargesa Holding S.A., Switzerland [2]

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
(since April 9, 2018)
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

Memberships:
Merck KGaA [1]
E. Merck OHG [2]

Dirk Thiede *
(since April 9, 2018)
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 *
(since April 9, 2018)
Chairman of IG BCE, Hannover

Born in 1964
Member since: April 9, 2018

Memberships:
BASF SE
RAG AG (Vice Chair)
STEAG GmbH
Vivawest GmbH

Supervisory Board committees

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
Peter Hausmann (until April 9, 2018)
Birgit Helten-Kindlein
Edgar Topsch (since April 9, 2018)
Michael Vassiliadis (since April 9, 2018)
Winfried Zander (until April 9, 2018)

* Employee representatives.
[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

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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 AG[1]
Heraeus Holding GmbH[1]

Dr. rer. pol. h.c. Christoph Henkel
Vice Chair,
Founding Partner, Canyon Equity LLC, 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 AG[1]
Daimler AG[1]
Deutsche Bank AG (Chair)[1]

Johann-Christoph Frey
(since April 9, 2018)
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 SE[1]

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 AG[1]

Konstantin von Unger
Managing Director, CKA Capital Limited, London

Born in 1966
Member since: April 14, 2003

Membership:
Henkel Management AG[1]

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., USA[2]

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 AG[1]
Siemens AG[1]

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 (since April 9, 2018)
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 *

Hans Van Bylen
Chairman of the Management Board

Born in 1961
Member since: July 1, 2005[3]

Jan-Dirk Auris
Adhesive Technologies

Born in 1968
Member since: January 1, 2011

Carsten Knobel
Finance / Purchasing / Integrated Business Solutions

Born in 1969
Member since: July 1, 2012

Memberships:
Deutsche Lufthansa AG[1]
Henkel Central Eastern Europe GmbH (Chair), Austria[2]
Henkel (China) Investment Co. Ltd., China[2]
Henkel & Cie AG (Vice Chair), Switzerland[2]
Henkel Ltd., Great Britain[2]
Henkel of America Inc. (Chair), USA[2]

Kathrin Menges
Human Resources / Infrastructure Services

Born in 1964
Member since: October 1, 2011

Memberships:
Adidas AG[1]
Henkel Central Eastern Europe GmbH, Austria[2]
Henkel Finland Oy, Finland[2]
Henkel Nederland BV, Netherlands[2]
Henkel Norden AB, Sweden[2]

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

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 AG[1]
Heraeus Holding GmbH[1]

Konstantin von Unger
Vice Chair,
Managing Director, CKA Capital Limited, 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 AG[1]
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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in million euros	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
Sales										
Adhesive Technologies	2,295	**2,270**	2,370	**2,432**	2,373	**2,373**	2,348	**2,328**	9,387	**9,403**
Beauty Care	1,011	**965**	997	**1,035**	941	**993**	920	**957**	3,868	**3,950**
Laundry & Home Care	1,726	**1,569**	1,703	**1,644**	1,636	**1,641**	1,586	**1,565**	6,651	**6,419**
Corporate	32	**32**	29	**32**	31	**30**	32	**34**	123	**128**
Henkel Group	**5,064**	**4,835**	**5,098**	**5,143**	**4,981**	**5,037**	**4,886**	**4,884**	**20,029**	**19,899**
Cost of sales	– 2,649	**– 2,588**	– 2,678	**– 2,738**	– 2,674	**– 2,698**	– 2,679	**– 2,719**	– 10,680	**– 10,743**
Gross profit	**2,415**	**2,247**	**2,420**	**2,405**	**2,307**	**2,339**	**2,207**	**2,165**	**9,349**	**9,156**
Marketing, selling and distribution expenses	– 1,237	**– 1,184**	– 1,242	**– 1,192**	– 1,154	**– 1,142**	– 1,243	**– 1,120**	– 4,876	**– 4,638**
Research and development expenses	– 121	**– 116**	– 119	**– 137**	– 114	**– 116**	– 122	**– 115**	– 476	**– 484**
Administrative expenses	– 258	**– 238**	– 248	**– 271**	– 251	**– 244**	– 223	**– 238**	– 980	**– 991**
Other operating expenses and income	24	**30**	28	**9**	– 38	**– 4**	24	**38**	38	**73**
EBIT										
Adhesive Technologies	431	**389**	446	**438**	427	**444**	353	**398**	1,657	**1,669**
Beauty Care	149	**152**	155	**151**	121	**158**	110	**128**	535	**589**
Laundry & Home Care	274	**219**	265	**246**	227	**248**	223	**257**	989	**970**
Corporate	– 30	**– 21**	– 27	**– 22**	– 26	**– 17**	– 42	**– 52**	– 126	**– 112**
Henkel Group	**823**	**739**	**839**	**814**	**750**	**833**	**643**	**730**	**3,055**	**3,116**
Interest result	– 4	**– 14**	– 7	**– 20**	– 13	**– 14**	– 13	**– 13**	– 37	**– 61**
Other financial result	– 13[1]	**–**	– 3[1]	**8**	– 10[1]	**– 1**	–[1]	**– 12**	– 26[1]	**– 5**
Investment result	–	**– 1**	–	**3**	– 1	**– 1**	– 3	**–**	– 4	**1**
Financial result	**– 17[1]**	**– 15**	**– 10[1]**	**– 9**	**– 24[1]**	**– 16**	**– 16[1]**	**– 25**	**– 67[1]**	**– 65**
Income before tax	**806[1]**	**724**	**829[1]**	**805**	**726[1]**	**817**	**627[1]**	**705**	**2,988[1]**	**3,051**
Taxes on income	**– 199[1]**	**– 176**	**– 198[1]**	**– 203**	**– 162[1]**	**– 198**	**112[1]**	**– 144**	**– 447[1]**	**– 721**
Net income	**607**	**548**	**631**	**602**	**564**	**619**	**739**	**561**	**2,541**	**2,330**
Attributable to non-controlling interests	10	**5**	7	**4**	–	**5**	5	**5**	22	**19**
Attributable to shareholders of Henkel AG & Co. KGaA	**597**	**543**	**624**	**598**	**564**	**614**	**734**	**556**	**2,519**	**2,311**
Earnings per preferred share in euros	**1.38**	**1.25**	**1.44**	**1.38**	**1.30**	**1.42**	**1.69**	**1.28**	**5.81**	**5.33**

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		1st quarter		2nd quarter		3rd quarter		4th quarter		Full year	
in million euros		2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
EBIT (as reported)		**823**	**739**	**839**	**814**	**750**	**833**	**643**	**730**	**3,055**	**3,116**
One-time gains		– 19	**– 11**	– 2	–	–	**–**	–	**–**	– 21	**– 11**
One-time charges		39	**30**	36	**32**	56	**46**	51	**21**	182	**129**
Restructuring expenses		11	**84**	36	**80**	91	**47**	107	**51**	245	**262**
Adjusted EBIT		**854**	**842**	**909**	**926**	**897**	**926**	**801**	**802**	**3,461**	**3,496**
Adjusted earnings per preferred share	in euros	**1.41**	**1.43**	**1.55**	**1.58**	**1.54**	**1.58**	**1.35**	**1.42**	**5.85**	**6.01**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).

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		2012	2013	2014	2015	2016	2017	2018
Results of operations								
Sales		16,510	16,355	16,428	18,089	18,714	20,029	**19,899**
Adhesive Technologies		8,256	8,117	8,127	8,992	8,961	9,387	**9,403**
Beauty Care		3,542	3,510	3,547	3,833	3,838	3,868	**3,950**
Laundry & Home Care		4,556	4,580	4,626	5,137	5,795	6,651	**6,419**
Corporate		155	148	128	128	121	123	**128**
Gross margin		46.8	47.7	47.0	48.2	47.9	46.7	**46.0**
Research and development expenses		408	415	413	478	463	476	**484**
Operating profit (EBIT)		2,199	2,285	2,244	2,645	2,775	3,055	**3,116**
Adhesive Technologies		1,191	1,271	1,345	1,462	1,561	1,657	**1,669**
Beauty Care		483	474	421	561	526	535	**589**
Laundry & Home Care		621	682	615	786	803	989	**970**
Corporate		–97	–141	–137	–164	–115	–126	**–112**
Income before tax		2,018	2,172	2,195	2,645	2,742	2,988[1]	**3,051**
Tax rate	in %	24.4	25.2	24.3	24.4	23.7	15.0[1]	**23.6**
Net income		1,526	1,625	1,662	1,968	2,093	2,541	**2,330**
Attributable to shareholders of Henkel AG & Co. KGaA		1,480	1,589	1,628	1,921	2,053	2,519	**2,311**
Net return on sales[2]	in %	9.2	9.9	10.1	10.9	11.2	12.7	**11.7**
Interest coverage ratio		14.3	23.9	48.4	75.7	107.9	59.2[1]	**56.0**
Net assets								
Total assets		19,525	19,344	20,961	22,323	27,951	28,339[1]	**29,623**
Non-current assets		11,927	11,360	14,150	15,406	19,738	19,864[1]	**20,941**
Current assets		7,598	7,984	6,811	6,917	8,213	8,475[1]	**8,682**
Equity		9,511	10,158	11,644	13,811	15,185	15,647[1]	**17,093**
Liabilities		10,014	9,186	9,317	8,512	12,766	12,692[1]	**12,530**
Equity ratio	in %	48.7	52.5	55.6	61.9	54.3	55.2[1]	**57.7**
Return on equity[3]	in %	17.6	17.1	16.4	16.9	15.2	16.7[1]	**14.9**
Operating debt coverage ratio	in %	>500	not relevant[4]	274.8	375.2	80.8	80.9[1]	**78.9**

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in million euros		2012	2013	2014	2015	2016	2017	2018
Financial position								
Cash flow from operating activities		2,634	2,116	1,914	2,384	2,850	2,468	**2,698**
Capital expenditures		516	465	2,214	979	4,430	2,511 [1]	**1,281**
Investment ratio	as % of sales	3.1	2.8	13.5	5.4	23.7	12.5 [1]	**6.4**
Shares								
Dividend per ordinary share	in euros	0.93	1.20	1.29	1.45	1.60	1.77	**1.83** [5]
Dividend per preferred share	in euros	0.95	1.22	1.31	1.47	1.62	1.79	**1.85** [5]
Total dividends		411	529	569	639	704	779	**805** [5]
Payout ratio	in %	25.6	30.0	30.0	30.2	30.3	30.7	**30.9** [5]
Share price, ordinary shares, at year-end	in euros	51.93	75.64	80.44	88.62	98.98	100.00	**85.75**
Share price, preferred shares, at year-end	in euros	62.20	84.31	89.42	103.20	113.25	110.35	**95.40**
Market capitalization at year-end	in bn euros	24.6	34.7	36.8	41.4	45.9	45.6	**39.3**
Employees								
Total [6]	(at December 31)	46,600	46,850	49,750	49,450	51,350	53,700	**53,000**
Germany		8,000	8,050	8,200	8,350	8,250	8,300	**8,500**
Abroad		38,600	38,800	41,550	41,100	43,100	45,400	**44,500**

[1] Prior-year figures amended (please refer to the notes on pages 140 and 141).
[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 8, 2019.
[6] Basis: permanent employees excluding apprentices.

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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
Capital invested in company assets and operations. 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: DCGK) 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 conformity
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 joint 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.

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 non-derivative financial instruments less borrowings, plus positive and minus negative fair values of hedging transactions.

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 the 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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Credits

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Annual General Meeting Henkel AG & Co. KGaA 2019:
Monday, April 8, 2019

Publication of Statement for the First Quarter 2019:
Tuesday, May 7, 2019

Publication of Report for the Second Quarter 2019 / Half Year 2019:
Tuesday, August 13, 2019

Publication of Statement for the Third Quarter 2019 / Nine Months 2019:
Thursday, November 14, 2019

Publication of Report for Fiscal 2019:
Thursday, March 5, 2020

Annual General Meeting Henkel AG & Co. KGaA 2020:
Monday, April 20, 2020