Annual Report 2017

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Our business units

Adhesive Technologies

Our top brands

LOCTITE

TECHNOMELT

TEROSON

Sales

+5.0 %

organic sales growth

Beauty Care

Our top brands

syoss

Sales

+0.5 %

organic sales growth

Laundry & Home Care

Our top brands

Persil

Purex

Sales

+2.0 %

organic sales growth

Key financials Adhesive Technologies

4

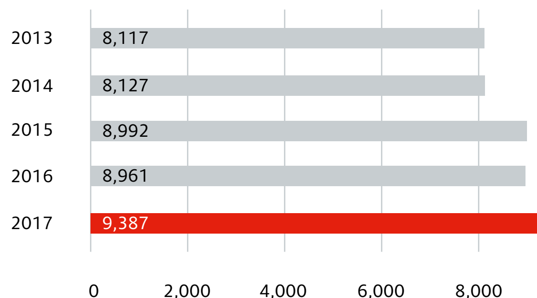
in million euros	2016	2017	+/–
Sales	8,961	**9,387**	4.8 %
Operating profit (EBIT)	1,561	**1,657**	6.1 %
Adjusted[1] operating profit (EBIT)	1,629	**1,734**	6.4 %
Return on sales (EBIT)	17.4 %	**17.7 %**	0.3 pp
Adjusted[1] return on sales (EBIT)	18.2 %	**18.5 %**	0.3 pp

pp = percentage points
[1] Adjusted for one-time charges / gains and restructuring expenses.

Sales Adhesive Technologies

5

in million euros



Key financials Beauty Care

6

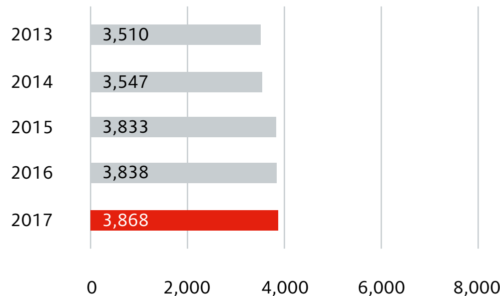
in million euros	2016	2017	+/–
Sales	3,838	**3,868**	0.8 %
Operating profit (EBIT)	526	**535**	1.7 %
Adjusted[1] operating profit (EBIT)	647	**665**	2.7 %
Return on sales (EBIT)	13.7 %	**13.8 %**	0.1 pp
Adjusted[1] return on sales (EBIT)	16.9 %	**17.2 %**	0.3 pp

pp = percentage points
[1] Adjusted for one-time charges / gains and restructuring expenses.

Sales Beauty Care

7

in million euros



Key financials Laundry & Home Care

8

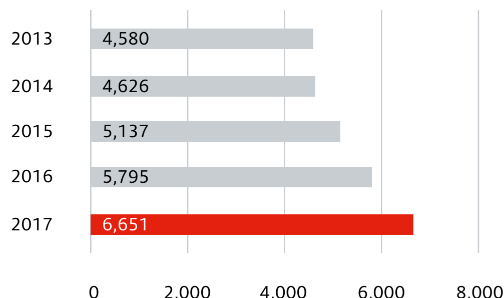
in million euros	2016	2017	+/–
Sales	5,795	**6,651**	14.8 %
Operating profit (EBIT)	803	**989**	23.2 %
Adjusted[1] operating profit (EBIT)	1,000	**1,170**	17.0 %
Return on sales (EBIT)	13.9 %	**14.9 %**	1.0 pp
Adjusted[1] return on sales (EBIT)	17.3 %	**17.6 %**	0.3 pp

pp = percentage points
[1] Adjusted for one-time charges / gains and restructuring expenses.

Sales Laundry & Home Care

9

in million euros



Highlights 2017

Sales	EBIT	EPS	Dividend
+3.1 %	17.3 %	5.85 euros	1.79 euros
organic sales growth	adjusted[1] return on sales (EBIT): up 0.4 percentage points	adjusted[1] earnings per preferred share (EPS): up 9.1 percent	dividend per preferred share[2]

Key financials

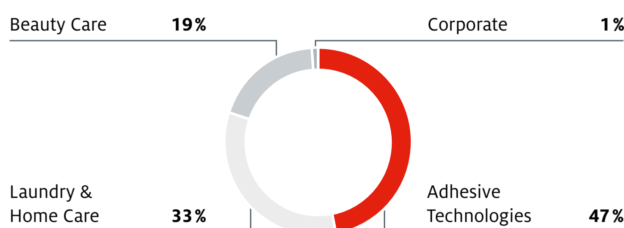
1

in million euros	2013	2014	2015	2016	2017	+/– 2016 – 2017
Sales	16,355	16,428	18,089	18,714	**20,029**	7.0 %
Operating profit (EBIT)	2,285	2,244	2,645	2,775	**3,055**	10.1 %
Adjusted[1] operating profit (EBIT)	2,516	2,588	2,923	3,172	**3,461**	9.1 %
Return on sales (EBIT) in %	14.0	13.7	14.6	14.8	**15.3**	0.5 pp
Adjusted[1] return on sales (EBIT) in %	15.4	15.8	16.2	16.9	**17.3**	0.4 pp
Net income	1,625	1,662	1,968	2,093	**2,541**	21.4 %
Attributable to non-controlling interests	36	34	47	40	**22**	– 45.0 %
Attributable to shareholders of Henkel AG & Co. KGaA	1,589	1,628	1,921	2,053	**2,519**	22.7 %
Earnings per preferred share in euros	3.67	3.76	4.44	4.74	**5.81**	22.6 %
Adjusted[1] earnings per preferred share in euros	4.07	4.38	4.88	5.36	**5.85**	9.1 %
Return on capital employed (ROCE) in %	20.5	19.0	18.2	17.5	**16.3**	– 1.2 pp
Dividend per ordinary share in euros	1.20	1.29	1.45	1.60	**1.77[2]**	10.6 %
Dividend per preferred share in euros	1.22	1.31	1.47	1.62	**1.79[2]**	10.5 %

pp = percentage points
[1] Adjusted for one-time charges / gains and restructuring expenses.
[2] Proposal to shareholders for the Annual General Meeting on April 9, 2018.

Sales by business unit 2017

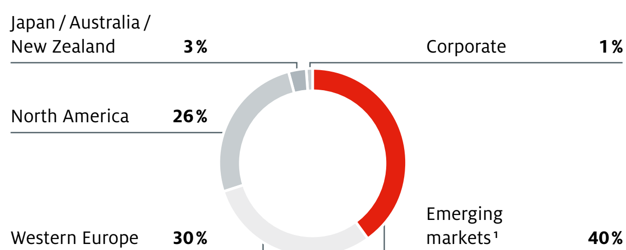
2



Corporate = sales and services not assignable to the individual business units.

Sales by region 2017

3



[1] Eastern Europe, Africa / Middle East, Latin America, Asia (excluding Japan).

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.

Hans Van Bylen
Chairman of the Management Board

“2017 was a successful year for Henkel: We delivered a strong business performance, achieved our financial targets for the year and made significant progress with key strategic initiatives and projects.”

Dear Shareholders and Friends of the Company,

2017 was a very good year for Henkel. Despite challenging and volatile market conditions, we achieved our financial targets for the year and reached new record levels in sales and earnings. For the first time, we exceeded annual sales of more than 20 billion euros. This is an important milestone for our company. We also delivered record margins and new highs in adjusted[1] earnings per share. Our business performance was once again driven by our strong brands, leading technologies and winning innovations as well as a clear focus on costs.

We focused on the implementation of our strategic priorities and made substantial progress with many key strategic initiatives and projects. In the course of the year, we also agreed and closed several acquisitions which will complement and further strengthen our portfolio in both our consumer and our industrial businesses. Our excellent performance in sustainability was again confirmed by international rating agencies, and Henkel was recognized as one of the global "industry leaders" in sustainability.

The successful development of our company in 2017 has been achieved thanks to more than 53,000 creative, passionate and motivated Henkel employees around the world. It is their commitment and entrepreneurial spirit which make the difference in a highly competitive market environment. They are united by shared values and inspired by a strong common purpose: to create sustainable value for all our stakeholders.

On behalf of the Management Board and you, our shareholders and friends of the company, I would like to thank our employees for their contributions to our business success in 2017.

Strong performance in 2017

In fiscal 2017, we delivered on our financial targets for the year and reported new highs for sales, profitability and earnings.

Henkel Group sales grew to 20,029 million euros compared to 18,714 million euros in the previous year. Organic sales growth was at 3.1 percent. Adjusted earnings before interest and taxes (EBIT) rose by 9.1 percent to 3,461 million euros compared to 3,172 million euros. Adjusted return on sales increased to 17.3 percent compared to 16.9 percent. Adjusted earnings per preferred share (EPS) grew to 5.85 euros, an increase of 9.1 percent compared to 5.36 euros in the previous year.

+3.1 % organic sales growth.

17.3 % adjusted[1] return on sales.

+9.1 % adjusted[1] earnings per preferred share.

All three business units contributed to the overall business performance in 2017. Emerging markets generated total sales of 8,130 million euros and very strong organic growth of 5.3 percent. We also achieved positive organic sales growth in our mature markets.

The development of our share price, however, was mixed. After reaching their highest level to date in June, Henkel shares developed weaker than the DAX. Henkel preferred shares closed 2017 slightly below the prior-year level and the ordinary shares slightly above.

At our Annual General Meeting on April 9, 2018, we will propose to our shareholders a dividend payment of 1.79 euros per preferred share. This is a new high and represents an increase of 10.5 percent compared to the 1.62 euros paid out in 2017.

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

Shaping our future

Through to 2020 and beyond, we will be pursuing clear ambitions for Henkel. We want to generate more profitable growth and to become more customer-focused, innovative, agile and digital. In addition, we aim to promote sustainability in all business activities along the entire value chain and reinforce our leading position in this field.

To achieve these ambitions, we have defined four strategic priorities: drive growth, accelerate digitalization, increase agility and fund growth.

In 2017, we successfully implemented a number of strategic initiatives and projects to drive growth in both mature and emerging markets. Specific programs in our industrial and consumer businesses helped us to deepen our engagement with customers. This led to more frequent exchanges, deeper understanding, more joint projects and an increasing share of sales with our top 10 customers in each of our three business units.

We further strengthened our leading brands and technologies through targeted investments. We increased the speed and quality of innovations across all business units through specific initiatives. These resulted in shorter innovation cycles and higher first-year sales from innovations.

To capture new sources of growth, we set up a dedicated Corporate Venture Capital unit, combining all venture activities at Henkel. This unit explores new technologies, applications and business models of strategic interest for our company.

We successfully progressed the integration of The Sun Products Corporation acquired in 2016. The integration process is well underway and the newly combined North American Laundry & Home Care business recorded a very good performance in 2017.

We also agreed and closed several acquisitions with a total value of around 2 billion euros in our industrial and consumer businesses. They will complement our portfolio and strengthen our competitiveness.

Accelerating digitalization is key to successfully growing our business, strengthening the relationships with our customers and consumers, optimizing our processes and transforming the entire company. In 2017, we further digitized our interactions with customers, consumers, business partners and suppliers along the entire value chain. Digitally driven sales increased double-digit across all our business units. We also focused on leveraging the full potential of Industry 4.0 for Henkel and progressed the digitalization of our integrated Global Supply Chain.

We expanded specific training and development programs for employees to strengthen the digital capabilities of our company. In addition, we established the position of a Chief Digital Officer with a dedicated organization to lead and facilitate the digital transformation across all business units.

In order to create a more agile organization, we have fostered the entrepreneurial spirit of our employees, promoted openness to change and aimed to expand employees' decision-making power.

As part of our fastest time-to-market initiatives, we reduced innovation lead times and accelerated entries into new markets. We also introduced more flexible business models to better adapt to dynamic markets, and further optimized workflows and processes.

As part of our strategic priority to fund growth, we began to implement our ONE!ViEW initiative, which aims to optimize cost management through increased global cost transparency and improved budget allocation.

We continued to drive forward expansion of our Global Supply Chain. In addition, we introduced net revenue management across all business units and further increased efficiency in our structure, for example through new approaches in our shared service centers focusing on automation and robotics.

Henkel has a long-standing commitment to sustainability. Based on a clear strategy with defined targets up to 2020 and 2030, we drive sustainable practice within our own operations as well as along the entire value chain – from our suppliers to our customers and consumers.

Our progress and performance were once again recognized in numerous rankings and ratings in 2017. For example, Henkel was named “industry leader” in the global Dow Jones Sustainability Index. This was only possible thanks to our highly committed employees. In 2017, we enabled our employees globally through dedicated engagement and training programs to become Sustainability Ambassadors.

Thank you for your trust and confidence

In summary, 2017 was a successful year for Henkel: We delivered a strong business performance, achieved our financial targets for the year and made significant progress with key strategic initiatives and projects. We are building on a strong foundation and will continue our successful development in the future.

On behalf of the Management Board, I would like to thank our supervisory bodies for their valuable advice and I would also like to thank you, our shareholders, for your continued trust and support. In addition, we would like to thank our customers and consumers around the world for their confidence in our company, our strong brands and our leading technologies.

We are fully committed to creating sustainable value and to continuing the successful, long-term development of our company.

Düsseldorf, January 30, 2018

Sincerely,

Hans Van Bylen
Chairman of the Management Board

Dr. Simone Bagel-Trah
Chairwoman of the Shareholders' Committee and the Supervisory Board

"We believe that Henkel is well equipped for the future and are confident that we will be able to move the company further forward."

Dear Shareholders and Friends of the Company,

The economic and political environment in which Henkel operates again proved to be challenging in 2017, with widespread economic and political uncertainty prevailing. Global economic growth was moderate overall. The underlying conditions on the consumer goods markets were difficult. Adverse currency effects strengthened as the year progressed. In spite of these challenges, we are very satisfied with developments in fiscal 2017. Henkel's business performance was again strong, with both sales and profits reaching new all-time highs. All of our business units contributed to this success.

The implementation of our strategic priorities also progressed well in the fiscal year just ended.

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

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

Ongoing dialog with the Management Board

The Supervisory Board continued to discharge its duties diligently in fiscal 2017 in accordance with the legal statutes, Articles of Association and rules of procedure governing its actions. In particular, we consistently monitored the work of the Management Board, advising and supporting it in its stewardship, in the strategic development of the corporation, and in decisions relating to matters of major importance.

The Management Board and Supervisory Board continued to cooperate in 2017 through extensive dialog founded on mutual trust and confidence. The Management Board kept us regularly and extensively informed of all major issues affecting the corporation's business and our Group companies with prompt written and oral reports. Specifically, the Management Board reported on the business situation, operational development, business policy, profitability issues, our short-term and long-term corporate, financial and personnel plans, as well as capital expenditures and organizational measures. Reports for the year and the half year 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.

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 97 percent and around 92 percent respectively.

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

Major issues discussed at Supervisory Board 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.

In our meeting on February 21, 2017, we discussed the annual and consolidated financial statements for 2016, including the combined management report for Henkel AG & Co. KGaA and the Group, together with the risk report and corporate governance report. We also approved both the 2017 Declaration of Compliance and our proposals for resolution by the 2017 Annual General Meeting. A detailed report of this was included in our last Annual Report. At the same meeting, we discussed how the implementation of our globally centralized and integrated supply chain, including purchasing, was progressing, as well as learning more about the workflows at ONE!Global Supply Chain headquarters.

As well as discussing market and competitive conditions and the performance of our business units over the first few months of the fiscal year, our meeting on April 6, 2017, focused on our Human Resources (HR) initiatives and ambitions, together with our HR management plans for the coming years. Henkel is striving to foster an inspirational and motivational corporate culture with agile and innovative teams and to expand the digitalization of our organizational structure, which will include new digital training formats and smart HR system applications. We also talked in depth about the innovation strategies of our business units, including discussion of the associated product launches and research projects.

In addition to discussing the performance of our business units over the first eight months of the year, another key item on the agenda for our meeting on September 15, 2017, was the non-financial reporting regime required under the European Union's new (EU) Corporate Social Responsibility (CSR) Directive, and the procedure for auditing the same. We also examined in more detail our progress in the field of sustainability, and discussed in depth the status of implementation of our Henkel 2020+ strategy in the individual business units.

Our meeting on December 15, 2017, focused on the expected results for 2017 and our assets and financial planning for fiscal 2018. We also discussed in detail the associated budgets of our business units based on 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 35 to 46) and the membership lists on page 185 of this Annual Report.

Committee activities

Following the appointment of the external auditor by the 2017 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 interim financial reports for 2017. The audit fee and focus areas of the audit were also established. 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. Agreement was also 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. The Audit Committee also engaged the external auditor to review the contents of the separate, combined non-financial statement for Henkel AG & Co. KGaA and the Group, which was compiled as a separate non-financial report on the basis of the former sustainability 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 Chair of the Committee reported promptly and in full to the plenary Supervisory Board on the content and results of each of the Committee meetings.

The company and Group accounts, including the interim financial reports (quarterly statements and financial report for the half year) were discussed at all Audit Committee meetings, with all 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 reviews 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 greater 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 reviewed, based on the risk reports of previous years. In addition, the Audit Committee received the report of the General Counsel & Chief Compliance Officer regarding major litigations and compliance issues within the Group, as well as the status report of the Head of Internal Audit, and approved the audit plan prepared and submitted by Internal Audit. This extends to examining the functional efficiency and efficacy of the internal control system and our compliance organization. The Audit Committee likewise discussed treasury risks and their management. A further key item for discussion was the mandatory rotation of auditors, which requires a new bidding procedure for the contract to audit the financial statements from fiscal 2020 onward. An initial assessment of potential candidates was performed on the basis of the Audit Committee's definition and weighting of evaluation criteria. The selection process consists of multiple stages that will culminate in the definitive proposal of two candidates to the Supervisory Board at the end of 2019.

At its meeting on February 20, 2018, 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 2017, 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 year 2018. A declaration from the auditor asserting its independence was again duly received, accompanied by details pertaining to non-audit services rendered in fiscal 2017 and those envisioned for fiscal 2018. 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.

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

Efficiency audit

The Supervisory Board and Audit Committee regularly review the efficiency with which they perform their duties, based on a comprehensive, company-specific checklist. The checklist covers important aspects such as meeting preparation and procedure, the scope and content of documents and information – particularly with respect to financial reports, compliance and audits – as well as financial control and risk management. Such a survey took place in the reporting year. The results and assessments were examined in detail in the meeting of the Audit Committee on February 20, 2018, and the meeting of the Supervisory Board on February 21, 2018, where issues of corporate governance and opportunities for improvement were also discussed. The efficiency with which the Supervisory Board and Audit Committee carry out their duties and the required independence of their membership were duly confirmed.

Corporate governance and declaration of compliance

The Supervisory Board again dealt with questions of corporate governance in the reporting year. Our meeting on September 15, 2017, focused in particular on reviewing and updating our objectives with regard to Supervisory Board composition to reflect both the diversity requirements specified in the CSR Directive Implementation Act and the amendments to the German Corporate Governance Code [DCGK]. Details of this and of Henkel's corporate governance can be found in the management report on corporate governance (pages 35 to 46 of this Annual Report), with which we fully acquiesce.

At our meeting on February 21, 2018, we discussed and approved the joint declaration of compliance for 2018 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 2017 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 2017. 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 315 a (1) German Commercial Code [HGB]. The consolidated financial statements in their present form exempt us from the requirement to prepare consolidated financial statements in accordance with German law.

KPMG conducted its audits in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany [Institut der Wirtschaftsprüfer, IDW]. Unqualified audit opinions were issued for the annual and the consolidated financial statements, 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 2017 as compiled by the Management Board to ensure its contents 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 2017 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 2017 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 21, 2018, 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 to 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 21, 2018, 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 1.77 euros per ordinary share and of 1.79 euros per preferred share, and to carry the remainder and the amount attributable to the treasury shares held by the company 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 21, 2018, 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 2018 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 not only by the Audit Committee but also by the plenary Supervisory Board, with emphasis on the risk management system in place at Henkel and any major individual risks of which we needed to be notified. There were no identifiable risks that might jeopardize the continued existence of the corporation as a going concern. The structure and function of the risk early warning system were also integral to the audit performed by KPMG, which found no cause for reservation. It is also our considered opinion that the risk management system corresponds to the statutory requirements and is fit for the purpose of early identification of developments that could endanger the continuation of the corporation as a going concern.

Changes in the Supervisory Board and Management Board

As already reported last year, employee representative Mayc Nienhaus left the Supervisory Board and was replaced by Angelika Keller, effective January 1, 2017.

Pascal Houdayer, responsible for the Beauty Care business unit since March 1, 2016, left the Management Board by mutual agreement. Effective November 1, 2017, Jens-Martin Schwärzler was appointed to the Management Board as the member responsible for the Beauty Care business unit.

We thanked the departing members of the Supervisory Board and Management Board for their dedication to the interests of the company.

We were delighted to be able to fill the vacancy on the Management Board internally with an experienced executive: Jens-Martin Schwärzler has been working for Henkel since 1992. Prior to his appointment to the Management Board, he was responsible for Henkel's consumer goods business in North America. Under his leadership, Henkel successfully launched leading brands such as Persil and Schwarzkopf in the North American market and integrated The Sun Products Corporation acquired by Henkel in 2016. We wish Jens-Martin Schwärzler every success in his new role.

Fiscal 2017 was a very successful year for Henkel. The coming year will continue to pose further challenges for both our employees and the company's management. Many of the issues and changes we focused on in 2017 will continue to occupy us in the coming fiscal year. We believe that Henkel is well equipped for the future and are confident that we will be able to move the company further forward.

We thank you for your ongoing trust and support.

Düsseldorf, February 21, 2018

On behalf of the Supervisory Board

Dr. Simone Bagel-Trah
(Chairwoman)

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.

Hans Van Bylen

Chairman of the
Management Board

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

Kathrin Menges

Executive Vice President
Human Resources /
Infrastructure Services

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

Carsten Knobel

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

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

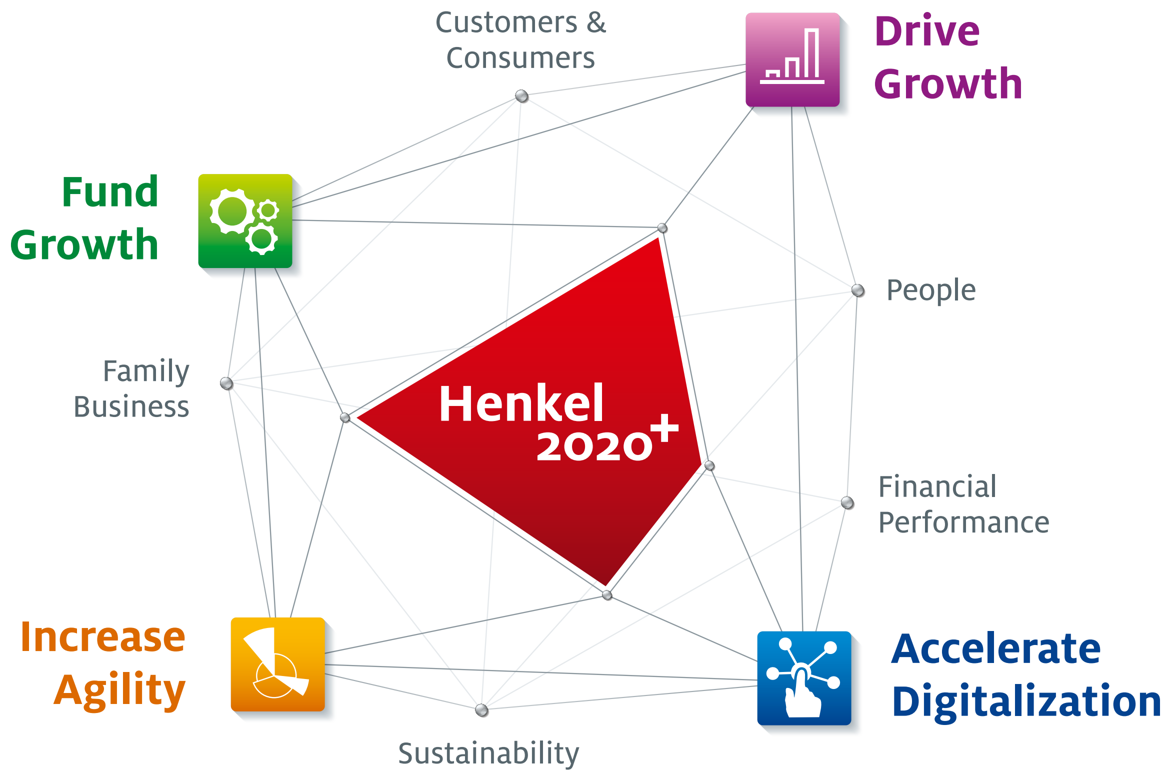
Focusing on our strategic priorities

We are shaping our future with a strong entrepreneurial spirit based on an inspiring purpose and a common vision for the future, which unite everyone at Henkel. Our actions are guided by clear values.

For more than 140 years now, Henkel has been driven by a strong entrepreneurial spirit that is part of our company's DNA. Always starting up – with new ideas, new businesses, new markets and new ways. And we want to make a difference with what we do. We want to create sustainable value – for our customers and consumers, our people, our shareholders and for the wider society and the communities in which we operate. This is our purpose.

In a highly volatile and increasingly complex business environment, we pursue a long-term strategy to sustain our profitable growth. We have defined four strategic priorities to guide our actions through to 2020 and beyond: drive growth, accelerate digitalization, increase agility and fund growth. In 2017, we successfully implemented and progressed a number of key strategic initiatives and programs.

To ensure that all employees understand our strategic direction and how they can actively contribute to the successful implementation of our initiatives, we have introduced a wide range of engaging internal communication formats. A global strategy survey among more than 10,000 management employees confirmed the high level of understanding and commitment to our strategic priorities.



Drive growth

Driving growth in mature and emerging markets is a key strategic priority for Henkel. In order to achieve this, we focus on targeted initiatives to create superior customer and consumer engagement, 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. By 2020, 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 initiatives as well as smart and simplified processes.

Fund growth

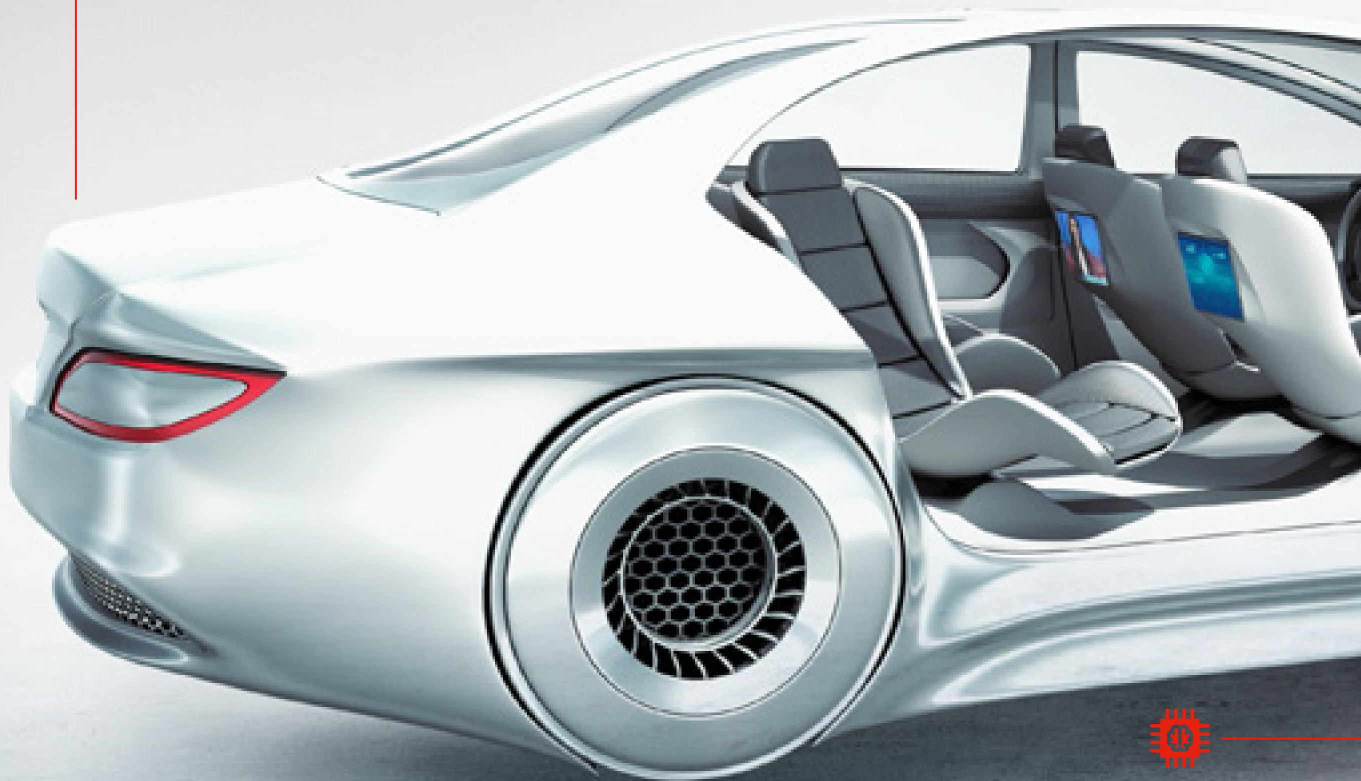
In order to fund growth, we implement new approaches to optimize resource allocation, focus on net revenue management, further increase efficiency in our structures, and continue to expand our Global Supply Chain organization. Together, these initiatives will contribute to further improving profitability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

Lightweight construction

Our material solutions help to compensate the added weight of batteries and electronics. This will not only increase the driving range of cars, but also improve their sustainability.

Self-driving

Cameras, sensors and radar technology transfer data and information to high-performance assistance systems in real time. We offer up to 10 different applications for one camera.



Intelligence

As many as 100 miniature computers will process the data, making driving safer and more comfortable. Our innovative applications protect automotive electronics, enabling better performance and a longer service life.

The automotive industry is undergoing a fundamental transformation: eMobility, new technologies to enable smart mobility and autonomous driving are just some examples. Thanks to our leading portfolio of technologies, our capabilities to innovate and develop individual solutions, our global presence and our strong partnerships with manufacturers along the entire value chain in the automotive industry, Henkel is well positioned to actively contribute to the transformation of this industry.

Driving innovation

Displays

Our innovations contribute significantly to achieving the best image quality and longest service life possible for displays, as well as enabling new designs and additional functions.

Battery technology

Our leading solutions, which include thermal compounds, structural adhesives and functional coatings, make batteries more effective and also more cost-efficient.

Henkel's Adhesive Technologies business unit has a unique and leading portfolio of technologies to make cars safer, more sustainable and smarter.

The use of new materials makes cars lighter and ensures safety and comfort at the same time. These lightweight materials can often only be bonded together by innovative adhesives, replacing the need for traditional welding.

Cars will also become more intelligent thanks to the use of digital devices and permanent connection to the internet. Our adhesives products play an important role in the digitalization of the car of tomorrow: They insulate sensors and cameras, manage the temperature of processors and protect the wiring in the car.

Our solutions can also be found in the increasing number of displays which support the driver with real-time information or entertain passengers.

www.henkel.com/futurecar

Connecting with our customers

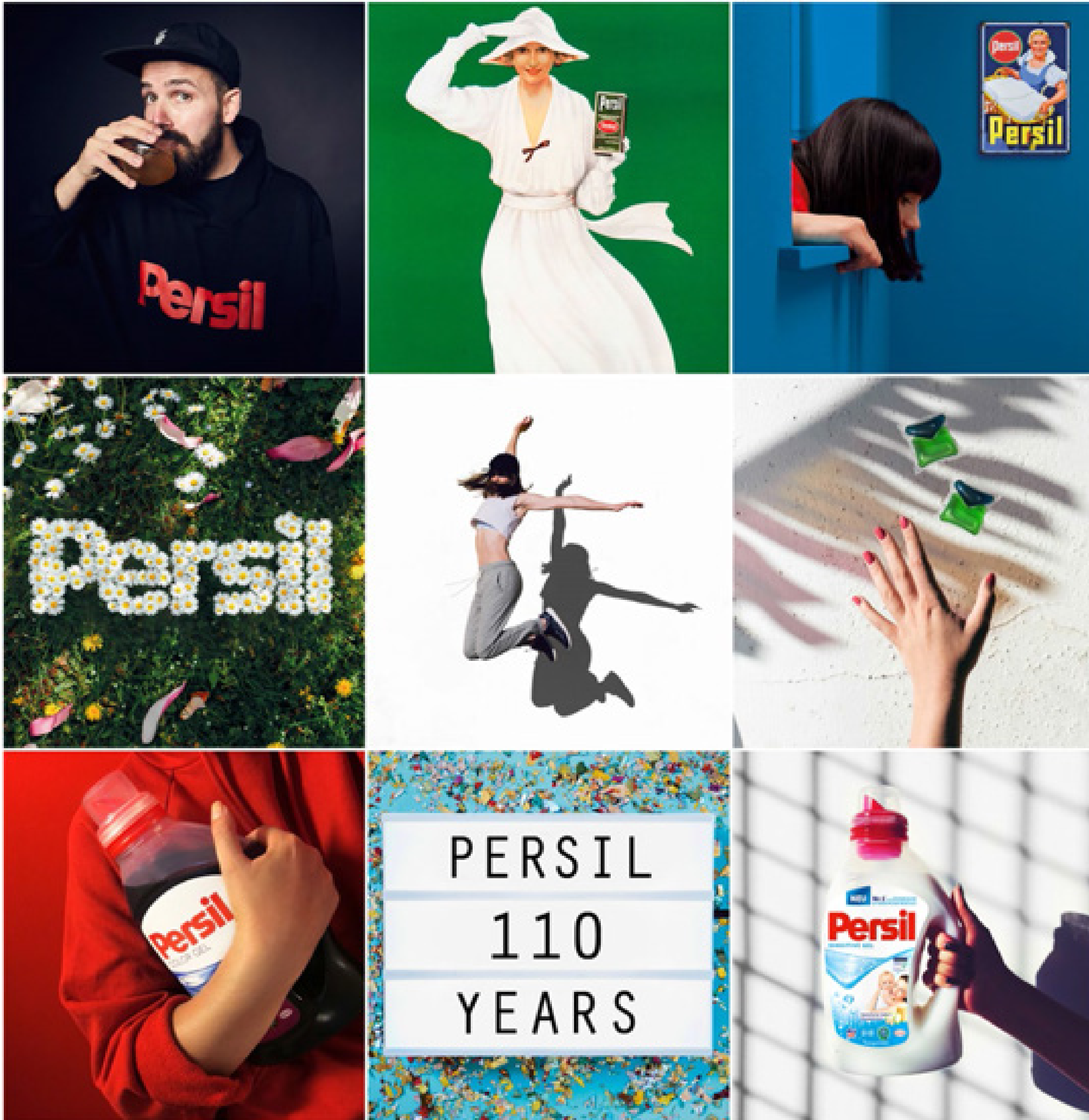
Henkel Beauty Care is one of the leading beauty businesses worldwide, serving both the retail and the professional markets. In our Hair Salon business, we partner with our customers, professional hairdressers around the world. With our innovations and knowledge, we help them to create new styles. We also jointly develop and market new coloring and styling products. In 2017, we successfully launched #mydentity haircolor together with Guy Tang, a leading hairdresser and social media influencer.

Guy Tang is a hairdresser from Los Angeles who has a combined online following of more than 4 million, most of them hairdressers and hair stylists. With his work and social media activities, he inspires his online community and provides education on how to create unique new hair colors and styles.

#mydentity allows hairdressers to develop customized colors and exclusive hair styles for their clients. The products are marketed entirely via digital channels and have been very successful in the USA, the world's leading hair professional market.

Over recent years, Henkel has successfully strengthened its position in this market, through both organic growth and targeted acquisitions, and has become one of the top three hair professional businesses in the USA.

www.mydentitycolor.com



Persil is an iconic brand – not only in Germany where it was born in 1907, but also in more than 50 countries globally, including Europe, North America, the Middle East and Asian markets. Excellent performance and constant innovation have always been the drivers of Persil's success. In German we say: "Persil stays Persil, because it never stays Persil." This sentence summarizes our promise to constantly deliver premium cleanliness, convenience and innovation to consumers worldwide. In 2017, we were proud to celebrate the 110th anniversary of Persil.

Leveraging iconic brands

Persil is one of the top brands for Henkel and the biggest brand for our Laundry & Home Care business, generating sales of more than 1 billion euros in 2017. The successful evolution of this brand is driven by a continued commitment to quality, sustainability and innovation.

In 2017, we celebrated Persil's birthday with a successful social media campaign – influencers from around the world posted pictures and comments on Instagram using the hashtag #persil110years.

Over the decades, the brand has consistently set the standard with milestones in detergent-related research and development. In 2017, we successfully launched Persil Clean & Smooth, which helps consumers make ironing easier while protecting garments from creasing.

www.instagram.com/persil_de

Advancing digital in Finance

In our global Finance organization, we enable the successful steering of our businesses through transparent financial information and analysis, real-time reports, agile end-to-end processes and advanced data analytics. This provides us with deeper insights and enables us to better understand our markets, to assess risks and to identify opportunities – helping us in turn to further optimize the efficiency of our internal processes.

Digitalization has become the backbone of our financial management and our processes. It is a key driver of our Finance organization – from Corporate Finance to our shared service centers as well as our integrated Global Supply Chain, which combines global purchasing, production and logistics.

The amount and complexity of business and market data are constantly growing. That is why excellent data management has become a driver of competitive advantage. The ability to ask the right questions, to know how to analyze data and draw the right conclusions makes the difference in today’s competitive environment. In our Integrated Business Solutions organization, we have a dedicated team for data analytics providing our businesses with valuable insights to enable better and faster decisions based on real-time data.

In addition, we are leveraging the potential of software automation and robotics in our shared service centers to further optimize our process efficiency.

Virtual learning

Constant learning, developing new capabilities and sharing knowledge have become essential factors for our company's success. That is why we offer our employees a broad range of learning programs and opportunities to acquire new capabilities. Digital learning platforms play an increasingly important role in our efforts to constantly train and upskill our global organization.

Digital learning platforms give our employees fast and flexible access to a wide range of training content. The Henkel Global Academy is our central learning platform, open to everyone at Henkel to learn about business and technologies, improve management and leadership skills or refine specific capabilities.

A variety of different programs, eLearning modules and instructional videos by renowned experts are available on the Academy website.

We encourage our workforce to integrate knowledge-building exercises into their everyday work routines.

In 2017, we further extended our offering through a collaboration with Lynda.com, adding more than 9,500 courses in English, German and Spanish and around 150,000 videos. These learning modules are updated regularly and can also be used on mobile devices.

www.henkel.com/careers

Digitalization changes the way we do business and interact with our customers and consumers, as well as how we run our company day by day. We are committed to accelerate digitalization along the entire value chain – this is one of our strategic priorities. We are doing this by driving our digital businesses, by leveraging Industry 4.0 and by promoting the digital transformation of our organization. In 2017, we made substantial progress in all dimensions.

Accelerating digitalization

By 2020, we aim to double our digital sales compared to 2016, to more than 4 billion euros. In our consumer businesses, we partner with retailers to support their transition to omni-channel offerings. In our industrial business, we run our own state-of-the-art eCommerce platform for industrial customers, offering an integrated user experience.

We also see significant potential in leveraging Industry 4.0 in our operations. By fully digitizing our value chain – from planning and purchasing via production to logistics – we aim to increase efficiency, improve service quality and contribute to sustainability. Already today, more than 500 million data points are registered and processed daily in our global supply chain.

A key success factor will be the digital transformation of our organization. We are supporting this transition through agile and flexible working, a test and learn mentality as well as specific training offerings.

www.henkel.com/spotlight/industry-4-0

Celebrating our ambassadors

When it comes to implementing our sustainability strategy, it is our people around the world who make the difference – through their dedication, skills and knowledge. Day by day they contribute to sustainable development at Henkel: They engage with multiple stakeholders and create more value for our customers, consumers and society. They are our Sustainability Ambassadors.

Henkel has a long-standing commitment to sustainability and is widely recognized for its performance in this field. To engage our employees and drive our sustainability strategy, we launched our global Sustainability Ambassador program in 2012. Since then, more than 50,000 employees have successfully completed the program via eLearning or through team training sessions.

We want to motivate our employees to become involved and lead by example. With their skills and knowledge, they can make a visible contribution to sustainability at our sites, by engaging with our business partners and consumers, and in the communities in which we operate.

For example, Henkel's Sustainability Ambassadors are encouraged to volunteer in various social projects or to visit schools to teach children about sustainable behavior.

www.henkel.com/sustainability

Shares and bonds

Henkel share price performance varied in 2017. Over the course of the first six months, Henkel shares largely tracked the positive trend of the market as a whole. Within this environment, Henkel preferred shares reached an all-time high on June 19, 2017, of 128.90 euros. On the same day, the ordinary shares also recorded their highest price ever, 113.70 euros.

From August onward, Henkel share performance lagged behind its benchmarks. Henkel preferred shares closed the year at 110.35 euros, down 2.6 percent, while the ordinary shares posted a slight gain, closing at 100.00 euros or 1.0 percent higher. The preferred shares traded at an average premium of 13.5 percent over the ordinary shares in 2017.

Over the course of the year, the DAX rose by 12.5 percent to 12,918 points. The EURO STOXX® Consumer Goods Index closed at 712 points, also up 12.5 percent. Henkel shares therefore underperformed both the DAX and the European consumer goods index.

Year on year, the trading volume (Xetra) of preferred shares showed a slightly declining trend. Each trading day saw an average of around 465,000 preferred shares changing hands (2016: around 473,000). The average volume for our ordinary shares also decreased to around 85,000 shares per trading day (2016: 89,000). The market capitalization of our ordinary and preferred shares was virtually unchanged as of year-end at 45.6 billion euros.

Henkel shares have proven to be an attractive investment for long-term investors. Shareholders who invested the equivalent of 1,000 euros when Henkel preferred shares were issued in 1985, and re-invested the dividends received (before tax deduction) in the stock, had a portfolio value of 36,539 euros at the end of 2017. This represents an increase in value of 3,554 percent or an average yield of 11.8 percent per year. Over the same period, the DAX provided an annual return of 7.8 percent. Over the last five and ten years, the Henkel preferred share has shown an average yield of 12.1 percent and 11.1 percent per year respectively, offering a significantly higher return than the average DAX returns of 11.1 percent and 4.8 percent per year for the same periods.

Key data on Henkel shares 2013 to 2017

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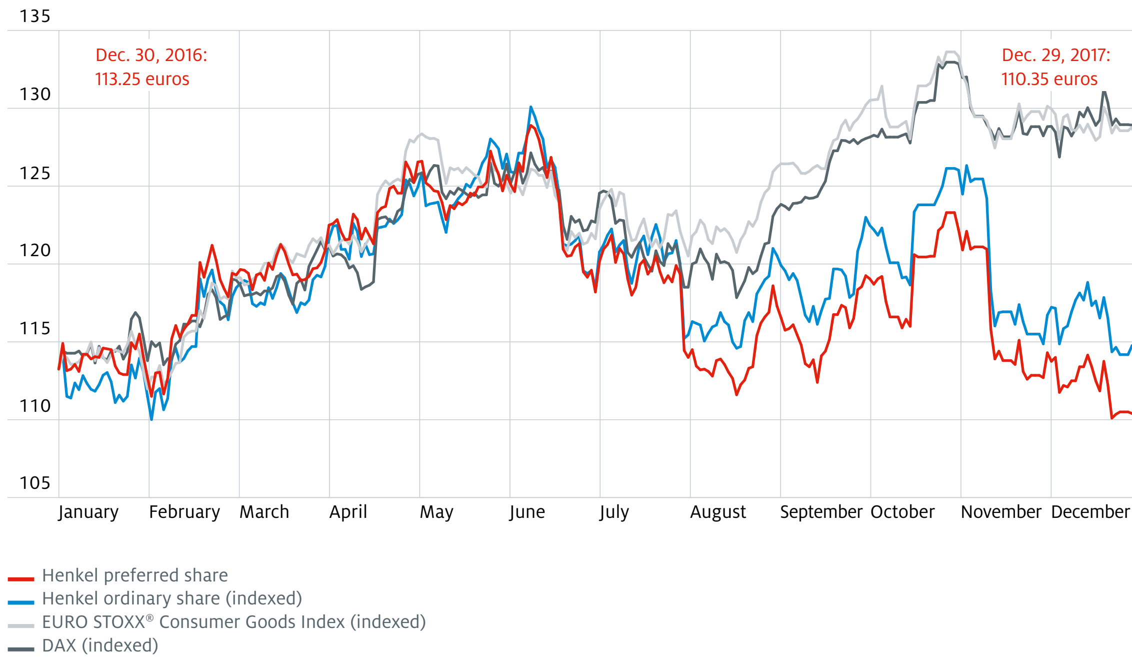
in euros	2013	2014	2015	2016	2017
Earnings per share					
Ordinary share	3.65	3.74	4.42	4.72	**5.79**
Preferred share	3.67	3.76	4.44	4.74	**5.81**
Share price at year-end [1]					
Ordinary share	75.64	80.44	88.62	98.98	**100.00**
Preferred share	84.31	89.42	103.20	113.25	**110.35**
High for the year [1]					
Ordinary share	75.81	80.44	99.26	105.45	**113.70**
Preferred share	84.48	90.45	115.20	122.90	**128.90**
Low for the year [1]					
Ordinary share	50.28	67.00	76.32	77.00	**96.15**
Preferred share	59.82	72.64	87.75	88.95	**110.10**
Dividend					
Ordinary share	1.20	1.29	1.45	1.60	**1.77** [2]
Preferred share	1.22	1.31	1.47	1.62	**1.79** [2]
Market capitalization [1] **in bn euros**	**34.7**	**36.8**	**41.4**	**45.9**	**45.6**
Ordinary shares in bn euros	19.7	20.9	23.0	25.7	**26.0**
Preferred shares in bn euros	15.0	15.9	18.4	20.2	**19.6**

[1] Closing share prices, Xetra trading system.
[2] Proposal to shareholders for the Annual General Meeting on April 9, 2018.

Performance of Henkel shares versus market January through December 2017

11

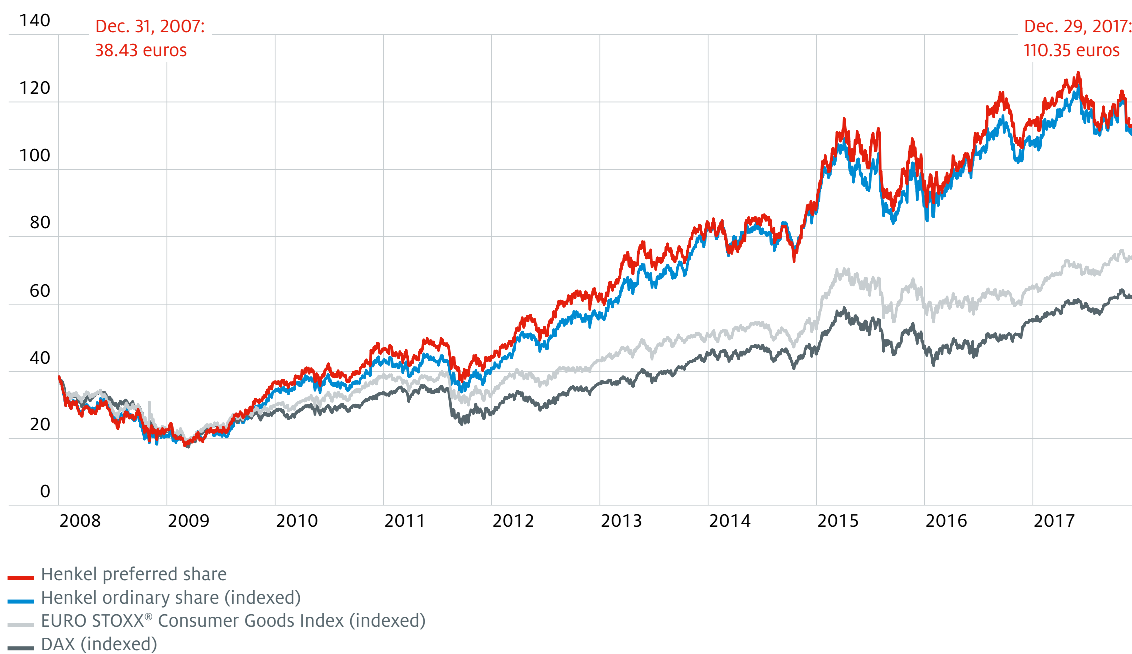
in euros



Performance of Henkel shares versus market 2008 through 2017

12

in euros



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 1.8 million (2016: 1.5 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.

61.02%
of voting rights are held by members of the Henkel family share-pooling agreement.

Share data 13

	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 14

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

At year-end 2017, the market capitalization of the preferred shares included in the DAX index was 19.6 billion euros. Henkel thus ranked 19th (2016: 18th), or 23rd (2016: 22nd) in terms of trading volume. Our DAX weighting decreased to 1.85 percent (2016: 2.10 percent).

Once again our advances and achievements in sustainable management earned recognition from external experts in 2017. The quality of our communication and 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.

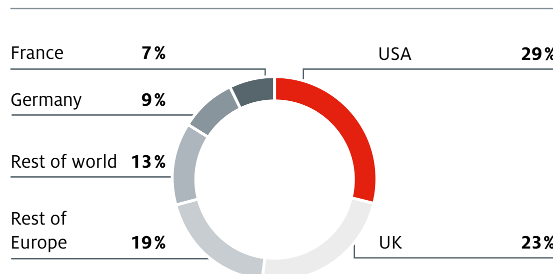
Henkel has been represented in the ethics index FTSE4Good since 2001, and in the STOXX® Global ESG Leaders index family since its launch by Deutsche Börse in 2011. Our membership in the Ethibel Pioneer Investment Register and the sustainability indices Euronext Vigeo World 120, Europe 120 and Eurozone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

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, 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 company, members of the Henkel family share-pooling agreement owned a majority of the ordinary shares amounting to 61.02 percent as of December 17, 2015. 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, 2017, treasury stock amounted to 3.7 million shares.

Shareholder structure: Institutional investors holding Henkel shares 15



At November 30, 2017
Source: Nasdaq.

Employee share program

Since 2001, Henkel has offered an employee share program (ESP). For each euro invested in 2017 by an employee (limited to 4 percent of salary up to a maximum of 4,992 euros per year), Henkel added 33 eurocents. Around 11,600 employees in 54 countries purchased Henkel preferred shares under this program in 2017. At year-end, some 14,600 employees held a total of around 2.4 million shares, representing approximately 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 93,702 euros at the end of 2017. This represents an increase in value of around 388 percent or an average yield of around 11.1 percent per year.

Henkel bonds

Henkel issued fixed-rate bonds with a total volume of 2.2 billion euros in 2016: one with a volume of 500 million euros, a term of two years and a coupon rate of 0 percent per year; a second with a volume of 700 million euros and a term of five years, which bears interest of 0 percent per year. A further eurodollar bond with a volume of 750 million US dollars was placed with a coupon rate of 1.5 percent per year and a term of three years, together with a 300 million British pound bond issue with a term of six years and a coupon rate of 0.875 percent per year.

Henkel placed a 600 million US dollar bond in the eurodollar market in June 2017. The bond has a term of three years and a coupon rate of 2.0 percent. The proceeds from the issue were used to finance Henkel's acquisitions. The bond was substantially oversubscribed and attracted widespread interest among international investors.

Further information can be found on the website:

Bond data 16

	2016				2017
	Tranche 1	**Tranche 2**	**Tranche 3**	**Tranche 4**	
Currency	EUR	EUR	USD	GBP	USD
Volume	500 million	700 million	750 million	300 million	600 million
Coupon	0% p.a.	0% p.a.	1.5% p.a.	0.875% p.a.	2.0% p.a.
Maturity	9/13/2018	9/13/2021	9/13/2019	9/13/2022	6/12/2020
Issue price	100.10%	100%	99.85%	99.59%	99.78%
Issue yield	−0.05% p.a.	0% p.a.	1.55%	0.95%	2.08%
Interest calculation	Act / Act (ISMA)	Act / Act (ISMA)	30 / 360 (ISMA)	Act / Act (ISMA)	30 / 360 (ISMA)
Denomination	1,000 EUR	1,000 EUR	2,000 USD	1,000 GBP	2,000 USD
Sec. code no.	A2BPAW	A2BPAX	A2BPAY	A2BPAZ	A2E4FR
ISIN	XS1488370740	XS1488418960	XS1488419695	XS1488419935	XS1626039819
Listing	Regulated Market of the Luxembourg Stock Exchange				

Pro-active capital market communication

An active and open communication policy ensuring prompt and continuous information dissemination 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 Henkel Group. All stakeholders are treated equally in this respect. All such information is also promptly made available on the internet.

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 announced in our financial calendar, which is also available on the internet.

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 and debt analysts regularly publish reports and commentaries on the current performance of the company.

Henkel places great importance on dialog with investors and analysts. At 23 capital market conferences and roadshows held in Europe, North America and Asia, institutional investors and financial analysts had an opportunity to engage with the company and, in many instances, directly with senior management. We also conducted regular telephone conferences and numerous one-on-one meetings.

One highlight of our Investor Relations activities last year was our Investor and Analyst Day for the Beauty Care business unit, held on June 1, 2017, in Hamburg. Headlined as its "Beauty Addict Tour," the business unit used the event to showcase its latest innovations and technologies. The Beauty Care management team also provided information about its strategy and business performance.

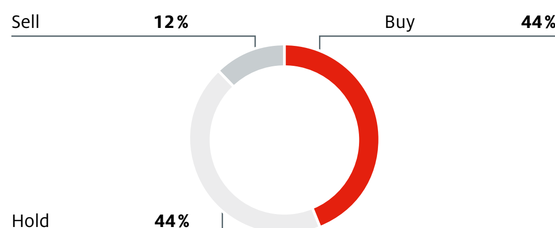
Retail investors can obtain all relevant information on request or via the Investor Relations website at

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 company directly.

The quality of our capital market communication was again evaluated in 2017 by various independent rankings. In the Institutional Investor ranking, Henkel's Investor Relations program was ranked third best in the European Household & Personal Care Products sector. We also came second in the two categories of Best Website and Best Analyst Day.

A financial calendar with all important dates is provided on the inside back cover of this Annual Report.

Analyst recommendations 17



At December 31, 2017
Basis: 32 equity analysts.

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 of responsible corporate governance and standards 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) (disclosures concerning acquisitions), and 289f, 315d (corporate governance declaration) German Commercial Code [HGB].

Accordingly, the disclosures concerning acquisitions and the corporate governance declaration 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 any audit of the disclosures pursuant to Sections 289f (2) and 315d HGB is limited to the question as to whether any information has actually 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).

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 General Meeting (Art. 27 of the Articles of Association). The Shareholders' Committee in particular performs 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 participates in place of the General Meeting in the management 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 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.
- And it issues rules of procedure incumbent upon Henkel Management AG.

Disclosures concerning acquisitions

(Disclosures required under Sections 289a, 315a 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 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 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 proxyholder nominated by the corporation (Section 134 (3) and (4) AktG in conjunction with Art. 21 (2) and (3) of the Articles of Association) – and are also entitled to submit motions on the resolution proposals of management, speak on agenda items, raise pertinent questions and propose motions (Sections 126 (1) and 131 AktG in conjunction with Art. 23 (2) of the Articles of Association). The ordinary Annual General Meeting usually takes place within the first four months of the fiscal year.

Shareholders whose shares jointly represent at least one twentieth of the capital stock – corresponding to 21,897,938 ordinary and / or preferred shares or a

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

Through the use of electronic communications, particularly the internet, the corporation makes it easy for shareholders to participate in the General Meeting. It also enables them to be represented by proxyholders nominated by the corporation 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 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 discussion above for further details). Voting rights attached to treasury shares held by the company (Section 71b AktG) and to ordinary shares for which the statutory notification requirement has not been met (Section 28 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 surrounding 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 that will be acquired by employees through the Long Term Incentive (LTI) Plan 2020+, which was introduced on January 1, 2017, 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 are required to purchase out of their variable annual cash remuneration (for additional information, please see the remuneration report on pages 46 to 57).

Major shareholders

According to notifications received by the corporation, as of December 17, 2015, a total of 61.02 percent of the voting rights are held by members of the Henkel family share-pooling agreement (for additional information, please see the disclosures provided in the notes to the consolidated financial statements under Note 40 on pages 173 and 174.). 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 special controlling rights.

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

Decisions regarding the appointment and dismissal of Personally Liable Partners are taken by the 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. A reappointment or extension of the tenure is permitted for a maximum period of five years in each case (Section 84 AktG).

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 further 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 issue of up to 43,795,875 new preferred shares with no voting rights against cash and / or payment in kind. The authorization may be utilized to the full extent allowed or in one or several installments. The proportion of capital stock represented by shares issued against payment in kind on the basis of this authorization must not exceed a total of 10 percent of the capital stock existing at the time the authorization takes effect.

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

If capital is increased against payment in cash, all shareholders are essentially assigned pre-emptive rights. However, these may be set aside in three cases, subject to the approval of the Shareholders' Committee and of the Supervisory Board: (1) in order to dispose of fractional amounts; (2) to grant to creditors / holders of bonds with warrants or conversion rights or a conversion obligation issued by the corporation or one of the companies dependent upon it, pre-emptive rights corresponding to those that would accrue to such creditors / bondholders following exercise of their warrant or conversion rights or on fulfillment of their conversion obligations; or (3) if the issue price of the new shares is not significantly below the quoted market price at the time of issue price fixing.

In addition, the Personally Liable Partner is authorized to purchase ordinary and / or preferred shares of the corporation at any time until April 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 9 and 10, and in the notes to the consolidated financial statements, Note 10, on pages 133 and 134.

Corporate governance declaration

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

Application of the German Corporate Governance Code [DCGK]

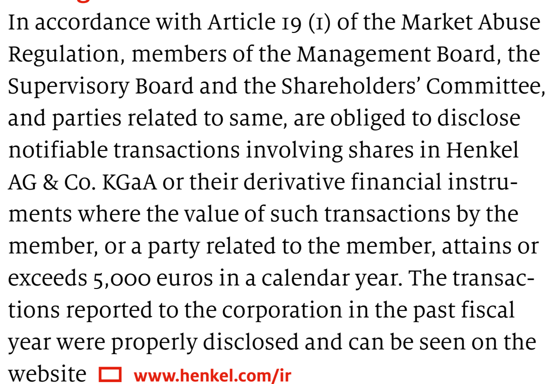
Taking into account the special features arising from our legal form and Articles of Association, Henkel AG & Co. KGaA complies with all recommendations ("shall" provisions) of the DCGK as amended. Taking into account the aforementioned special features arising from its legal form, the company has largely adopted the discretionary recommendations of the DCGK as amended on February 7, 2017. The recommendation in Item 2.3.3 to enable shareholders to follow general meetings online has been adopted to the extent that general meetings are broadcast publicly on the internet up to the conclusion of the address by the Chairman of the Management Board. The subsequent discussion of the agenda is not broadcast, in keeping with the character of a general meeting as an event that people attend in person.

Henkel deviates from the recommendation in Item 4.2.3 to refrain from premature payment of 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 found on our website at

www.henkel.com/ir

Managers' transactions



In accordance with Article 19 (1) of the Market Abuse Regulation, members of the Management Board, the Supervisory Board and the Shareholders' Committee, and parties related to same, are obliged to disclose notifiable transactions involving shares in Henkel AG & Co. KGaA or their derivative financial instruments where the value of such transactions by the member, or a party related to the member, attains or exceeds 5,000 euros in a calendar year. The transactions reported to the corporation in the past fiscal year were properly disclosed and can be seen on the website www.henkel.com/ir

Principles of corporate governance / Compliance

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

Corporate management principles which go beyond the statutory requirements are derived from our purpose, our vision, our mission and our values. For our corporation to be successful, it is essential that we share a common approach to entrepreneurship. We have defined a clear strategic framework with a long-term horizon. It guides us in making the right decisions and helps us to concentrate on our strategic priorities and focus strictly 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.
- 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 Principles, 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 requirements of their locations. 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 that these are obeyed through the implementation of suitable organizational measures.

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 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 information that has the potential to significantly affect share prices. The corporation has an Ad Hoc Committee comprised of representatives from various departments. In order to ensure that all insider information is handled as required by law, this Committee reviews developments and events for their possible effect on share prices, determining the need to issue reports to the capital markets on an ad hoc basis. 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 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, financial 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, taking into account the reviews and audit reports submitted by the auditor. It also reviews the non-financial declaration. It likewise votes on the proposal of the Management Board regarding the appropriation of profit, and submits to the General Meeting a proposal indicating its recommendation for the appointment of the external auditor.

As a general rule, the Supervisory Board meets four times per year. It passes resolutions 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 Chairperson of the Audit Committee in 2017, 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. It 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).

The Shareholders' Committee generally meets six times per year and 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 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.

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 www.henkel.com

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, 2017 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 2017, we were again able to raise the proportion of women in management worldwide – to 34.5 percent at December 31, 2017.

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:

- 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 many 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 new legal requirements specified by the CSR Directive Implementation Act and the recommendations of the DCGK, and taking into account the specific situation and global reach of the company's activities in industrial and consumer business areas, the Supervisory Board reviewed and updated the objectives governing its composition in 2017. When proposing candidates to the Annual General Meeting for both routine reelection and replacement election, the Supervisory Board must consider the following objectives, whereby the particular regulations of the Codetermination Act must be observed with regard to the elected employee representatives.

- 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 company'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 executive 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.

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 management 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 many 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, we believe that these aforementioned requirements were met in full in the reporting period.

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

Overall, the Supervisory Board 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 184 to 187. 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 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 Standards [DRS], 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 is not additionally disclosed in the notes to the consolidated financial statements (Sections 289a (2), 315a (2) HGB).

1. Remuneration of members of the Management Board

Regulation, structure and amounts

The compensation for members of the Management Board of Henkel Management AG is set by the Supervisory Board of Henkel Management AG in consultation with the Human Resources Subcommittee of the Shareholders' Committee. The Supervisory Board of Henkel Management AG is comprised of three members of the Shareholders' Committee.

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 compensation package is further determined on the basis of the functions, responsibilities and personal performance of the individual executives, 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 mix is designed to be internationally competitive while also providing an incentive for sustainable business development and a sustainable increase in shareholder value in a dynamic environment.

The Supervisory Board of Henkel Management AG regularly reviews the compensation system as well as the appropriateness of the 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 their 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.

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 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 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.

Performance-related components

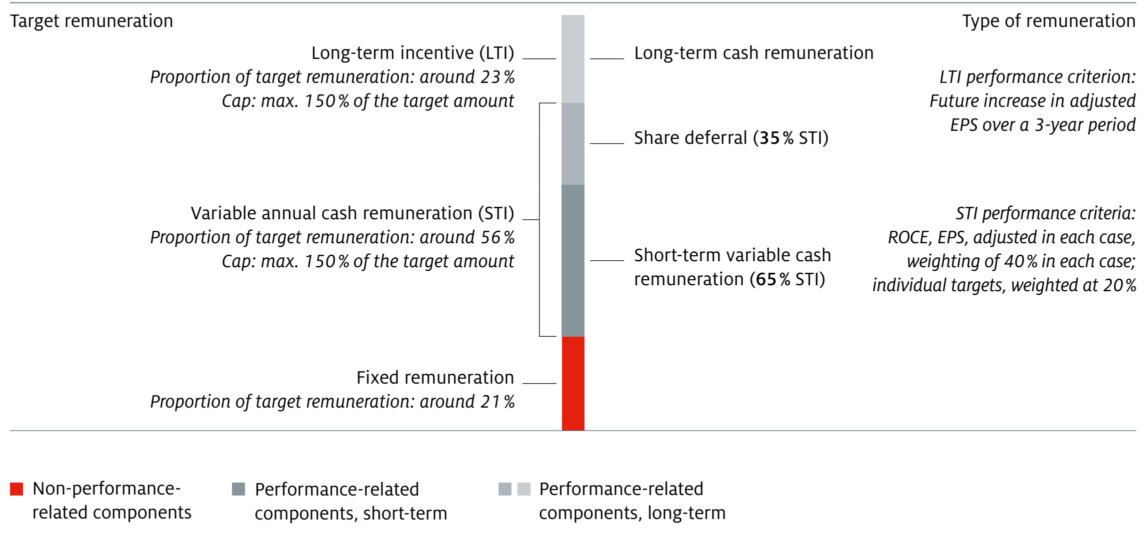
Variable annual cash remuneration

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.

The ROCE targets are 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.

Thresholds have been defined for both key financials; 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 target within this corridor, or may determine a new 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, and the individual contribution made by the Management Board member concerned. The application of these performance parameters ensures that profitable growth is duly rewarded by Henkel.



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

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 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 participate through a portion of their compensation in the long-term performance of the corporation.

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, as disclosed in the certified and approved consolidated financial statements of the relevant fiscal years.

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

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.

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).

Pension benefits (retirement pensions and survivors' benefits)

The company has been operating a purely defined contribution pension 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

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.

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 variable annual 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.

Caps on remuneration

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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*	750,000	0 to 1,950,000	0 to 1,050,000	0 to 1,200,000	**750,000**	**4,950,000**

* in each case, for a factor of 1 for fixed remuneration, STI and LTI.

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

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.

Remuneration of members of the Management Board for fiscal 2017

Excluding pension entitlements, the total compensation paid to members of the Management Board 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 25,326,382 euros (previous year: 26,503,197 euros). Fixed salaries accounted for 4,950,000 euros (previous year: 5,075,000 euros), other emoluments for 390,083 euros (previous year: 422,137 euros), short-term variable cash remuneration for 9,532,967 euros (previous year: 10,143,939 euros), long-term variable cash remuneration – share deferral – for 5,133,135 euros (previous year: 5,462,121 euros) and the long-term incentive for 5,320,197 euros (previous year: 5,400,000 euros). In accordance with legal regulations, the value of the long-term incentive granted for 2017, which is payable in 2020 contingent on the achievement of performance targets, is recognized here based on the target amount that would be paid assuming a 30-percent increase in EPS per preferred share within the performance period.

Compensation for the reporting period granted to members of the Management Board serving in 2017, 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 in the tables may not add up to the totals as indicated.

Pascal Houdayer left the company by mutual agreement on October 31, 2017. In connection with the termination of his contract, his entitlements from the Short Term Incentive 2017 (pro rata) were settled, as contractually agreed, through payment of 1,590,200 euros gross, and the entitlements accumulated in 2016 and 2017 (pro rata) from the Long Term Incentive were settled through payment of 1,264,640 euros gross in total. Furthermore, he received severance pay of 5,120,400 euros gross in October 2017 in recognition of his contractual entitlement to remuneration for the remaining term of his contract. In addition, he is bound by a post-contractual non-competition clause with a term of two years. This entitles him to compensation of 71,095 euros gross per month for the remaining period not already covered by the severance payment; other earnings shall be offset against this discretionary payment.

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 company, nor were any such payments granted in the reporting period.

Remuneration of Management Board members who served in 2017

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in euros		1. Fixed salary[1]	2. Other emoluments[1]	3. Short-term variable cash remuneration[1]	Single-year remuneration (Total of 1 to 3)	4. Long-term variable cash remuneration (share deferral)[1]	5. Long-term incentive[2]	Multi-year remuneration (Total of 4 and 5)	Total remuneration (Total of 1 to 5)
Hans Van Bylen (Chairman) (since 5/1/2016)	**2017**	**1,200,000**	**56,648**	**2,486,755**	**3,743,403**	**1,339,022**	**1,400,000**	**2,739,022**	**6,482,425**
Member of the Management Board since 7/1/2005	2016	1,050,000	119,576	2,046,007	3,215,583	1,101,696	1,066,667	2,168,363	5,383,946
Jan-Dirk Auris (Adhesive Technologies)	**2017**	**750,000**	**47,540**	**1,498,165**	**2,295,705**	**806,704**	**800,000**	**1,606,704**	**3,902,409**
Member of the Management Board since 1/1/2011	2016	750,000	45,208	1,511,755	2,306,963	814,022	800,000	1,614,022	3,920,985
Pascal Houdayer[3] (Beauty Care)	**2017**	**625,000**	**50,113**	**1,033,630**	**1,708,743**	**556,570**	**613,530**	**1,170,100**	**2,878,843**
Member of the Management Board from 3/1/2016 to 10/31/2017	2016	625,000	90,504	1,192,629	1,908,133	642,185	651,110	1,293,295	3,201,428
Carsten Knobel (Finance)	**2017**	**750,000**	**67,811**	**1,498,165**	**2,315,976**	**806,704**	**800,000**	**1,606,704**	**3,922,680**
Member of the Management Board since 7/1/2012	2016	750,000	53,903	1,563,755	2,367,658	842,022	800,000	1,642,022	4,009,680
Kathrin Menges (Human Resources)	**2017**	**750,000**	**95,165**	**1,377,915**	**2,223,080**	**741,954**	**800,000**	**1,541,954**	**3,765,034**
Member of the Management Board since 10/1/2011	2016	750,000	36,151	1,459,755	2,245,906	786,022	800,000	1,586,022	3,831,928
Bruno Piacenza (Laundry & Home Care)	**2017**	**750,000**	**47,588**	**1,449,415**	**2,247,003**	**780,454**	**800,000**	**1,580,454**	**3,827,457**
Member of the Management Board since 1/1/2011	2016	750,000	44,622	1,563,755	2,358,377	842,022	800,000	1,642,022	4,000,399
Jens-Martin Schwärzler (Beauty Care)	**2017**	**125,000**	**25,218**	**188,922**	**339,140**	**101,727**	**106,667**	**208,394**	**547,534**
Member of the Management Board since 11/1/2017	2016	–	–	–	–	–	–	–	–
Total	**2017**	**4,950,000**	**390,083**	**9,532,967**	**14,873,050**	**5,133,135**	**5,320,197**	**10,453,332**	**25,326,382**
	2016	4,675,000	389,964	9,337,656	14,402,620	5,027,969	4,933,334	9,961,303	24,348,366

[1] The payout is reported pursuant to HGB / IFRS.
[2] Target amount pursuant to HGB / IFRS, based on a 30-percent increase in adjusted earnings per preferred share within the performance period of three years. LTI payout for 2017 occurs in 2020; LTI payout for 2016 occurs in 2019.
[3] Pascal Houdayer left the company by mutual agreement on October 31, 2017. In connection with the termination of his contract, his entitlements from the Short Term Incentive 2017 (pro rata) were settled, as contractually agreed, through payment of 1,590,200 euros gross, and the entitlements accumulated in 2016 and 2017 (pro rata) from the Long Term Incentive were settled through payment of 1,264,640 euros gross in total. Furthermore, he received severance pay of 5,120,400 euros gross in October 2017 in recognition of his contractual entitlement to remuneration for the remaining term of his contract. In addition, he is bound by a post-contractual non-competition clause with a term of two years. This entitles him to compensation of 71,095 euros gross per month for the remaining period not already covered by the severance payment; other earnings shall be offset against this discretionary payment.

Structure of remuneration of Management Board members who served in 2017

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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	**2017**	**4,950,000**	**390,083**	**9,532,967**	**5,133,135**	**5,320,197**	**25,326,382**
		19.6%	**1.5%**	**37.6%**	**20.3%**	**21.0%**	**100.0%**
Total	2016	4,675,000	389,964	9,337,656	5,027,969	4,933,334	24,363,923
		19.1%	1.6%	38.3%	20.6%	20.4%	100.0%

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 following table:

Service cost / Present value of pension benefits

22

in euros		HGB		IAS	
		Service cost for pension benefits in the reporting year	Present value of pension benefits as of December 31	Service cost for pension benefits in the reporting year	Present value of pension benefits as of December 31
Hans Van Bylen	**2017**	**767,916**	**7,526,791**	**767,944**	**8,053,190**
	2016	664,026	6,319,207	664,043	6,958,733
Jan-Dirk Auris	**2017**	**460,860**	**3,815,974**	**461,600**	**3,961,485**
	2016	458,482	3,147,578	458,996	3,325,032
Pascal Houdayer (from 3/1/2016 to 10/31/2017)	**2017**	**377,418**	**1,130,357**	**377,480**	**1,130,357**
	2016	379,457	623,140	379,457	623,496
Carsten Knobel	**2017**	**460,036**	**3,120,002**	**461,860**	**3,256,629**
	2016	457,974	2,492,714	459,243	2,658,267
Kathrin Menges	**2017**	**459,233**	**3,188,528**	**459,882**	**3,267,118**
	2016	457,067	2,557,853	457,533	2,652,810
Bruno Piacenza	**2017**	**458,647**	**3,181,500**	**458,721**	**3,186,993**
	2016	456,353	2,555,923	456,400	2,562,467
Jens-Martin Schwärzler (since 11/1/2017)	**2017**	**173,706**	**1,111,875**	**179,972**	**1,258,609**
	2016	–	–	–	–
Total	**2017**	**3,157,816**	**23,075,027**	**3,167,459**	**24,114,381**
	2016	2,873,359	17,696,415	2,875,672	18,780,805

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, 102,214,945 euros (previous year: 100,771,135 euros) is deferred. Amounts paid to such recipients during the year under review totaled 7,265,411 euros (previous year: 7,127,205 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 2017, including the maximum and minimum achievable compensation for variable remuneration components, and
b) the allocation for fiscal 2017.

Pursuant to DCGK, payments / benefits granted for the reporting year to members of the Management Board serving in 2017

23

in euros		1. Fixed salary[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[4]	Total remuneration pursuant to DCGK (Total of 1 to 6)
Hans Van Bylen (Chairman) (since 5/1/2016) Member of the Management Board since 7/1/2005	**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**
	2017 (min)	**1,200,000**	**56,648**	**1,256,648**	**0**	**0**	**0**	**1,256,648**	**767,944**	**2,024,592**
	2017 (max)	**1,200,000**	**56,648**	**1,256,648**	**3,315,000**	**1,785,000**	**2,100,000**	**8,456,648**	**767,944**	**9,224,592**
	2016	1,050,000	119,576	1,169,576	1,944,260	1,046,909	1,066,667	5,227,413	664,043	5,891,456
Jan-Dirk Auris (Adhesive Technologies) Member of the Management Board since 1/1/2011	**2017**	**750,000**	**47,540**	**797,540**	**1,358,054**	**731,260**	**800,000**	**3,686,854**	**461,600**	**4,148,454**
	2017 (min)	**750,000**	**47,540**	**797,540**	**0**	**0**	**0**	**797,540**	**461,600**	**1,259,140**
	2017 (max)	**750,000**	**47,540**	**797,540**	**1,950,000**	**1,050,000**	**1,200,000**	**4,997,540**	**461,600**	**5,459,140**
	2016	750,000	45,208	795,208	1,425,695	767,682	800,000	3,788,585	458,996	4,247,581
Pascal Houdayer[5] (Beauty Care) Member of the Management Board from 3/1/2016 to 10/31/2017	**2017**	**625,000**	**50,113**	**675,113**	**1,131,712**	**609,383**	**666,667**	**3,082,875**	**377,480**	**3,460,355**
	2017 (min)	**625,000**	**50,113**	**675,113**	**0**	**0**	**0**	**675,113**	**377,480**	**1,052,593**
	2017 (max)	**625,000**	**50,113**	**675,113**	**1,625,000**	**875,000**	**1,000,000**	**4,175,113**	**377,480**	**4,552,593**
	2016	625,000	90,504	715,504	1,188,079	639,735	666,667	3,209,985	379,457	3,589,442
Carsten Knobel (Finance) Member of the Management Board since 7/1/2012	**2017**	**750,000**	**67,811**	**817,811**	**1,358,054**	**731,260**	**800,000**	**3,707,125**	**461,860**	**4,168,985**
	2017 (min)	**750,000**	**67,811**	**817,811**	**0**	**0**	**0**	**817,811**	**461,860**	**1,279,671**
	2017 (max)	**750,000**	**67,811**	**817,811**	**1,950,000**	**1,050,000**	**1,200,000**	**5,017,811**	**461,860**	**5,479,671**
	2016	750,000	53,903	803,903	1,425,695	767,682	800,000	3,797,280	459,243	4,256,523
Kathrin Menges (Human Resources) Member of the Management Board since 10/1/2011	**2017**	**750,000**	**95,165**	**845,165**	**1,358,054**	**731,260**	**800,000**	**3,734,479**	**459,882**	**4,194,361**
	2017 (min)	**750,000**	**95,165**	**845,165**	**0**	**0**	**0**	**845,165**	**459,882**	**1,305,047**
	2017 (max)	**750,000**	**95,165**	**845,165**	**1,950,000**	**1,050,000**	**1,200,000**	**5,045,165**	**459,882**	**5,505,047**
	2016	750,000	36,151	786,151	1,425,695	767,682	800,000	3,779,528	457,533	4,237,061
Bruno Piacenza (Laundry & Home Care) Member of the Management Board since 1/1/2011	**2017**	**750,000**	**47,588**	**797,588**	**1,358,054**	**731,260**	**800,000**	**3,686,902**	**458,721**	**4,145,623**
	2017 (min)	**750,000**	**47,588**	**797,588**	**0**	**0**	**0**	**797,588**	**458,721**	**1,256,309**
	2017 (max)	**750,000**	**47,588**	**797,588**	**1,950,000**	**1,050,000**	**1,200,000**	**4,997,588**	**458,721**	**5,456,309**
	2016	750,000	44,622	794,622	1,425,695	767,682	800,000	3,787,999	456,400	4,244,399
Jens-Martin Schwärzler (Beauty Care) Member of the Management Board since 11/1/2017	**2017**	**125,000**	**25,218**	**150,218**	**189,741**	**102,168**	**106,667**	**548,794**	**179,972**	**728,766**
	2017 (min)	**125,000**	**25,218**	**150,218**	**0**	**0**	**0**	**150,218**	**179,972**	**330,190**
	2017 (max)	**125,000**	**25,218**	**150,218**	**260,000**	**140,000**	**160,000**	**710,218**	**179,972**	**890,190**
	2016	–	–	–	–	–	–	–	–	–

[1] Payment amount.
[2] Pursuant to DCGK, expected amount based on an average probability scenario (not the actual amount paid out).
[3] Target amount pursuant to DCGK, based on a 30-percent increase in adjusted earnings per preferred share within the performance period of three years. LTI payout for 2017 occurs in 2020; LTI payout for 2016 occurs in 2019.
[4] Pursuant to DCGK, service cost determined in accordance with IAS.
[5] Pascal Houdayer left the company by mutual agreement on October 31, 2017. In connection with the termination of his contract, his entitlements from the Short Term Incentive 2017 (pro rata) were settled, as contractually agreed, through payment of 1,590,200 euros gross, and the entitlements accumulated in 2016 and 2017 (pro rata) from the Long Term Incentive were settled through payment of 1,264,640 euros gross in total. Furthermore, he received severance pay of 5,120,400 euros gross in October 2017 in recognition of his contractual entitlement to remuneration for the remaining term of his contract. In addition, he is bound by a post-contractual non-competition clause with a term of two years. This entitles him to compensation of 71,095 euros gross per month for the remaining period not already covered by the severance payment; other earnings shall be offset against this discretionary payment.

Pursuant to DCGK, remuneration / benefits paid for the reporting year to members of the Management Board serving in 2017

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							5. Long-term incentive[3]				
in euros		1. Fixed salary[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]	2015 tranche (term 1/1/2015 – 12/31/2017)	2014 tranche (term 1/1/2014 – 12/31/2016)	Total (1 to 5)	6. Service cost[4]	Total remuneration pursuant to DCGK (Total of 1 to 6)
Hans Van Bylen (Chairman) (since 5/1/2016)	**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**
Member of the Management Board since 7/1/2005	2016	1,050,000	119,576	1,169,576	2,046,007	1,101,696		249,410	4,566,689	664,043	5,230,732
Jan-Dirk Auris (Adhesive Technologies)	**2017**	**750,000**	**47,540**	**797,540**	**1,498,165**	**806,704**	**894,853**		**3,997,262**	**461,600**	**4,458,862**
Member of the Management Board since 1/1/2011	2016	750,000	45,208	795,208	1,511,755	814,022		249,410	3,370,395	458,996	3,829,391
Pascal Houdayer[5] (Beauty Care)	**2017**	**625,000**	**50,113**	**675,113**	**1,033,630**	**556,570**	**–**		**2,265,313**	**377,480**	**2,642,793**
Member of the Management Board from 3/1/2016 to 10/31/2017	2016	625,000	90,504	715,504	1,192,629	642,185		–	2,550,318	379,457	2,929,775
Carsten Knobel (Finance)	**2017**	**750,000**	**67,811**	**817,811**	**1,498,165**	**806,704**	**894,853**		**4,017,533**	**461,860**	**4,479,393**
Member of the Management Board since 7/1/2012	2016	750,000	53,903	803,903	1,563,755	842,022		249,410	3,459,090	459,243	3,918,333
Kathrin Menges (Human Resources)	**2017**	**750,000**	**95,165**	**845,165**	**1,377,915**	**741,954**	**894,853**		**3,859,887**	**459,882**	**4,319,769**
Member of the Management Board since 10/1/2011	2016	750,000	36,151	786,151	1,459,755	786,022		249,410	3,281,338	457,533	3,738,871
Bruno Piacenza (Laundry & Home Care)	**2017**	**750,000**	**47,588**	**797,588**	**1,449,415**	**780,454**	**894,853**		**3,922,310**	**458,721**	**4,381,031**
Member of the Management Board since 1/1/2011	2016	750,000	44,622	794,622	1,563,755	842,022		249,410	3,449,809	456,400	3,906,209
Jens-Martin Schwärzler (Beauty Care)	**2017**	**125,000**	**25,218**	**150,218**	**188,922**	**101,727**	**–**		**440,867**	**179,972**	**620,839**
Member of the Management Board since 11/1/2017	2016	–	–	–	–	–		–	–	–	–

[1] Payment amount.
[2] Pursuant to DCGK, based on the payment amount of the remuneration components granted for the relevant fiscal year; actual allocation occurs in the following year.
[3] Pursuant to DCGK, based on the payment amount of those tranches for which the plan term of three years ended in the relevant fiscal year; actual allocation occurs in the following year.
[4] Pursuant to DCGK, service cost determined in accordance with IAS.
[5] Pascal Houdayer left the company by mutual agreement on October 31, 2017. In connection with the termination of his contract, his entitlements from the Short Term Incentive 2017 (pro rata) were settled, as contractually agreed, through payment of 1,590,200 euros gross, and the entitlements accumulated in 2016 and 2017 (pro rata) from the Long Term Incentive were settled through payment of 1,264,640 euros gross in total. Furthermore, he received severance pay of 5,120,400 euros gross in October 2017 in recognition of his contractual entitlement to remuneration for the remaining term of his contract. In addition, he is bound by a post-contractual non-competition clause with a term of two years. This entitles him to compensation of 71,095 euros gross per month for the remaining period not already covered by the severance payment; other earnings shall be offset against this discretionary payment.

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 remuneration for the Supervisory Board and the Shareholders' Committee is determined by the Annual General Meeting; the corresponding provisions are contained in Articles 17 and 33 of the Articles of Association. Remuneration is of a purely fixed nature commensurate with the responsibility and scope of duties of the Chair, Vice Chair and (sub)committee members respectively.

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 Chairs of the Supervisory Board and the Shareholders' Committee each receive double this amount, and the Vice Chair in each case one and a half times the aforementioned amount.

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

The Chairs of the Supervisory Board and of the Shareholders' Committee are provided with an office and secretarial support to enable them to perform these duties.

The company 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 2017

Total remuneration paid to the members of the Supervisory Board for the year under review (fixed fee, attendance fee, remuneration for committee activity) amounted to 1,565,000 euros plus VAT (previous year: 1,572,896 euros plus VAT). Of this amount, fixed fees accounted for 1,225,000 euros, attendance fees for 71,000 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 2,215,754 euros (previous year: 2,350,000 euros). Of this amount, fixed fees were 1,082,877 euros and remuneration for subcommittee activity 1,132,877 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	**2017**	**140,000**	**4,000**	**39,000**	**183,000**
	2016	140,000	5,000	39,000	184,000
Winfried Zander[3], Vice Chair	**2017**	**105,000**	**4,000**	**39,000**	**148,000**
	2016	105,000	5,000	39,000	149,000
Jutta Bernicke	**2017**	**70,000**	**5,000**	**–**	**75,000**
	2016	70,000	5,000	–	75,000
Dr. Kaspar von Braun	**2017**	**70,000**	**5,000**	**–**	**75,000**
	2016	70,000	6,000	–	76,000
Boris Canessa (until 4/11/2016)	**2017**	**–**	**–**	**–**	**–**
	2016	19,508	2,000	–	21,508
Johann-Christoph Frey (since 4/11/2016)	**2017**	**70,000**	**5,000**	**–**	**75,000**
	2016	50,492	4,000	–	54,492
Ferdinand Groos (until 4/11/2016)	**2017**	**–**	**–**	**–**	**–**
	2016	19,508	2,000	–	21,508
Béatrice Guillaume-Grabisch (until 3/13/2016)	**2017**	**–**	**–**	**–**	**–**
	2016	17,404	–	–	17,404
Peter Hausmann[3]	**2017**	**70,000**	**4,000**	**39,000**	**113,000**
	2016	70,000	5,000	37,000	112,000
Birgit Helten-Kindlein[3]	**2017**	**70,000**	**3,000**	**39,000**	**112,000**
	2016	70,000	5,000	39,000	114,000
Benedikt-Richard Freiherr von Herman (since 4/11/2016)	**2017**	**70,000**	**5,000**	**–**	**75,000**
	2016	50,492	4,000	–	54,492
Timotheus Höttges (since 4/11/2016)	**2017**	**70,000**	**4,000**	**–**	**74,000**
	2016	50,492	3,000	–	53,492
Prof. Dr. Michael Kaschke[3]	**2017**	**70,000**	**4,000**	**39,000**	**113,000**
	2016	70,000	4,000	37,000	111,000
Angelika Keller (since 1/1/2017)	**2017**	**70,000**	**5,000**	**–**	**75,000**
	2016	–	–	–	–
Barbara Kux	**2017**	**70,000**	**5,000**	**–**	**75,000**
	2016	70,000	6,000	–	76,000
Mayc Nienhaus (until 12/31/2016)	**2017**	**–**	**–**	**–**	**–**
	2016	70,000	6,000	–	76,000
Andrea Pichottka	**2017**	**70,000**	**4,000**	**–**	**74,000**
	2016	70,000	6,000	–	76,000
Dr. Martina Seiler	**2017**	**70,000**	**5,000**	**–**	**75,000**
	2016	70,000	6,000	–	76,000
Prof. Dr. Theo Siegert[3]	**2017**	**70,000**	**4,000**	**74,000**	**148,000**
	2016	70,000	5,000	74,000	149,000
Edgar Topsch	**2017**	**70,000**	**5,000**	**–**	**75,000**
	2016	70,000	6,000	–	76,000
Total	**2017**	**1,225,000**	**71,000**	**269,000**	**1,565,000**
	2016	1,222,896	85,000	265,000	1,572,896

[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.

Shareholders' Committee remuneration

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in euros		Components of total remuneration: Fixed remuneration	Components of total remuneration: Fee for subcommittee activity	Total remuneration
Dr. Simone Bagel-Trah, Chair (Chair Human Resources Subcommittee)	**2017**	**200,000**	**200,000**	**400,000**
	2016	200,000	200,000	400,000
Dr. Christoph Henkel, Vice Chair (Chair Finance Subcommittee)	**2017**	**150,000**	**200,000**	**350,000**
	2016	150,000	200,000	350,000
Prof. Dr. Paul Achleitner (Member Finance Subcommittee)	**2017**	**100,000**	**100,000**	**200,000**
	2016	100,000	100,000	200,000
Boris Canessa (Member HR Subcommittee) (from 4/11/2016 to 4/30/2017)	**2017**	**32,877**	**32,877**	**65,754**
	2016	72,131	72,131	144,262
Johann-Christoph Frey (Member HR Subcommittee) (until 4/11/2016)	**2017**	**–**	**–**	**–**
	2016	27,869	27,869	55,738
Stefan Hamelmann (Vice Chair Finance Subcommittee)	**2017**	**100,000**	**100,000**	**200,000**
	2016	100,000	100,000	200,000
Prof. Dr. Ulrich Lehner (Member Finance Subcommittee)	**2017**	**100,000**	**100,000**	**200,000**
	2016	100,000	100,000	200,000
Dr. Dr. Norbert Reithofer (Member Finance Subcommittee)	**2017**	**100,000**	**100,000**	**200,000**
	2016	100,000	100,000	200,000
Konstantin von Unger (Vice Chair HR Subcommittee)	**2017**	**100,000**	**100,000**	**200,000**
	2016	100,000	100,000	200,000
Jean-François van Boxmeer (Member HR Subcommittee)	**2017**	**100,000**	**100,000**	**200,000**
	2016	100,000	100,000	200,000
Werner Wenning (Member HR Subcommittee)	**2017**	**100,000**	**100,000**	**200,000**
	2016	100,000	100,000	200,000
Total	**2017**	**1,082,877**	**1,132,877**	**2,215,754**
	2016	1,150,000	1,200,000	2,350,000

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 141st in our corporate history. At the end of 2017, Henkel's workforce worldwide numbered 53,700. We occupy globally leading market positions in our consumer and industrial businesses.

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

Organization and business units

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

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

Henkel is organized into three 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.

1876
Year of foundation.

Henkel around the world: Regional Centers

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The 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 and consumer goods. In the Transport and Metal business area, we provide our customers in the automotive, aircraft and aerospace, and metal processing industries with innovative system solutions, a comprehensive technology portfolio, and specialized technical services. In the General Industry business area, we offer a comprehensive portfolio of products for the manufacture and maintenance of durable goods. 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, electronic assemblies and thermal management systems.

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

Worldwide, the **Beauty Care** business unit is 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 customer-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 the Laundry 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 detergents, specialty detergents and laundry additives to dishwashing products, hard surface and WC cleaners, air fresheners and insect control products – all sold mainly in brick-and-mortar stores, but also via TV-based and online retailing.

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 services, 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.

Henkel 2020+: Our ambition and strategic priorities

Henkel has defined four strategic priorities to continue driving sustainable profitable growth through to 2020 and beyond: 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 its path of profitable growth. At the end of 2016, we presented the ambition and strategic priorities that will drive the company through to 2020 and beyond.

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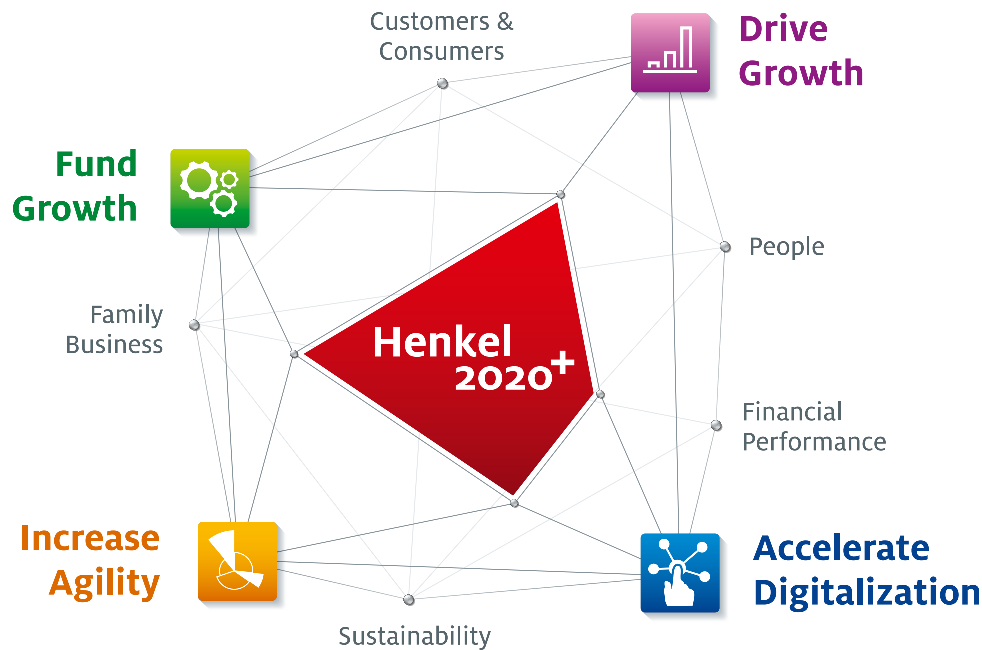

Our ambition

In 2016, we defined our ambition in a very volatile market environment 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-focused and make the company even more innovative, agile and digital, in both our internal processes and our customer-facing activities. In addition, we are further promoting sustainability in all our business activities.

Henkel has defined the following financial ambition for the period from 2016 until 2020:

- We are aiming to achieve organic sales growth of 2 to 4 percent on average over the four years until 2020.
- For adjusted earnings per preferred share, we are targeting a compound annual growth rate (CAGR) of 7 to 9 percent between 2016 and 2020. This ambition for EPS growth includes the impact of currency developments, and minor and mid-sized acquisitions. It excludes major acquisitions as well as share buy-backs.
- We are aiming for continued improvement in adjusted EBIT margin. In addition, we will maintain our focus on free cash flow expansion.

Financial ambition 2020

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Organic growth	2 – 4 % (average 2017–2020)
Adjusted EPS growth	7 – 9 % (CAGR[1] 2016 – 2020, per preferred share)
Adjusted EBIT margin	Continued improvement in adjusted EBIT margin
Free cash flow	Continued focus on free cash flow expansion

[1] Compound annual growth rate.

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.

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 focus on targeted initiatives to create superior customer and consumer engagement, 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. By 2020, 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.

We started implementing these priorities and initiatives in fiscal 2017, with high dynamism and huge commitment on the part of our employees. To drive growth, we have agreed joint long-term business development plans with strategically important customers. We have further sharpened the focus of new products and new services on the needs of consumers. Aside from organic growth, a number of acquisitions have additionally strengthened our business (see table below). Integration of our acquired businesses is proceeding successfully. Our efforts to build a digital organization are also making substantial progress and driving the digital transformation of the company. To foster our agility, we have simplified processes and structures in all our business units. We have quickly launched the Fund Growth initiatives. Key milestones on the path to global rollout have been reached.

Acquisitions signed and closed in fiscal 2017

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Business	Key brands	Key countries	Contract signed on	Completion on	Annual sales in million euros[1]	Purchase price in million euros	For further information, see pages
Darex Packaging Technologies, high-performance sealants and coatings	–	Global	3/2/2017	7/3/2017	~ 260	938	78, 85, 116–117
Sonderhoff Holding GmbH, industrial gasketing solutions	–	Germany	5/16/2017	7/3/2017	~ 60	119	78, 85, 116–117
Nattura Laboratorios, S.A. de C.V., hair salon business	Pravana, Tec Italy	Mexico, USA	3/8/2017	9/1/2017	~ 120	392	78, 86, 89, 116–117
Zotos International Inc., hair salon business	Joico, Zotos	USA	10/26/2017	12/28/2017	~ 210	403	78, 86, 116–117

[1] Proforma sales 2017.

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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 deliver more 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.

Key drivers for the coming years

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. To reflect the growing importance of sustainability for our stakeholders and our long-term economic success, we defined three key drivers in 2016 that will help us to advance sustainability at Henkel over the coming years:

- Strengthen foundation
- Boost engagement
- Maximize impact

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

www.henkel.com/sustainabilityreport

Management system and performance indicators

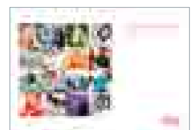
Henkel plans to continue generating sustainable profitable growth through to 2020 and beyond. To this end, we have defined four strategic priorities – drive growth, accelerate digitalization, increase agility and fund growth – as described on pages 60 to 62. To enable efficient management of the Group, we align our actions to these strategic priorities and have translated them 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.

Over the four years until 2020, Henkel is aiming to achieve organic sales growth of 2 to 4 percent on average. For adjusted earnings per preferred share, Henkel is targeting a compound annual growth rate (CAGR) of 7 to 9 percent. We are also aiming for a continued improvement of the adjusted EBIT margin.

The key performance indicators are represented in both the 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 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 financial ambition for 2020.



www.henkel.com/sustainabilityreport

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.

7.75 %
Group WACC before tax in fiscal 2017.

WACC before tax by business unit

30

in percent	2017	2018
Adhesive Technologies	10.25	10.50
Beauty Care	9.00	9.00
Laundry & Home Care	9.00	9.00
Henkel Group	**7.75**	**8.00**

WACC after tax by business unit

31

in percent	2017	2018
Adhesive Technologies	7.00	7.25
Beauty Care	6.25	6.25
Laundry & Home Care	6.25	6.25
Henkel Group	**5.50**	**5.50**

Disclosures concerning acquisitions, corporate governance declaration, remuneration report

With regard to the disclosures and explanations

- pursuant to Sections 289a (1) and 315a (1) German Commercial Code [HGB] – Disclosures concerning acquisitions – please refer to pages 36 to 38
- pursuant to Sections 289f and 315d HGB – Corporate governance declaration – please refer to pages 39 to 46 and
- pursuant to Sections 289a (2) and 315a (2) HGB – Remuneration report – please refer to pages 46 to 57

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 declaration – 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 2017. It constitutes the separate, combined non-financial group report for the Henkel Group and Henkel AG & Co. KGaA for fiscal 2017 as required in Sections 315b and 315c HGB in conjunction with Sections 289c to 289e HGB, and is made publicly available through publication on the website.

www.henkel.com/sustainabilityreport

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Economic report

Macroeconomic development

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

Overview: Slight improvement in the global economy under persistently difficult underlying conditions

Global economic growth was moderate in 2017. Gross domestic product increased by approximately 3 percent worldwide, representing a rise in growth rate versus prior year. The mature markets grew by around 2 percent, while the emerging markets achieved an increase of approximately 5 percent.

Economic growth in both North America and Western Europe was around 2 percent for the year as a whole. The Japanese economy also expanded by approximately 2 percent. Economic growth in Asia (excluding Japan) was approximately 6 percent, with China coming in slightly higher. Eastern Europe posted growth of approximately 4 percent, helped by a slight improvement in the economic situation in Russia. The Africa / Middle East region recorded an increase of approximately 2 percent. After shrinking in 2016, economic growth in Latin America recovered with growth of approximately 1.5 percent in the reporting period.

Unemployment: Global level unchanged year on year

Global unemployment remained close to the level of the previous year at around 7.5 percent. Year on year, the unemployment rates in both North America and Western Europe were lower at approximately 4.5 percent and approximately 8.5 percent respectively. By contrast, the unemployment rate in Latin America increased to approximately 9.5 percent. Compared to prior year, the unemployment rate declined slightly to 6.5 percent in Eastern Europe, while remaining almost unchanged in Africa / Middle East and Asia (excluding Japan).

Inflation: Moderate rise in global price levels

Global inflation was approximately 3 percent and thus lower year on year. In the mature markets, inflation was around 2 percent and therefore up compared to prior year. Prices increased in Western Europe, North America and Japan. By contrast, the inflation rate decreased significantly in the emerging markets compared to prior year, to approximately 5 percent. The overall trend differed from one region to the next. Year on year, inflation decreased significantly in Latin America. Inflation rates remained virtually unchanged year on year in Asia (excluding Japan) and in Eastern Europe. The inflation rate rose to approximately 6 percent in Africa / Middle East.

Direct materials: Moderately higher than prior-year level

As expected, prices for direct materials (raw materials, packaging, and purchased goods and services) rose moderately in 2017 compared to the level of the previous year. This development was driven by higher prices for relevant input materials, particularly crude oil.

Currencies: High volatility in emerging markets

Currencies in the emerging markets of relevance to Henkel were, on average, relatively volatile over the year. The Turkish lira recorded the most significant devaluation, while the Russian ruble gained substantially in value.

The US dollar remained stable over the first three months of the year before depreciating significantly as the year progressed. It closed at 1.20 US dollars to the euro at year-end. Averaged out over the year as a whole, the US dollar depreciated slightly versus the euro.

+3.1 %
organic sales growth.

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

Average rates of exchange versus the euro 32

	2016	2017
Chinese yuan	7.36	**7.63**
Mexican peso	20.67	**21.33**
Polish zloty	4.36	**4.26**
Russian ruble	74.07	**65.95**
Turkish lira	3.34	**4.12**
US dollar	1.11	**1.13**

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 around 2 percent year on year. Consumers in North America increased their spending by around 3 percent. In Western Europe, consumer spending grew by approximately 2 percent compared to the previous year. Consumers in emerging markets spent around 4.5 percent more.

Industrial production above prior-year level

The industrial production index (IPX) was approximately 3 percent and thus above the prior-year level worldwide. The improvement was mainly attributable to the mature markets, which registered growth of approximately 2.5 percent in 2017. In the emerging markets growth was approximately 4 percent.

Review of overall business performance

2017 proved to be a strong year for Henkel. In a challenging economic environment, we continued the success of the previous year.

Sales topped the 20 billion euro mark for the first time ever. Organically we achieved a sales increase of 3.1 percent. Our businesses in the emerging markets showed very strong organic growth of 5.3 percent. Organic sales growth in the mature markets was positive at 1.5 percent.

Adjusted[1] gross margin decreased by 1.3 percentage points to 47.1 percent. Savings from cost reduction measures and efficiency improvements accompanied by selective price increasess only partially offset the negative impact of higher prices for direct materials (raw materials, packaging, and purchased goods and services) and acquisition effects.

As a result of our strict focus on cost management, the rapid and disciplined implementation of our "Fund growth" initiatives, and the adjustment of our structures to our markets and customers, we were able to further improve our profitability once again versus prior year. Adjusted return on sales increased by 0.4 percentage points in 2017, reaching a new all-time high of 17.3 percent (2016: 16.9 percent).

Adjusted earnings per preferred share grew to 5.85 euros, a significant increase of 9.1 percent over the 2016 figure of 5.36 euros.

Net working capital as a percentage of sales increased by 1.3 percentage points to 4.8 percent.

We generated free cash flow of 1,701 million euros. Following our acquisitions in 2017, we closed the year with a net financial position of −3,225 million euros (2016: −2,301 million euros).

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

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Results of operations of the Group

Sales	EBIT	EPS	Dividend
+3.1 %	17.3 %	5.85 euros	1.79 euros
organic sales growth	adjusted[1] return on sales (EBIT): up 0.4 percentage points	adjusted[1] earnings per preferred share (EPS): up 9.1 percent	dividend per preferred share[2]

Sales

Sales in fiscal 2017 increased nominally by 7.0 percent to their highest-ever level of 20,029 million euros. Currency movements had a negative effect on sales of 2.0 percent. Adjusted for foreign exchange effects, sales grew by 9.0 percent. Acquisitions / divestments accounted for 5.9 percent of the increase in sales.

Organic sales growth, i.e. adjusted for foreign exchange and acquisitions / divestments, was strong at 3.1 percent. This was mainly driven by volume.

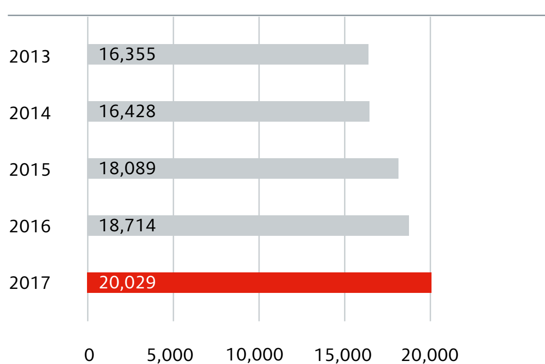
Sales development[1] (33)

in percent	2017
Change versus previous year	**7.0**
Foreign exchange	**– 2.0**
Adjusted for foreign exchange	**9.0**
Acquisitions / divestments	**5.9**
Organic	**3.1**
of which price	**0.2**
of which volume	**2.9**

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

Sales (34)

in million euros



[1] Adjusted for one-time charges / gains and restructuring expenses.
[2] Proposal to shareholders for the Annual General Meeting on April 9, 2018.

All business units were able to grow sales organically. Organic sales growth was 5.0 percent in the Adhesive Technologies business unit, 0.5 percent in Beauty Care, and 2.0 percent in Laundry & Home Care.

Price and volume effects (35)

in percent	Organic sales growth	of which price	of which volume
Adhesive Technologies	**5.0**	0.4	4.6
Beauty Care	**0.5**	0.1	0.4
Laundry & Home Care	**2.0**	0.1	1.9
Henkel Group	**3.1**	0.2	2.9

In a market environment that continues to be highly competitive, sales in the Western Europe region, at 6,033 million euros, were slightly up year on year. Organic sales growth was positive. Good performance in Germany was one of the factors that helped to offset lower sales in France. The share of sales from the region decreased to 30 percent.

We were able to increase sales in Eastern Europe by 6.8 percent to 2,897 million euros. Organically, sales grew by 6.0 percent. This very strong organic sales growth was primarily driven by the performance of our businesses in Turkey. At 14 percent, the share of sales from the region was lower year on year.

Our sales in the Africa / Middle East region decreased nominally by 5.5 percent to 1,302 million euros. Despite the continuing political and social unrest in some countries, we were able to record organic sales growth of 1.7 percent. At 6 percent, the share of sales from the region was slightly down year on year.

Sales in the North America region increased by 22.9 percent to 5,162 million euros. The acquisition

Key financials by region[1]

36

in million euros	Western Europe	Eastern Europe	Africa / Middle East	North America	Latin America	Asia-Pacific	Total Regions	Corporate	Henkel Group
Sales[2] 2017	**6,033**	**2,897**	**1,302**	**5,162**	**1,142**	**3,371**	**19,906**	**123**	**20,029**
Sales[2] 2016	5,999	2,713	1,378	4,202	1,055	3,246	**18,593**	121	**18,714**
Change from previous year	0.6 %	6.8 %	– 5.5 %	22.9 %	8.2 %	3.8 %	**7.1 %**	–	**7.0 %**
Adjusted for foreign exchange	1.3 %	6.3 %	7.5 %	24.6 %	9.5 %	6.1 %	**9.1 %**	–	**9.0 %**
Organic	0.5 %	6.0 %	1.7 %	3.0 %	4.4 %	5.9 %	**3.1 %**	–	**3.1 %**
Proportion of Group sales 2017	**30 %**	**14 %**	**6 %**	**26 %**	**6 %**	**17 %**	**99 %**	**1 %**	**100 %**
Proportion of Group sales 2016	32 %	15 %	7 %	22 %	6 %	17 %	**99 %**	1 %	**100 %**
Operating profit (EBIT) 2017	**1,463**	**280**	**58**	**731**	**112**	**537**	**3,181**	**– 126**	**3,055**
Operating profit (EBIT) 2016	1,335	328	111	505	126	485	**2,890**	– 115	**2,775**
Change from previous year	9.6 %	– 14.8 %	– 47.7 %	44.7 %	– 10.8 %	10.8 %	**10.1 %**	–	**10.1 %**
Adjusted for foreign exchange	9.8 %	– 18.3 %	– 48.0 %	47.7 %	– 8.2 %	13.3 %	**10.8 %**	–	**10.4 %**
Return on sales (EBIT) 2017	**24.3 %**	**9.7 %**	**4.5 %**	**14.2 %**	**9.8 %**	**15.9 %**	**16.0 %**	**–**	**15.3 %**
Return on sales (EBIT) 2016	22.3 %	12.1 %	8.1 %	12.0 %	11.9 %	14.9 %	**15.5 %**	–	**14.8 %**

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

of The Sun Products Corporation contributed substantially to the increase in nominal sales. Organically, the region posted sales growth of 3.0 percent. The share of sales from the region increased to 26 percent.

Our sales in the Latin America region rose nominally by 8.2 percent to 1,142 million euros. Organically, we increased sales by 4.4 percent. The very strong growth of our businesses in Mexico made an especially important contribution to this performance. The share of sales from the region remained unchanged at 6 percent.

Sales in the Asia-Pacific region increased year on year by 3.8 percent to 3,371 million euros. Organic sales growth in the region was 5.9 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 higher year on year at 8,130 million euros. Organically, sales grew by 5.3 percent. Thus the emerging markets again made an above-average contribution to organic sales growth. The share of sales from emerging markets was 40 percent. This ratio was slightly lower year on year due to acquisitions and foreign exchange effects.

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)

37

in million euros	2016	2017	+/–
EBIT (as reported)	**2,775**	**3,055**	**10.1 %**
One-time gains	– 1	**– 21**	
One-time charges	121	**182**	
Restructuring expenses	277	**245**	
Adjusted EBIT	**3,172**	**3,461**	**9.1 %**

In order to adapt our structures to our markets and customers, we spent 245 million euros on restructuring (previous year: 277 million euros). A significant portion of this amount is attributable to the optimization of our sales and distribution structures and the integration of our acquisitions. Please refer to page 167 for more details of our restructuring expenses and an explanation of the one-time charges and gains.

We were able to increase adjusted operating profit (adjusted EBIT) to 3,461 million euros, a rise of 9.1 percent on the prior-year figure of 3,172 million euros.

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All three business units contributed to this positive performance. We improved adjusted return on sales (adjusted EBIT margin) for the Group by 0.4 percentage points to 17.3 percent.

Adjusted return on sales in the Adhesive Technologies business unit showed an increase of 0.3 percentage points, reaching a new all-time high of 18.5 percent. The Beauty Care business unit was also again able to raise its adjusted return on sales, achieving a figure of 17.2 percent for the first time (previous year: 16.9 percent). The Laundry & Home Care business unit increased adjusted return on sales by 0.3 percentage points to a new all-time high of 17.6 percent.

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

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 167.

The cost of sales increased by 9.7 percent to 10,598 million euros. Gross profit increased by 4.2 percent to 9,431 million euros. Adjusted gross margin decreased by 1.3 percentage points to 47.1 percent. Savings from cost reduction measures and efficiency improvements accompanied by selective price increases only partially offset the negative impact of higher prices for direct materials (raw materials, packaging, and purchased goods and services) and acquisition effects.

At 4,665 million euros, marketing, selling and distribution expenses were above the prior-year figure of 4,543 million euros. Compared to fiscal 2016, the ratio to sales decreased to 23.3 percent. This reduction is partially attributable to the lower ratio of marketing, selling and distribution expenses to sales of the business added as a result of the acquisition of The Sun Products Corporation. We spent a total of 469 million euros for research and development. The ratio to sales, at 2.3 percent, was slightly lower year on year. At 870 million euros, administrative expenses were virtually unchanged year on year (2016: 868 million euros). At 4.3 percent, administrative expenses as a percentage of sales were slightly lower year on year.

17.3%
adjusted return on sales, up 0.4 percentage points.

Other operating income and expenses

At 34 million euros, the balance of adjusted other operating income and expenses increased year on year (2016: –6 million euros). The rise was attributable to numerous individual transactions relating to operations.

Financial result

Funding the acquisitions closed in 2016 and 2017 caused the financial result to drop from – 33 million euros in 2016 to – 51 million euros in the reporting year.

Net income and earnings per share (EPS)

Income before tax increased by 262 million euros to 3,004 million euros. Taxes on income amounted to 463 million euros. The tax rate of 15.4 percent was substantially lower year on year (2016: 23.7 percent). The tax burden eased in the reporting year, mainly because of the remeasurement of deferred taxes resulting from the tax reform that was passed in the

Reconciliation from sales to adjusted operating profit[1]

38

in million euros	2016	%	2017	%	Change
Sales	**18,714**	**100.0**	**20,029**	**100.0**	**7.0 %**
Cost of sales	– 9,665	– 51.6	**– 10,598**	**– 52.9**	9.7 %
Gross profit	**9,049**	**48.4**	**9,431**	**47.1**	**4.2 %**
Marketing, selling and distribution expenses	– 4,543	– 24.4	**– 4,665**	**– 23.3**	2.7 %
Research and development expenses	– 460	– 2.5	**– 469**	**– 2.3**	2.0 %
Administrative expenses	– 868	– 4.6	**– 870**	**– 4.3**	0.2 %
Other operating income / expenses	– 6	0.0	**34**	**0.1**	–
Adjusted operating profit (EBIT)	**3,172**	**16.9**	**3,461**	**17.3**	**9.1 %**

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

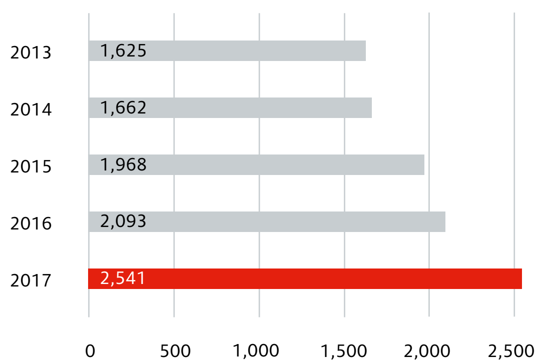
€2,541 m

net income.

USA in December 2017. The adjusted tax rate increased year on year by 0.3 percentage points to 25.0 percent after also adjusting for the one-time effect of the tax reform in the USA. Taking this tax effect into consideration, the net income for the year increased by 21.4 percent from 2,093 million euros to 2,541 million euros. After taking into account 22 million euros attributable to non-controlling interests, net income attributable to shareholders of Henkel AG & Co. KGaA amounted to 2,519 million euros, 22.7 percent higher than the prior-year figure (2016: 2,053 million euros). Adjusted net income after deducting non-controlling interests was 2,534 million euros compared to 2,323 million euros in fiscal 2016. 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 92 to 95.

Net income 39

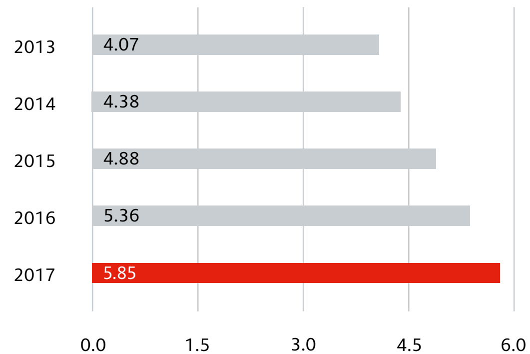
in million euros



Earnings per preferred share rose from 4.74 euros to 5.81 euros. Earnings per ordinary share increased from 4.72 euros to 5.79 euros. Adjusted earnings per preferred share rose by 9.1 percent to 5.85 euros (2016: 5.36 euros). In addition to the one-time charges / gains and the restructuring expenses, the exceptional effects of the US tax reform have also been included in the adjustment process.

Adjusted earnings per preferred share 40

in euros

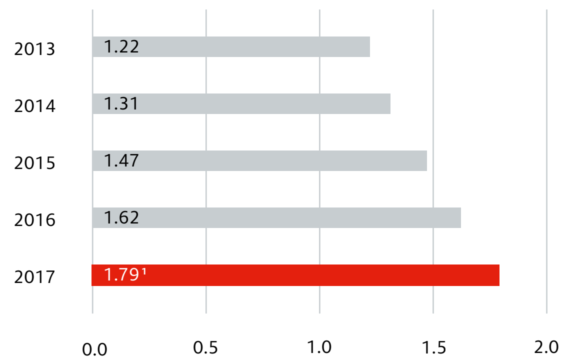


Dividend

According to our dividend policy, dividend payouts of Henkel AG & Co. KGaA shall, depending on the company's asset and profit positions as well as 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: 1.79 euros per preferred share and 1.77 euros per ordinary share. The payout ratio would then be 30.7 percent.

Preferred share dividend 41

in euros



[1] Proposal to shareholders for the Annual General Meeting on April 9, 2018.

Return on capital employed (ROCE)

At 16.3 percent, return on capital employed (ROCE) was below the prior-year figure of 17.5 percent, mainly due to acquisitions.

Economic Value Added (EVA®)

Economic Value Added (EVA®) increased from 1,463 million euros to 1,610 million euros.

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Comparison between actual business performance and guidance

We updated our guidance for fiscal 2017 in November 2017:

We confirmed our expectation for organic sales growth of 2 to 4 percent for the Henkel Group. Our expectations for organic growth were 4 to 5 percent for the Adhesive Technologies business unit, 0 to 1 percent for the Beauty Care business unit and around 2 percent for the Laundry & Home Care business unit. For adjusted return on sales (EBIT), we forecasted an increase to more than 17.0 percent for fiscal 2017 and anticipated that all business units would contribute to this positive performance. We expected an increase in adjusted earnings per preferred share of around 9 percent.

With organic growth of 3.1 percent, we achieved our sales growth forecast of 2 to 4 percent. As expected, all business units were within the ranges updated in November 2017.

Adjusted return on sales of the Henkel Group increased by 0.4 percentage points to 17.3 percent, which was in line with our guidance.

The significant increase in adjusted earnings per preferred share of 9.1 percent to 5.85 euros (2016: 5.36 euros) is consistent with our updated forecast of around 9 percent growth.

Our restructuring expenses totaled 245 million euros and were thus within our expected bandwidth of 200 to 250 million euros. Capital expenditures on property, plant and equipment and intangible assets totaled 663 million euros in fiscal 2017. In November 2017, we had forecasted capital expenditures of between 650 million and 750 million euros.

Guidance versus performance 2017

42

	Guidance for 2017	Updated guidance for 2017*	Performance in 2017
Organic sales growth	Henkel Group: 2–4 percent	Henkel Group: 2–4 percent	Henkel Group: 3.1 percent
	All business units within this range	Adhesive Technologies: 4–5 percent Beauty Care: 0–1 percent Laundry & Home Care: ~2 percent	Adhesive Technologies: 5.0 percent Beauty Care: 0.5 percent Laundry & Home Care: 2.0 percent
Adjusted return on sales (EBIT)	Increase to more than 17.0 percent	Increase to more than 17.0 percent	Increase to 17.3 percent
Adjusted earnings per preferred share	Increase of 7–9 percent	Increase of ~9 percent	Increase of 9.1 percent

* Updated on November 14, 2017.

Results of operations of the business units

Adhesive Technologies

Sales growth	Adjusted[1] operating profit	Adjusted[1] return on sales
+5.0%	€1,734 m	18.5%
organic sales growth	adjusted[1] operating profit (EBIT): up 6.4 percent	adjusted[1] return on sales (EBIT): up 0.3 percentage points

Overview

Despite persisting economic and geopolitical risks, the economic environment in which the Adhesive Technologies business unit operates was characterized by a generally solid upward trend in global industrial production. Key industrial sectors performed better than initially expected. From a regional perspective, economic growth was driven by good performance in the emerging markets, while the mature markets posted solid rates of increase.

Within this general economic environment, Adhesive Technologies successfully continued on its path of profitable growth. Through active portfolio management and innovative product solutions, our sales were able to outperform the market. Adjusted return on sales showed good development.

Sales

Sales generated by the Adhesive Technologies business unit increased nominally by 4.8 percent to 9,387 million euros in fiscal 2017. Foreign exchange effects reduced sales growth by 1.3 percent. Acquisitions / divestments accounted for 1.1 percent of the growth.

Organically (i.e. adjusted for foreign exchange and acquisitions / divestments), sales grew by 5.0 percent. Growth was driven primarily by increased volumes.

In the following, we comment on our organic sales performance in the regions.

We increased sales significantly in the emerging markets, due particularly to significant sales growth in the Eastern Europe, Latin America and Asia (excluding Japan) regions. Despite continued uncer-

Key financials * 43

in million euros	2016	2017	+/–
Sales	8,961	**9,387**	4.8 %
Proportion of Henkel sales	48 %	**47 %**	–
Operating profit (EBIT)	1,561	**1,657**	6.1 %
Adjusted operating profit (EBIT)	1,629	**1,734**	6.4 %
Return on sales (EBIT)	17.4 %	**17.7 %**	0.3 pp
Adjusted return on sales (EBIT)	18.2 %	**18.5 %**	0.3 pp
Return on capital employed (ROCE)	19.9 %	**20.3 %**	0.4 pp
Economic Value Added (EVA®)	719	**831**	15.5 %

pp = percentage points
* Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development * 44

in percent	2017
Change versus previous year	**4.8**
Foreign exchange	**– 1.3**
Adjusted for foreign exchange	**6.1**
Acquisitions / divestments	**1.1**
Organic	**5.0**
of which price	**0.4**
of which volume	**4.6**

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

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

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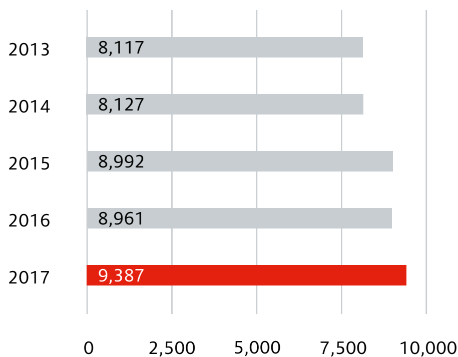
Sales Adhesive Technologies
in million euros



tainty in the political situation and the resulting deterioration in the economic environment, sales in the Africa / Middle East region were on a par with the previous year.

Sales performance in the mature markets was good overall, with strong growth in the Western Europe region. Performance in the mature markets of the Asia-Pacific region was good, while growth in the North America region was positive.

In 2017, 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 was around 30 percent.

Operating profit

Adjusted operating profit increased to 1,734 million euros, its highest-ever level. Adjusted return on sales reached a new all-time high of 18.5 percent. Gross margin was lower year on year, due mainly to higher prices for direct materials and to acquisition effects. By taking measures to optimize our organizational structures and improve production and supply chain efficiency, and by raising prices, we were able to reduce their influence on gross margin.

At 10.7 percent, net working capital as a percentage of sales was below prior year.

Return on capital employed (ROCE) increased year on year to 20.3 percent. At 831 million euros, Economic Value Added (EVA®) was up 112 million euros versus the previous year.

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 page 60.

Industry business

Sales in the Packaging and Consumer Goods Adhesives business area showed good performance versus the previous year, not least thanks to our leading portfolio of high-impact and safe solutions for packaging used in the food and beverage sectors.

We posted a very strong increase in sales in our Transport and Metal business area, which was substantially attributable to our numerous applications for automotive manufacturers and their body, powertrain and vehicle interior suppliers.

Sales increased significantly in the General Industry business area, boosted above all by our activities involving customers operating in the various industrial markets and vehicle maintenance, repair and overhaul.

Year on year, sales in our Electronics business area showed a double-digit increase. This growth was again primarily driven by our high-impact solutions for consumer electronics manufacturers and by our thermal management products for the electronics industry.

Adhesives for Consumers, Craftsmen and Building

Sales performance in the Adhesives for Consumers, Craftsmen and Building business area was positive. Our innovations for the construction industry were one of the drivers of this growth.

Top brands

LOCTITE
TECHNOMELT
TEROSON

Beauty Care

Sales growth	Adjusted[1] operating profit	Adjusted[1] return on sales
+0.5 %	€ 665 m	17.2 %
organic sales growth	adjusted[1] operating profit (EBIT): up 2.7 percent	adjusted[1] return on sales (EBIT): up 0.3 percentage points

Overview

In 2017, growth of the world cosmetics sector slowed again in the markets and categories of relevance for the Beauty Care business. In a fiercely competitive environment, development was actually negative in some key markets.

In our Branded Consumer Goods business, the mature markets in particular showed weak, and in some cases even negative, development. The performance of some key market segments in the North America region was slightly negative. The environment in Western Europe was characterized by sustained promotional activity, severe price and trade pressure, and declining average prices. Growth in relevant categories in individual emerging markets also slowed in 2017. In the Latin America and Eastern Europe regions, for example, market growth was lower year on year. Market developments in the Africa / Middle East and Asia (excluding Japan) regions were positive.

The professional hair salon market remained under pressure in 2017, especially in the mature markets, due to persistent consumer restraint.

In difficult market conditions overall, the Beauty Care business unit was able to continue on its path of profitable growth. Organic sales growth was flat in the Branded Consumer Goods business area. The Hair Salon business area reported good organic sales growth, outperforming the market. This enabled us to further expand our position as the world number three in the hair salon market. Growth in adjusted return on sales was good.

Key financials * (46)

in million euros	2016	2017	+/–
Sales	3,838	**3,868**	0.8 %
Proportion of Henkel sales	20 %	**19 %**	–
Operating profit (EBIT)	526	**535**	1.7 %
Adjusted operating profit (EBIT)	647	**665**	2.7 %
Return on sales (EBIT)	13.7 %	**13.8 %**	0.1 pp
Adjusted return on sales (EBIT)	16.9 %	**17.2 %**	0.3 pp
Return on capital employed (ROCE)	18.2 %	**17.6 %**	– 0.6 pp
Economic Value Added (EVA®)	266	**262**	– 1.8 %

pp = percentage points
* Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development * (47)

in percent	2017
Change versus previous year	**0.8**
Foreign exchange	**– 1.3**
Adjusted for foreign exchange	**2.1**
Acquisitions / divestments	**1.6**
Organic	**0.5**
of which price	**0.1**
of which volume	**0.4**

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

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

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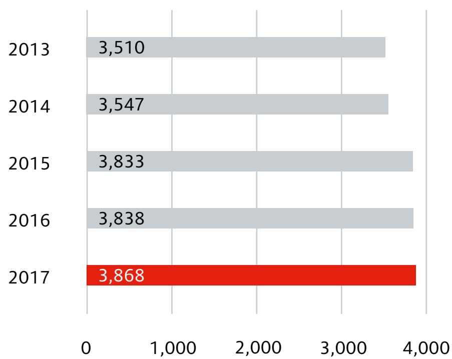
Sales Beauty Care
in million euros

48



Sales

Sales generated by the Beauty Care business unit increased nominally by 0.8 percent to 3,868 million euros in fiscal 2017. Foreign exchange effects reduced sales by 1.3 percent. Acquisitions / divestments accounted for 1.6 percent of the growth.

Organically (i.e. adjusted for foreign exchange and acquisitions / divestments), sales increased by 0.5 percent. Growth was driven primarily by increased volumes.

In the following, we comment on our organic sales performance in the regions.

From a regional perspective, the organic growth rate of our business in the emerging markets was positive. In the Africa / Middle East region, the business unit achieved significant organic sales growth. The Latin America region continued the successful trend of previous years with positive sales growth. Sales performance was negative in the Asia (excluding Japan) region due to business development in China. We achieved very strong growth in Eastern Europe.

The mature markets continued to be impacted by fierce crowding-out competition and intense price pressure. In a challenging environment, sales in the mature markets were slightly below the previous year's level due to negative performance in Western Europe and in the mature markets of the Asia-Pacific region. By contrast, growth in the North America region was very strong compared to 2016.

In 2017, 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 40 percent.

Operating profit

Adjusted operating profit increased in the reporting period to 665 million euros. Adjusted return on sales exhibited good growth, reaching a new high of 17.2 percent. Our ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to offset the effects on gross margin exerted by higher prices for direct materials and sustained promotional intensity.

At 3.9 percent, net working capital as a percentage of sales was again low, albeit above the prior-year level due partly to acquisitions. At 17.6 percent, return on capital employed (ROCE) was down year on year, also as a result of acquisitions. Economic Value Added (EVA®) was slightly below the prior-year level at 262 million euros.

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 60.

Branded Consumer Goods

Sales growth in our Branded Consumer Goods business area was flat in 2017. The Hair Cosmetics business generated positive sales growth, boosted by successful innovations under our Schwarzkopf brand and our newly acquired brands Pert and Xtreme.

Hair Salon business

Despite the continued restraint apparent in the hair salon market, performance by our Hair Salon business was again good in 2017, thanks particularly to our North American brands Sexy Hair and Kenra, the launch of our influencer brand #mydentity, and the relaunch by Schwarzkopf Professional of the BlondMe product line.

Top brands

Schwarzkopf

Dial

syoss

Laundry & Home Care

Sales growth	Adjusted[1] operating profit	Adjusted[1] return on sales
+2.0%	€1,170 m	17.6%
organic sales growth	adjusted[1] operating profit (EBIT): up 17.0 percent	adjusted[1] return on sales (EBIT): up 0.3 percentage points

Overview

In 2017, the relevant world market for laundry and home care showed a positive development.

Market performance in the mature markets was slightly positive. The relevant market for laundry and home care declined slightly in Western Europe. Market performance in North America was positive.

Developments in the emerging markets varied. Growth in our relevant markets in the Africa / Middle East region was slightly negative as a result of the challenging market environment. The market in Eastern Europe recorded strong growth. In Latin America, performance in the relevant market for laundry and home care products was also strong.

Although our relevant markets continued to be characterized by intense price and promotional competition, we were able to again outperform the relevant market in terms of growth in 2017. Both the sustained success of our strong brands and the successful introduction of our innovations contributed to the good performance. Growth in adjusted return on sales was good. The business unit therefore continued its path of profitable growth again in 2017.

Key financials *

49

in million euros	2016	2017	+/–
Sales	5,795	**6,651**	14.8%
Proportion of Henkel sales	31%	**33%**	–
Operating profit (EBIT)	803	**989**	23.2%
Adjusted operating profit (EBIT)	1,000	**1,170**	17.0%
Return on sales (EBIT)	13.9%	**14.9%**	1.0pp
Adjusted return on sales (EBIT)	17.3%	**17.6%**	0.3pp
Return on capital employed (ROCE)	15.7%	**13.1%**	–2.6pp
Economic Value Added (EVA®)	344	**309**	–10.1%

pp = percentage points
* Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development *

50

in percent	2017
Change versus previous year	**14.8**
Foreign exchange	**–3.4**
Adjusted for foreign exchange	**18.2**
Acquisitions / divestments	**16.2**
Organic	**2.0**
of which price	**0.1**
of which volume	**1.9**

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

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

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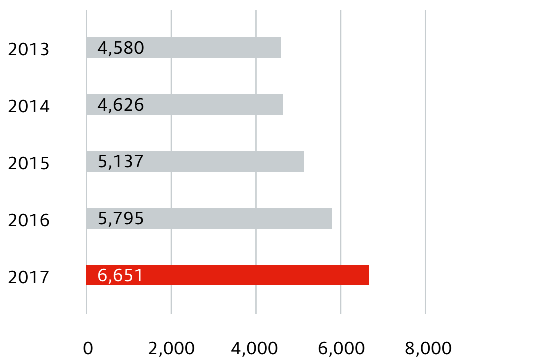
Sales Laundry & Home Care 51

in million euros



Sales

Sales generated by the Laundry & Home Care business unit increased nominally by 14.8 percent to 6,651 million euros in fiscal 2017. Foreign exchange effects reduced sales growth by 3.4 percent. Acquisitions / divestments accounted for 16.2 percent of the growth.

Organically (i.e. adjusted for foreign exchange and acquisitions / divestments), sales increased by 2.0 percent. Sales performance was largely driven by increasing volumes.

In the following, we comment on our organic sales performance in the regions.

The emerging markets registered a good increase in sales and were once again the biggest driver of organic growth in Laundry & Home Care. This performance was helped by very strong growth in the Asia (excluding Japan) region. Sales performance was also very strong in the Eastern Europe region and positive in the Africa / Middle East region. Due to intense price and promotional competition, sales growth in Latin America was negative.

Market performance in the mature markets was positive. Sales increased very strongly in the North America region but decreased in the Western Europe region.

In 2017, we generated around 65 percent of our sales with our top 10 brand clusters. A brand cluster comprises individual global and local brands that share a common brand positioning internationally. The proportion of sales from products successfully launched onto the market in the last three years was around 45 percent.

Operating profit

Adjusted operating profit (EBIT) rose by 17.0 percent from 1,000 million euros to 1,170 million euros. Adjusted return on sales in the Laundry & Home Care business unit increased to a new all-time high of 17.6 percent (previous year: 17.3 percent). Gross margin was lower year on year due to acquisition effects, higher prices for direct materials and the adverse impact of sustained promotional intensity.

Net working capital as a percentage of sales was above the previous year's level, but still low at −2.4 percent. At 13.1 percent, return on capital employed (ROCE) was lower year on year due to acquisitions. With a figure of 309 million euros, Economic Value Added (EVA®) was below the prior-year level of 344 million euros, also as a result of acquisitions.

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 60.

Laundry Care

Sales performance in the Laundry Care business area was positive, boosted substantially by our core brand Persil. Fabric softeners also contributed to this performance with good growth helped, in particular, by the introduction of successful innovations.

Home Care

Sales growth in the Home Care business area was strong in 2017. Products for WC applications were again the biggest drivers of growth.

Top brands

Persil

Purex

€ 663 m

investments in property, plant and equipment and intangible assets.

Net assets and financial position

Acquisitions and divestments

Effective July 3, 2017, we completed the acquisition of the global Darex Packaging Technologies business from GCP Applied Technologies, including all associated shares. The transaction is in line with our strategy to strengthen our portfolio through targeted acquisitions and reinforces the position of our Adhesive Technologies business as global market and technology leader.

Effective July 3, 2017, we completed the acquisition of all shares of Sonderhoff Holding GmbH based in Cologne, Germany. This acquisition expands the sealant expertise of Henkel and reinforces the position of our Adhesive Technologies business as global market and technology leader.

Effective September 1, 2017, the acquisition of all shares of Nattura Laboratorios, S.A. de C.V., Mexico, and associated companies in the USA, Colombia and Spain was completed. Through this acquisition, Henkel will further strengthen its Hair Salon business and expand its footprint in both the emerging and mature markets.

Effective December 28, 2017, we completed the acquisition of all shares of Zotos International Inc., the North American hair salon business of Shiseido Company, Limited. This acquisition is part of our strategy to strengthen Henkel's position in attractive markets and categories. To this end, we are expanding our Hair Salon business in the USA, which is the world's largest single professional hairdressing market.

On January 1, 2017, Henkel sold its professional Western European building material business.

In the first half of 2017, we sold our global electronic mold compound business, including Henkel Huawei Electronics, our company in Lianyungang, China.

Additional disclosures relating to the acquisitions and divestments can be found on pages 116 and 117 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 59 and 60.

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 663 million euros. Investments in property, plant and equipment for existing operations totaled 590 million euros, following 460 million euros in 2016. Capital expenditures on property, plant and equipment totaled 230 million euros (previous year: 187 million euros) in the Adhesive Technologies business unit, 80 million euros (previous year: 54 million euros) in Beauty Care, and 274 million euros (previous year: 210 million euros) in Laundry & Home Care. We invested 73 million euros in intangible assets (previous year: 83 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 2017 were as follows:

- Construction of a new production site for industrial adhesives and metal pretreatment products in India (Adhesive Technologies)
- Construction of a new production facility for products used in the aviation industry in Spain (Adhesive Technologies)
- Expansion of a production site in Russia and of the production capacity for colorants, liquid products and aerosols (Beauty Care)
- Construction of a new production site for liquid products in Egypt (Laundry & Home Care)
- Expansion of warehousing and logistics capacities in Germany (Laundry & Home Care)
- Global optimization of our supply chain and consolidation and optimization of our IT system architecture for managing business processes

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 1,818 million euros. Details of these additions can be found on pages 125 to 130 of the notes to the consolidated financial statements.

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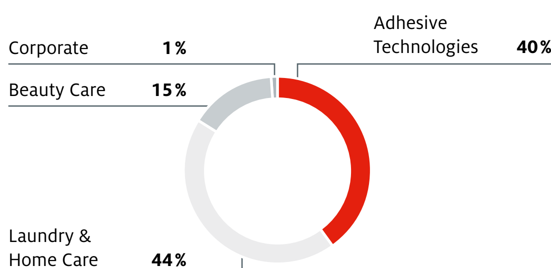
Capital expenditures by business unit[1]

52



[1] Existing operations.

Capital expenditures 2017

53

in million euros	Existing operations	Acquisitions	Total
Intangible assets	73	1,640	**1,713**
Property, plant and equipment	590	178	**768**
Total	**663**	**1,818**	**2,481**

Net assets

Compared to year-end 2016, total assets rose by 0.3 billion euros to 28.3 billion euros.

Under **non-current assets,** intangible assets increased by 89 million euros, and property, plant and equipment by 118 million euros. The increase was mainly due to acquisitions but was reduced by negative foreign exchange effects. Capital expenditures of 590 million euros on property, plant and equipment were partially offset by depreciation of 401 million euros.

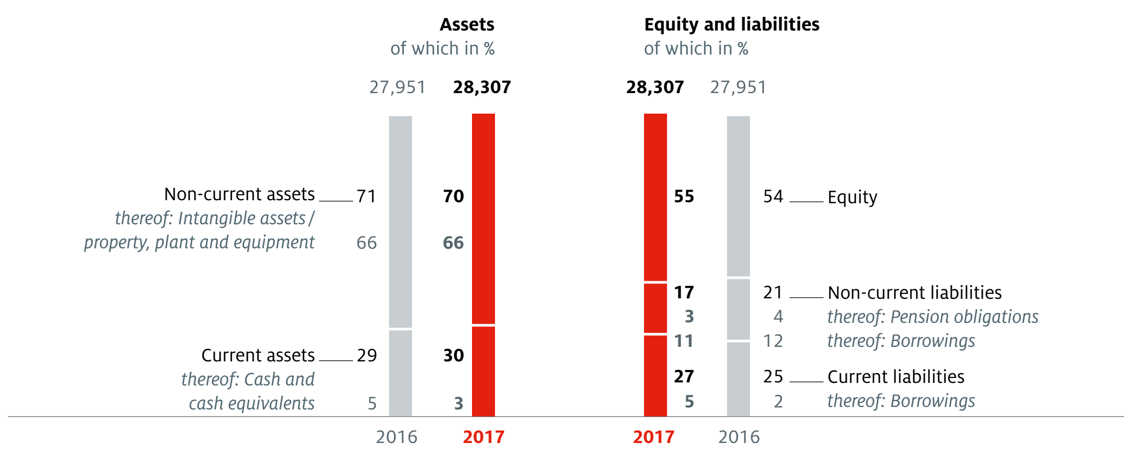
Current assets increased from 8.2 billion euros to 8.5 billion euros. This was attributable in particular to an increase in other financial assets and higher trade accounts receivable. Cash and cash equivalents decreased by 473 million euros in the reporting period.

Compared to year-end 2016, **equity** including non-controlling interests increased by 0.5 billion euros to 15.7 billion euros. The individual components influencing equity development are shown in the consolidated statement of changes in equity on page 111. Equity rose with the addition of net income amounting to 2,541 million euros. The dividend distribution in April 2017 and negative foreign exchange effects of 1,334 million euros had a countervailing effect on equity. At year-end 2017, the equity ratio had increased by 1 percentage point to 55.3 percent.

Financial structure

in million euros

54



€ –3,225 m

net financial position.

Non-current liabilities decreased by 0.9 billion euros to 4.9 billion euros. This was mainly due to the reduction in borrowings following the reclassification of a bond and to lower pension obligations. The latter decreased due to the above-average return earned on the plan assets.

Current liabilities increased by 0.7 billion euros to 7.7 billion euros, mainly as a result of higher borrowings following the issuance of commercial paper, and of the reclassification of a bond for maturity reasons.

Effective December 31, 2017, our **net financial position**[1] amounted to –3,225 million euros (December 31, 2016: –2,301 million euros). The change compared to the end of the previous year was primarily due to payments for acquisitions.

Net financial position 55

in million euros	
2013	959
2014	– 153
2015	335
2016	– 2,301
2017	**– 3,225**

Financial position

At 2,468 million euros, **cash flow from operating activities** in 2017 was lower versus the previous year (2,850 million euros). The decrease was mainly attributable to cash outflows in respect of inventories, lower inflows from trade accounts payable, and higher outflows from trade accounts receivable.

Year on year, net working capital[2] as a percentage of sales increased by 1.3 percentage points to 4.8 percent, partly due to acquisitions.

The cash outflow in **cash flow from investing activities** (–2,451 million euros) was below the figure of the prior-year period (–4,250 million euros) as a result of lower investments in subsidiaries and other business units.

The cash outflow from **cash flow from financing activities** of –415 million euros (2016: 1,678 million euros) resulted mainly from dividend payments. In addition, the volume of bond issues decreased versus the prior year.

Cash and cash equivalents decreased compared to December 31, 2016 by 473 million euros to 916 million euros.

The decrease in **free cash flow** to 1,701 million euros in 2017 (2016: 2,205 million euros) resulted from lower cash flow from operating activities and increased capital expenditures on intangible assets and property, plant and equipment, including payments on account.

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 right). We pursue a conservative and flexible investment and borrowings policy with a balanced investment and financing portfolio. The primary goals of our financial management are to secure the liquidity and creditworthiness of the Group, together with ensuring access at all times to the capital market, and to generate a sustainable increase in shareholder value. Measures deployed in order to achieve these aims include optimization of our capital structure, adoption of an appropriate dividend policy, equity management and debt reduction. Our capital needs and capital procurement activities are coordinated to ensure that requirements with respect to earnings, liquidity, security and independence are taken into account and properly balanced.

In fiscal 2017, Henkel paid a higher dividend for both ordinary and preferred shares compared to 2016. Cash flows not required for capital expenditures, dividends and interest payments were used for allocations to pension funds 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.

[1] Cash and cash equivalents plus readily monetizable financial instruments classified as available for sale or using the fair value option, less borrowings, plus positive and less negative fair values of hedging transactions.
[2] Inventories plus payments on account, receivables from suppliers and trade accounts receivable, less trade accounts payable, liabilities to customers, and current sales provisions.

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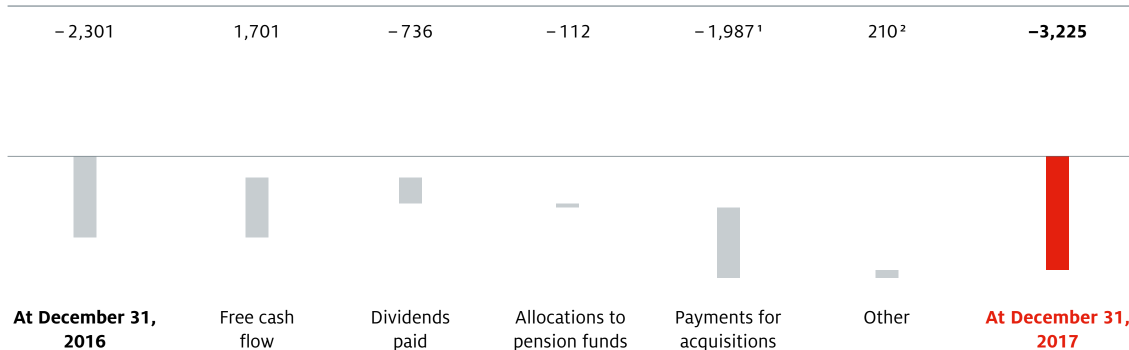
Net financial position

56

in million euros



[1] Including purchase of non-controlling interests with no change of existing control.
[2] Primarily foreign exchange effects.

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

57

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

At December 31, 2017

As of December 31, 2017, our borrowings totaled 4,344 million euros and mainly comprised bonds issued, a syndicated bank loan and commercial paper.

Henkel's financial risk management activities are explained in the risks and opportunities report on pages 96 to 103. Further detailed information on our financial instruments can be found in the financial instruments report on pages 149 to 161 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 2016. The interest coverage ratio has decreased to 79.3.

Key financial ratios

58

	2016	2017
Operating debt coverage (net income + amortization and depreciation, impairment and write-ups + interest element of pension obligations) / net borrowings and pension obligations	80.8 %	**80.9 %**
Interest coverage ratio (EBITDA / interest result including interest element of pension obligations)	107.9	**79.3**
Equity ratio (equity / total assets)	54.3 %	**55.3 %**

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 working environment that is inspirational, based on trust and focused on team spirit – 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 53,700 employees (as at year-end 2017) with 120 different nationalities operating in 78 different countries. At December 31, 2017, the number of employees had thus risen compared to around 51,350 as of year-end 2016. This growth is primarily attributable to our acquisitions, through which we gained around 3,400 employees. We strive to integrate all new employees quickly and in a respectful manner, as demonstrated, for example, by our merger of The Sun Products Corporation, which we acquired in 2016, with Henkel Consumer Goods in the USA: By August 2017 we were already able to bring the employees from both companies together at our new site in Stamford, Connecticut.

Our three business units and central functions offer numerous vocational options. With our versatile organizational structure, we can offer our employees individual career opportunities.

We value diversity in our workforce. The age structure of our employees has been constant and balanced for years. To keep it that way, and in response to demographic change, we strive to offer equal encouragement to all generations at Henkel and to take different life phases into consideration. Moreover, 34.5 percent of the managers at our company are women. We want the diversity in our workforce to reflect the diversity in our customer structure.

Payroll cost and average headcount

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	2016	2017
Payroll cost in million euros	3,001	**3,167**
Average headcount	49,950	**51,950**

Employees by organizational unit

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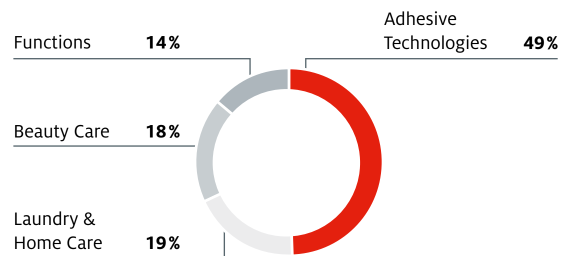

At December 31, 2017

Throughout the Group, we are focusing increasingly on digital communication platforms to foster and energize exchange across department, country or hierarchy boundaries. Our HR systems have been specifically extended for senior management, and optimized for use on mobile devices. This enables our executives to access key employee data flexibly and at any time, to respond more quickly to issues raised by employees, and to fulfill their leadership duties.

Energized and empowered teams

We want our employees themselves to be able to adjust their work hours and workplace to suit the requirements of their jobs and their personal needs. They consciously incorporate the opportunities offered by digitalization in their daily work processes. We have set up activity-based workspaces at eight sites. These flexible office landscapes offer our employees a choice of workplaces to suit a relevant activity, thus providing the best possible environment for them to work in. We also continue to support the use of our flexible work models. Together with a willingness to perform, mutual trust is essential for this degree of flexibility when shaping individual work models.

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 the performance and potential with their respective employees. Individual training programs and potential career moves are also discussed.

Women in management

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in percent	2013	2014	2015	2016	2017
Henkel	32.9	33.2	33.6	33.1	**34.3**
Managers	31.6	32.5	33.1	34.3	**34.5**
Top managers[1]	19.8	20.6	21.1	22.5	**23.2**

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

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Employees by activity

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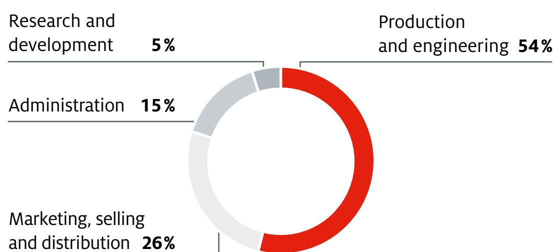

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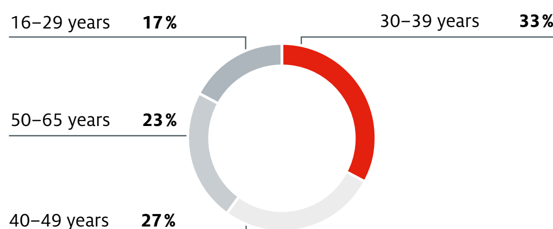
Employees by age group

63



At December 31, 2017

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 focus individually on each of our applicants. Increasingly, we also actively approach potential candidates through digital networks as a quick and easy means of reaching out to our digitally savvy target groups. Recruitment research in professional networks also allows us to focus more closely on filling vacancies that require special expert knowledge. In some countries, our employees can make use of the new "Refer a Talent" digital platform to recommend suitable candidates directly for an appropriate vacancy.

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 offers 27 apprenticeship and dual-track study programs in Germany. In 2017, 165 new apprentices and students started working toward a professional qualification at Henkel in Germany. In some emerging markets, we have established special in-house training programs for professionals and executives. One example is our management trainee program in Asia. We have also further improved EXCEED, our junior management training program especially tailored to the needs of the emerging markets.

Ongoing training opportunities are made available to our employees, with digital platforms making it particularly easy to access training content quickly and flexibly. Since we introduced Lynda.com throughout the company in spring 2017, our employees have been able to take advantage of a regularly updated portfolio of training videos which can also be accessed on mobile devices. We also provide guidelines on personal career development and have revised our globally standardized management selection program.

Employees

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(At December 31)	2013	%	2014	%	2015	%	2016	%	2017	%
Western Europe	14,400	30.7	14,900	30.0	14,900	30.2	14,450	28.1	**14,750**	**27.5**
Eastern Europe	9,600	20.5	10,000	20.1	9,800	19.8	9,500	18.5	**9,950**	**18.5**
Africa / Middle East	4,800	10.2	4,850	9.7	4,700	9.4	5,250	10.2	**4,750**	**8.8**
North America	5,150	11.0	6,200	12.5	6,250	12.7	8,300	16.2	**9,050**	**16.9**
Latin America	3,750	8.0	3,650	7.3	3,500	7.1	3,550	6.9	**5,500**	**10.2**
Asia-Pacific	9,150	19.6	10,150	20.4	10,300	20.8	10,300	20.1	**9,700**	**18.1**
Total	**46,850**	**100.0**	**49,750**	**100.0**	**49,450**	**100.0**	**51,350**	**100.0**	**53,700**	**100.0**

Basis: Permanent staff excluding apprentices. Figures rounded.

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 2017. Following sharp increases in the first quarter, prices of crude oil and petrochemicals eased in the second quarter before notably picking up again in the second half of the year. On average, prices for crude oil and petrochemicals were significantly higher year on year. The price trend for palm kernel oil was also volatile, with average prices slightly lower in 2017 compared to the previous year. Prices for corrugated paper and cardboard rose steadily over the course of 2017. Overall, prices for direct materials in 2017 were moderately higher versus the prior year.

Direct material expenditures amounted to 8.5 billion euros and were therefore higher than 2016. Savings from cost reduction measures coupled with improvements in production and supply chain efficiency enabled us to partially offset rising material prices, higher sales volumes and acquisition effects.

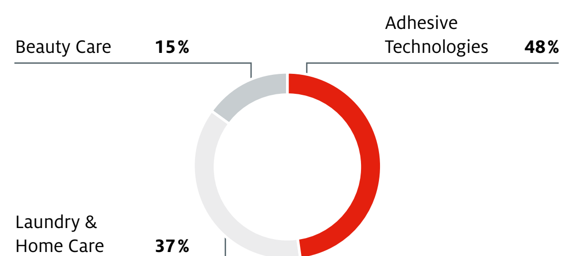
Our five most important groups of raw materials within the direct materials category are washing-active substances (surfactants), raw materials for use in hotmelt adhesives, water- and acrylic-based adhesive raw materials, raw materials for polyurethane-based adhesives, and inorganic raw materials. These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

Indirect materials and services are not directly used in the production of our finished products. Examples include maintenance materials, logistics, marketing and IT services. Gross prices in these areas rose slightly in 2017, but we were able to overcompensate for the increases through our global procurement strategy and structural cost reduction measures. At 4.5 billion euros, expenditure on indirect materials and services in 2017 was lower year on year.

In order to improve efficiency and secure material supplies, we continuously optimize our value chain while ensuring that we maintain or improve our level of quality. In addition to negotiating new, competitive contract terms, our ongoing initiative to lower total procurement expenses is a major factor in the success of our global purchasing strategy. Together with 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 to strengthen our negotiating position and give us greater flexibility in consolidating our supplier base.

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 also pooled large portions of our purchasing administration activities – such as order processing, price data maintenance and reporting activities – within our shared service centers. We are also continuing to progress the digitalization of our purchasing activities. For example, we optimized collaboration with our strategic suppliers through digital communication platforms and increased transparency along the value chain through new digital applications. We are also integrating 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.

Material expenditures by business unit 65



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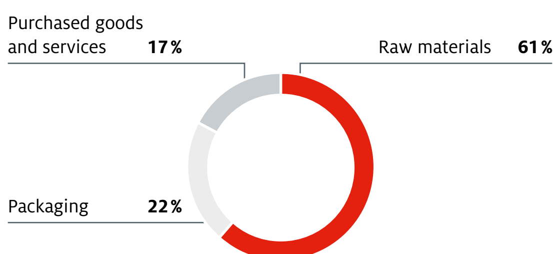
Given the uncertainties with respect to raw material price changes and ensuring supply in the procurement markets, risk management is an important part of our purchasing strategy. The emphasis here is on reducing price and supply risks while maintaining consistently high quality. As part of our active price management approach, we employ strategies to safeguard prices over the longer term. These are implemented both by means of contracts and, where appropriate and possible, through financial hedging instruments. In order to minimize the risk of supplier default, we stipulate supplier default clauses and perform detailed risk assessments of suppliers to determine their financial stability. With the aid of an external, independent financial services provider, we continuously monitor important suppliers whose financial situation is seen 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 66



At December 31, 2017

Production

In 2017, Henkel manufactured products at 188 sites in 57 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 67

	2016	2017
Adhesive Technologies	134	**146**
Beauty Care	7	**11**
Laundry & Home Care	30	**31**
Total	**171**	**188**

The number of **Adhesive Technologies** production sites increased from 134 to 146 in fiscal 2017 following the acquisition of Darex Packaging Technologies and the Sonderhoff Group. The global production network of the business unit is strictly aligned to the business growth and the increasing demand encountered in emerging markets. Capital expenditures are used to expand capacities, predominantly in emerging markets. At the same time, we invest in the implementation of customer-specific requirements in the mature markets. Focal areas include targeted optimization of our production network based on cutting-edge technologies so as to leverage economies of scale, and cost and quality advantages in the manufacture of our products.

Our multi-technology sites play a particularly important role as they combine various manufacturing technologies cost-efficiently within a shared infrastructure. During the course of the reporting period, we continually expanded production capacity at our facility in China. A new factory in India will start production in 2018. A further plant is currently being built in Turkey. These sites are crucial to ensuring supply efficiency within the dynamically growing market environment.

To raise production efficiency and further improve our service quality we have put Industry 4.0 activities in place at various production sites that enable the networked handling of key data designed to facilitate management of the entire logistics and production process from the suppliers through to the customers.

The number of sites in our **Beauty Care** production network has increased to eleven. Acquisitions have resulted in an extension of our production footprint in Latin America and the USA, with plans for further expansion of the new facilities also in the pipeline. To ensure long-term growth – especially in emerging markets – we are investing in capacities and technologies based on our supply network strategy. In Eastern Europe, we have further expanded our factory in Russia, thus significantly increasing production capacity in all three key technologies – colorants, liquid products and aerosols. We also have specifically expanded 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 promptly analyze big data can both speed up the decision-making process and make it more efficient.

The production network in our **Laundry & Home Care** business unit grew by one to 31 sites in 2017. Our new plant near Cairo, Egypt, is designed to ensure efficient supply to emerging markets in the Middle East. We have specifically expanded our production capacity to facilitate further increases in production volume in response to ongoing good organic and additional acquisitions-related growth. Our focus on further developing the Henkel Production System has enabled us to steadily enhance the capabilities and efficiency of our plants. Integrating the production plants acquired through our acquisitions in 2016 was another focal area that demanded our attention.

To further improve our customer service, we implemented numerous Industry 4.0 initiatives to digitalize our production processes and production management. We also started operation of the expanded finished goods warehouse at our main plant in Düsseldorf in the year under review. This fully automatic distribution center underpins our ability to supply all core markets in Central and Northern Europe efficiently and at the lowest possible cost.

Pooling the purchasing, production and logistics activities of **all business units** in a 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 2017, around 80 percent of our production volume came 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 2017 increased to 476 million euros (2016: 463 million euros). Expressed as a percentage of sales, R&D expenses were at 2.4 percent (2016: 2.5 percent). Adjusted for restructuring expenses, R&D expenses increased to 469 million euros. The ratio of adjusted expenses to sales was 2.3 percent (2016: 2.5 percent).

In 2017, internal personnel expenses accounted for around 60 percent of total R&D spending. Our research and development costs were fully expensed; no product- or technology-related development costs were capitalized in accordance with International Financial Reporting Standards (IFRSs).

On an annual average, around 2,700 employees worked in research and development (2016: also around 2,700). This corresponds to around 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

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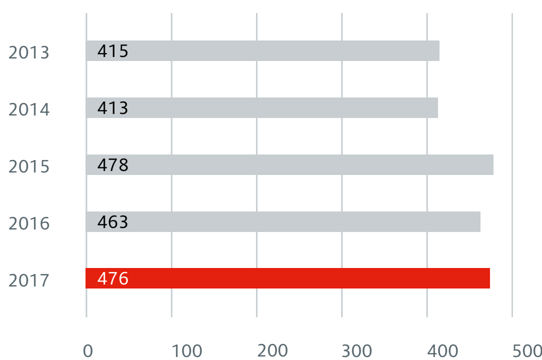

[1] Including restructuring expenses of 1 million euros (2013), 3 million euros (2014), 14 million euros (2015), 3 million euros (2016), 7 million euros (2017).

R&D expenditures by business unit

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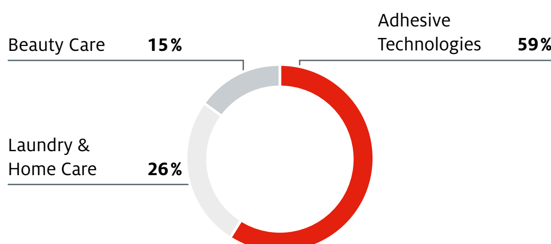

Our capital expenditures and the capabilities of our highly qualified employees form the foundation on which the success of our R&D activities is built. Moreover, our Group-wide cooperation models, successful project outsourcing as part of our Open Innovation strategy, the expansion of our corporate venture activities, and the relocation of resources to emerging markets all demonstrate our ongoing focus on innovation and our concerted efforts to continuously reduce our resource consumption while maintaining or improving performance.

Key R&D figures

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	2013	2014	2015	2016	2017
R&D expenditures[1] (in million euros)	414	410	464	460	**469**
R&D expenditures[1] (in percent of sales)	2.6	2.5	2.6	2.5	**2.3**
Employees[2] (annual average)	2,600	2,650	2,800	2,700	**2,700**

[1] Adjusted for restructuring expenses.
[2] Figures rounded.

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 innovation, evaluating partners for innovation, and on sustainability. The Research and Development Committee is responsible for Group-wide coordination.

The business units also continually update one another on innovations in common areas of knowledge. Examples include encapsulation technologies that are used by all business units, or surface-modifying technologies.

Selected research and development sites 71

Open Innovation

As our innovations come from both internal and external sources, the concept of Open Innovation continues to hold great significance for us. Accordingly, we have intensified 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.

To achieve this aim, Henkel further expanded its venture capital activities in 2017, now pooled within the Henkel Ventures unit. Henkel also strengthened its expertise by investing in start-up companies. Our investment in start-up NBD Nanotechnologies, Boston, USA, has enabled us to expand our know-how in the field of innovative surface technologies. Our printed electronics technology portfolio has been strengthened with the addition of our investment in Copprint Technologies LTD, Jerusalem, Israel. In addition, we raised our investment in Zipjet. Operating in the digital on-demand domain, this start-up offers a mobile laundry and dry cleaning service in London, Paris and Berlin.

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 activity is 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, 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 offers its customers cutting-edge technology development and comprehensive design and application support. A global network of regional research and development centers combined with local development and technology laboratories enables customers to access Henkel innovations in a wide range of applications. Building on a broad portfolio of technologies, products are quickly adapted to specific customer applications. Global, strategically relevant innovation programs effectively drive future growth.

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The increasing importance of the emerging markets is also reflected in the R&D strategy of the **Beauty Care** business unit. In the regional testing and development centers in Shanghai, China, in Johannesburg, South Africa, and in Bogotá, Colombia, individual hair care products are developed that take account of local distinctions and specific consumer needs. The acquisition of Nattura Laboratorios included a new research and development site in Guadalajara, Mexico, where product innovations are developed for both our Hair Salon and Branded Consumer Goods businesses.

The **Laundry & Home Care** business unit uses its global network to develop tailor-made laundry detergents and household cleaners for both emerging markets and industrialized countries. The base technologies are developed centrally in Europe before being translated into new products for the specific markets at the regional test and development centers. The immediate proximity to markets is assured by our regional development centers, where we analyze consumer habits and specific needs on an ongoing basis. Outside Europe, we operate centers in the USA, Mexico, Russia, the United Arab Emirates, South Korea and Australia.

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 less resources while offering the same or better performance. It is therefore both our duty and our desire 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 progress. We thus aim to combine product performance and quality with social and environmental responsibility. Our focus in this respect is on two 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 energy use and carbon dioxide emissions through our innovations.

Life cycle analyses, profiles of potential raw materials and packaging options, 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 nearly 9,200 patents to protect our technologies around the world. Approximately 5,850 patents are currently pending. And we have registered just over 1,550 design patents to protect our intellectual property.

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

www.henkel.com/brands-and-businesses

Marketing and distribution

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

The **Adhesive Technologies** business unit leads the global market with high-impact solutions. The comprehensive portfolio featuring groundbreaking innovations, tailor-made products and strong brands is aligned to the globally specialized markets for adhesives, sealants and functional coatings. 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 relationships with around 130,000 direct industry and retail customers are managed primarily by our own sales teams, while our retail customers service the needs of private users, craftsmen and smaller industrial customers.

We foster long-term relationships with our customers through our team of around 6,500 technical experts. We therefore have an in-depth understanding of the various applications. 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.

Following the global rollout of a digital customer management platform, we are now able to service our customers even more quickly and efficiently. The use of mobile devices enables our sales agents to access relevant information anywhere and at any time, and also to speed up processes.

In North America and Asia, we have rolled out the new Henkel Adhesives eShop for our industrial customers. This modern eCommerce platform builds on a holistic and customer-centric concept, offering a comprehensive user experience. We are planning to extend the rollout of the Henkel Adhesives eShop to Europe and Latin America in 2018.

In addition to digital communications, we strive to optimize our approach to consumers and craftsmen through the continued use of conventional 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 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 hosted more than 300 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 was thoroughly revamped in 2016 and now offers our customers from around the world an interactive experience of all our beauty competences with stronger focus on digitalization.

We are also committed in our Hair Salon business to close partnership and cooperation with our customers. With our globally established Schwarzkopf Academies, we offer value-adding services in the form of

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state-of-the-art seminars and ongoing further training opportunities, with the focus on the professional hairdresser's role as an entrepreneur.

In the **Laundry & Home Care** business unit, we develop our marketing strategies and product innovations for our strong brands on a global scale, adapting them to regional consumer needs and market conditions, and implementing them at the local level. In doing so, we ensure central, efficient management of our brands aimed at strengthening their cores and offering consumers emotional added value instead of just functional benefits. We focus on an innovation process that enables us to both recognize global consumer trends early on and implement new products quickly, while at the same time remaining closely attuned to local needs.

We also use new technologies – such as the Internet of Things – to steadily enhance our brands. Digital trends are likewise incorporated in our brand communication activities; we are steadily expanding the use of digital media – particularly social media – to engage our consumers in the most effective way possible.

Laundry & Home Care implements a 360 Degree Customer Collaboration concept to develop its customer relationships in as many directions as possible – in both brick-and-mortar retail and the field of eCommerce. Our Global Experience Center opened in Düsseldorf in 2015 to further strengthen our partnerships with our customers. This innovative platform showcases the latest trends, products and sustainability concepts in the field of Laundry & Home Care, allowing the more than 200 customers who have already visited the Center to explore them with all their senses. On the basis of the latest consumer analyses and shopper marketing surveys, we develop customized solutions to meet the specific requirements of our partners and identify common areas of potential value creation. The Global Experience Center was extended in 2017 to include an interactive digitalization and eCommerce station.

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. We cooperate closely with our customers in trade and industry in the development and implementation of viable concepts.

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 2017, some 7,900 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 63).

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 66.

Results of operations

Sales and profits

2017 was a good year for Henkel AG & Co. KGaA. At 3,637 million euros, sales of Henkel AG & Co. KGaA in 2017 were 1.1 percent lower year on year. This result is consistent with our guidance for 2017. The substantial improvement in financial result enabled Henkel AG & Co. KGaA to exceed its forecast of flat to slightly higher unappropriated profit. The improved financial result was mainly attributable to higher dividend income from subsidiaries.

In fiscal 2017, the **Adhesive Technologies** business unit generated sales of 1,019 million euros, slightly below the figure of the previous year. Declining sales in the Adhesives for Consumers, Craftsmen and Building business area, primarily as a result of selling the professional Western European building material business, were extensively compensated by the performance of the Industrial Adhesives businesses.

The **Beauty Care** business unit achieved sales of 520 million euros in 2017. The decrease year on year was mainly due to fiercer competitive and price pressures.

The **Laundry & Home Care** business unit generated sales of 940 million euros in 2017, thus exceeding the figure for 2016. Domestic sales performance in Germany was a major factor in this positive performance.

* 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] 72

in million euros	2016	2017
Sales	3,676	**3,637**
Cost of sales	–2,444	**–2,595**
Gross profit	**1,232**	**1,042**
Marketing, selling, distribution and administrative expenses	–911	**–803**
Research and development expenses	–312	**–311**
Other operating income / expenses	154	**193**
Operating profit	**163**	**121**
Financial result	**911**	**1,070**
Income before tax	**1,074**	**1,191**
Taxes on income	–179	**–85**
Net income	**895**	**1,106**
Profit brought forward	133	**330**
Unappropriated profit	**1,028**	**1,436**

Sales in the Corporate segment decreased from 1,176 million euros in 2016 to 1,158 million euros in 2017. For the first time in 2017, intra-group income from costs recharged amounting to 104 million euros (2016: 94 million euros) was offset against selling and distribution expenses in the same amount in order to improve the transparency of the result of operations.

The operating profit of Henkel AG & Co. KGaA decreased by 42 million euros to 121 million euros, mainly as a result of higher raw material prices. Certain results such as an improvement in other operating income had a partially countervailing effect.

Expense items

Compared to 2016, cost of sales increased by 151 million euros to 2,595 million euros, mainly as a result of higher raw material prices and increased royalties and licensing fees paid to affiliated companies. Gross margin decreased by 4.8 percentage points to 28.7 percent.

At 571 million euros, marketing, selling and distribution expenses were below the prior-year figure of 678 million euros. For the first time in 2017, intra-group selling and distribution expenses amounting to 104 million euros (2016: 94 million euros) were offset against income from costs recharged in the same amount in order to improve the transparency of the result of operations. The proportion of sales was 15.7 percent, which is below the level of 2016.

Compared to 2016, the administrative costs attributable to the administrative functions decreased by 1 million euros to 232 million euros. Their ratio to sales increased by 0.1 percentage points to 6.4 percent.

Expenditures for research and development decreased in the reporting period by 1 million euros to 311 million euros. The proportion of sales was therefore unchanged compared to 2016 (8.5 percent).

Restructuring expenses of 31 million euros, included in the expense items mentioned, were lower compared to 2016 (33 million euros).

Other operating income / expenses

Other operating result increased in 2017 versus prior year by 39 million euros.

Year on year, other operating income increased by 31 million euros to 278 million euros, mainly as a result of the sale of the professional Western European building material business.

Other operating expenses in 2017 were 8 million euros less than the prior-year figure of 93 million euros. The higher expenses in 2016 were mainly due to project expenses relating to other periods that were recharged by a subsidiary of Henkel AG & Co. KGaA.

Financial result

The financial result increased from 911 million euros in 2016 to 1,070 million euros in 2017.

The increase is substantially attributable to higher dividend income. The improved investment result was depleted to a degree by higher interest expenses resulting, partly, from the fixed-rate bond issued in June 2017. In addition, the interest expense in 2016 was lower due to the higher interest rate applicable to pension provisions. The interest rate for pension provisions was lower in 2017.

Taxes on income

In 2017, taxes on income amounted to –85 million euros following –179 million euros in 2016.

Result for the year

Net income amounted to 1,106 million euros and was therefore above the 2016 result of 895 million euros. The increase was mainly attributable to the improved financial result in 2017.

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

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in million euros	December 31, 2016	December 31, 2017
Intangible assets and property, plant and equipment	1,045	**1,032**
Financial assets	11,032	**13,365**
Non-current assets	**12,077**	**14,397**
Inventories	13	**14**
Receivables and miscellaneous assets	3,335	**1,963**
Marketable securities	4	**4**
Liquid funds	485	**84**
Current assets	**3,837**	**2,065**
Deferred income	19	**28**
Assets arising from the overfunding of pension obligations	**392**	**419**
Total assets	**16,325**	**16,909**
Equity	**6,406**	**6,823**
Special accounts with reserve element	94	**84**
Provisions	781	**712**
Liabilities / deferred charges	9,044	**9,290**
Total equity and liabilities	**16,325**	**16,909**

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Net assets and financial position

As of December 31, 2017, the total assets of Henkel AG & Co. KGaA increased compared to year-end 2016 by 584 million euros to 16,909 million euros.

Non-current assets increased to 14,397 million euros, a rise of 2,320 million euros compared to 2016. The increase in financial assets is primarily due to our acquisitions and various capital measures involving affiliated companies. In addition, a loan was issued to a US subsidiary in 2017.

Current assets decreased in 2017 from 3,837 million euros to 2,065 million euros, primarily as a result of lower current receivables from affiliated companies.

At 419 million euros, overfunding from offsetting plan assets against pension obligations was higher year on year.

Equity increased from 6,406 million euros to 6,823 million euros. Provisions decreased by 69 million euros to 712 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 rose in 2017 by a total of 246 million euros versus 2016, partly as a result of new borrowings that were used to fund our acquisitions.

For an overview of the financing and capital management of Henkel AG & Co. KGaA, please refer to the information about the Henkel Group on pages 80 and 81.

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 96 to 103.

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 2018 to be on a par with the figure for 2017. The positive performance reported for the Group also impacts Henkel AG & Co. KGaA through dividend payments from subsidiaries. Assuming positive development of the financial result, we expect the unappropriated profit generated in 2018 by Henkel AG & Co. KGaA to be flat or to increase slightly. 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 104 and 105.

Risks and opportunities report

Risks and opportunities

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 company 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.

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 supervising 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 2017 audit of our annual financial statements, our external auditor examined

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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) (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 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.

Overview of major risk categories 74

Risk category	Probability	Potential financial impact
Operating risks		
Procurement market risks	Low	Major
Production risks	Moderate	Major
Macroeconomic and sector-specific risks	High	Major
Functional risks		
Financial risks		
Credit risk	Low	Major
Liquidity risk	Low	Minor
Currency risk	High	Major
Interest rate risk	High	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 75

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 prices for direct materials in our procurement markets to increase moderately overall in 2018 compared to 2017. This increase will be driven primarily by higher anticipated prices for input materials, and especially crude oil and petrochemicals. However, due to geopolitical, global economic, and climatic uncertainties, we expect prices to fluctuate in the course of the year. This may lead to raw material price trends that are unfavorable for Henkel but cannot always be passed on in full. We therefore see risks arising beyond the forecasted moderate increase 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. 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 84

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and 85. The basis for our risk management approach is provided by a comprehensive procurement information system aimed at ensuring permanent transparency with respect to our purchasing volumes.

Impact: Low probability rating, possible major impact on our earnings guidance.

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 the increased number of conflict zones. A decline in the macroeconomic environment poses a risk to the industrial sector in particular. A downturn in consumer spending is relevant for the consumer goods segments. A further significant risk is posed by an increasingly competitive environment, as this could result in stronger price and promotional pressures in the consumer goods sector. As consolidation in the retail sector continues and private labels attract 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 page 102) 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 90 and 91). In addition, we have the capability to react quickly to potential sales declines through flexible production control.

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 156 to 161. For the risks arising from our pension obligations, please see pages 141 to 143.

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 high probability of a major impact on our earnings guidance
- Interest rate risk with a high 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

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 35 to 46). In addition, our corporate legal department maintains constant contact with local counsel. Current proceedings and potential risks are recorded in a separate reporting system. For certain legal risks, we have concluded insurance policies that are standard for the industry and that we consider to be appropriate. However, the outcome of proceedings is inherently difficult to foresee, especially in cases in which the claimant is seeking substantial or unspecified damages. In view of this, we are unable to predict what obligations may arise from such litigations. Consequently, major losses may result from litigations and proceedings that are not covered by our insurance policies or provisions. Potential damage to our reputation is not covered by insurance, nor is there any guarantee that Henkel will acquire adequate insurance cover at reasonable terms and conditions in future.

Impact: Low probability rating, possible major impact on our earnings guidance.

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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 of computer networks or disruption of important IT applications can impair critical business processes. The loss of confidential data, for example formulations, customer information or price lists, could put us at a disadvantage vis-à-vis 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 avoiding risk. In addition, Henkel has put technical and organizational measures in place to prevent, discover and defeat cyber attacks. As a member of Cyber Security Sharing and Analytics (CSSA) e.V., Henkel also 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, access to computer networks and applications, as well as user authorizations for our information systems, are strictly limited to the minimum level necessary. For critical business processes, the required segregation of duties is enforced by technological means.

Our networks are protected against unauthorized external access where economically viable. Operating systems and anti-virus software are automatically updated to their latest version on a continual basis.

We inform and instruct 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 competition for the most talented professionals and the impacts of demographic change. These developments expose us to the risk of losing valuable employees or of being unable to recruit relevant qualified professionals and executives.

Measures: We combat the risk of losing valuable employees through specifically devised personnel development programs and incentive systems. Supporting this is an established, thorough annual review process from which we derive individually tailored and future-viable qualification programs as well as performance-related remuneration systems. Further areas of our HR management focus include a global health management system and support for flexible work models to ensure better work-life flexibility.

We reduce the risk of not being able to recruit qualified professionals and executives by expanding our employer branding initiatives and through targeted cooperation with colleges and universities in all regions where we conduct business. Our attractiveness as an employer is reinforced by our focus on promoting talent and specialized development programs.

Further information relating to our employees can be found on pages 82 and 83.

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 its image in the event of negative reports in the media – including social media – regarding Henkel's corporate brand or individual product brands, particularly in the consumer goods sector. These could lead to a negative impact on sales.

Measures: We minimize these risks through the measures described under legal and regulatory risks (see page 100). These are designed to ensure that our production facilities and products are safe. We also pursue a policy of pro-active public relations management that serves to reinforce the reputation of our corporate brand and individual product brands. These measures are supported by a global communication network, and international and local crisis management systems with regular training sessions 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.

Measures: We minimize these risks through the measures described under legal and regulatory risks (see page 100), 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 98 and 99, 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 99, 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 moderate 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.

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.

Forecast

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 only moderate in 2018. IHS expects gross domestic product to rise by around 3 percent.

The mature markets should grow by around 2 percent. The North American economy is expected to grow by approximately 2.5 percent, while Japan's economy is forecasted to expand by approximately 1 percent. For Western Europe, IHS anticipates growth of approximately 2 percent.

The emerging markets are forecasted to achieve robust economic growth of approximately 5 percent in 2018, but developments are expected to vary between individual regions and countries. Asia (excluding Japan) is expected to increase its economic output by around 6 percent. An increase of approximately 3 percent is forecasted for the Africa / Middle East and Eastern Europe regions. IHS expects positive performance of approximately 1.5 percent in Latin America in 2018.

Inflation: global inflation rate up year on year

Global inflation is expected to increase versus prior year to a rate of approximately 5 percent. IHS expects the mature markets to continue exhibiting a high degree of price stability, with inflation holding at around 2 percent. Inflation of approximately 10 percent on average is forecasted for the emerging markets. This significant increase compared to the previous year is primarily due to the inflation expectations for Venezuela.

Direct materials: increase in price levels

We expect prices for raw materials, packaging and purchased goods and services to increase moderately compared to the previous year.

Currencies: continued high volatility

We anticipate continued high volatility in the currency markets. We expect a weaker average US dollar rate for 2018 compared to 2017. In addition, some major currencies in the emerging markets could weaken.

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 2018. For the mature markets, IHS anticipates growth of approximately 2 percent. Private spending in the emerging markets is expected to grow by around 4 percent.

Industrial production index: growth of approximately 3.5 percent

Year on year, IHS expects the industrial production index (IPX) to gain approximately 3.5 percent worldwide. Industrial production should therefore grow at a slightly faster pace than the economy as a whole. Industrial production is expected to grow by approximately 3 percent in the mature markets and by approximately 4 percent in the emerging markets.

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Outlook for the Henkel Group in 2018

We expect the Henkel Group to generate organic sales growth of 2 to 4 percent in fiscal 2018. 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 strong competitive position. We have consolidated and further developed this in recent years through our innovative strength, strong brands and leading market positions, as well as the quality of our portfolio.

We expect the contribution to the nominal sales growth of the Henkel Group from our acquisitions in 2017 to be in the low single-digit percentage range. The translation of sales in foreign currencies is expected to have a negative effect.

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 discipline. Through optimization and standardization of processes, we can further improve our efficiency while simultaneously enhancing the quality of our customer service. Moreover, the optimization of our production and logistics networks will contribute to improving our cost structures.

These factors, together with the expected increase in sales, will have a positive effect on our earnings performance. For adjusted [1] return on sales (EBIT), we anticipate an increase year on year to more than 17.5 percent. All three business units are expected to contribute to this positive performance. We anticipate an increase in adjusted earnings per preferred share of between 5 and 8 percent. The bandwidth for our guidance in respect of growth in adjusted earnings per preferred share reflects particularly the uncertainty prevailing on the currency markets, especially with regard to the development of the US dollar.

Furthermore, we have the following expectations for 2018:

- Restructuring expenses of 200 to 250 million euros
- 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 25 percent to 35 percent of net income after non-controlling interests, and adjusted for exceptional items.

Capital expenditures

In fiscal 2018, we plan to increase our investments in property, plant and equipment and intangible assets to approximately 750 to 850 million euros. We intend to allocate our budget to expanding our businesses in emerging markets and mature markets in approximately equal proportions. 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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Consolidated statement of financial position

Assets

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in million euros	Note	2016	%	2017	%
Intangible assets	1	15,564[1]	55.7	**15,653**	**55.3**
Property, plant and equipment	2	2,887	10.3	**3,005**	**10.6**
Other financial assets	3	95	0.3	**50**	**0.2**
Income tax refund claims		7	–	**8**	**–**
Other assets	4	155	0.6	**169**	**0.6**
Deferred tax assets	5	1,030[1]	3.7	**949**	**3.4**
Non-current assets		**19,738**	**70.6**	**19,834**	**70.1**
Inventories	6	1,938	6.9	**2,080**	**7.3**
Trade accounts receivable	7	3,349	12.0	**3,544**	**12.5**
Other financial assets	3	734	2.6	**1,072**	**3.8**
Income tax refund claims		274	1.0	**329**	**1.2**
Other assets	4	434	1.6	**451**	**1.6**
Cash and cash equivalents	8	1,389	5.0	**916**	**3.2**
Assets held for sale	9	95	0.3	**81**	**0.3**
Current assets		**8,213**	**29.4**	**8,473**	**29.9**
Total assets		**27,951**	**100.0**	**28,307**	**100.0**

[1] Adjusted following the final allocation of the purchase price for the acquisition of The Sun Products Corporation, which resulted in an increase of 21 million euros in intangible assets and an increase of 13 million euros in deferred tax assets.

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Equity and liabilities

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in million euros	Note	2016	%	2017	%
Issued capital	10	438	1.6	**438**	**1.5**
Capital reserve	11	652	2.3	**652**	**2.3**
Treasury shares		– 91	– 0.3	**– 91**	**– 0.3**
Retained earnings	12	14,236[1]	50.9	**16,104**	**56.9**
Other components of equity	13	– 188	– 0.7	**– 1,527**	**– 5.4**
Equity attributable to shareholders of Henkel AG & Co. KGaA		**15,047**	**53.8**	**15,576**	**55.0**
Non-controlling interests	14	138	0.5	**74**	**0.3**
Equity		**15,185**	**54.3**	**15,650**	**55.3**
Provisions for pensions and similar obligations	15	1,007	3.6	**760**	**2.7**
Income tax provisions	16	106	0.4	**27**	**0.1**
Other provisions	16	347	1.2	**338**	**1.2**
Borrowings	17	3,300	11.8	**3,076**	**10.8**
Other financial liabilities	18	146[1]	0.5	**85**	**0.3**
Other liabilities	19	25	0.1	**17**	**0.1**
Deferred tax liabilities	5	833	3.0	**617**	**2.2**
Non-current liabilities		**5,764**	**20.6**	**4,920**	**17.4**
Income tax provisions	16	358	1.3	**437**	**1.5**
Other provisions	16	1,966	7.0	**1,756**	**6.2**
Borrowings	17	425	1.5	**1,268**	**4.5**
Trade accounts payable	20	3,665	13.1	**3,717**	**13.1**
Other financial liabilities	18	164	0.6	**214**	**0.8**
Other liabilities	19	395	1.5	**340**	**1.2**
Income tax liabilities		16	0.1	**5**	**–**
Liabilities held for sale	9	13	–	**–**	**–**
Current liabilities		**7,002**	**25.1**	**7,737**	**27.3**
Total equity and liabilities		**27,951**	**100.0**	**28,307**	**100.0**

[1] Adjusted following the final allocation of the purchase price for the acquisition of The Sun Products Corporation, which resulted in an increase of 2 million euros in retained earnings and an increase of 32 million euros in other financial liabilities.

Consolidated statement of income

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in million euros	Note	2016	%	2017	%	+/–
Sales	22	**18,714**	**100.0**	**20,029**	**100.0**	**7.0 %**
Cost of sales	23	– 9,742	– 52.1	**– 10,680**	**– 53.3**	9.6 %
Gross profit		**8,972**	**47.9**	**9,349**	**46.7**	**4.2 %**
Marketing, selling and distribution expenses	24	– 4,635	– 24.7	**– 4,876**	**– 24.3**	5.2 %
Research and development expenses	25	– 463	– 2.5	**– 476**	**– 2.4**	2.8 %
Administrative expenses	26	– 1,062	– 5.7	**– 980**	**– 4.8**	– 7.7 %
Other operating income	27	109	0.6	**129**	**0.6**	18.3 %
Other operating expenses	28	– 146	– 0.8	**– 91**	**– 0.5**	– 37.7 %
Operating profit (EBIT)		**2,775**	**14.8**	**3,055**	**15.3**	**10.1 %**
Interest income		20	0.1	**18**	**0.1**	– 10.0 %
Interest expense		– 25	– 0.1	**– 55**	**– 0.3**	–
Other financial result		– 26	– 0.2	**– 10**	**– 0.1**	– 61.5 %
Investment result		– 2	–	**– 4**	**–**	100.0 %
Financial result	29	**– 33**	**– 0.2**	**– 51**	**– 0.3**	**54.5 %**
Income before tax		**2,742**	**14.6**	**3,004**	**15.0**	**9.6 %**
Taxes on income	30	– 649	– 3.4	**– 463**	**– 2.3**	– 28.7 %
Tax rate in %		23.7		**15.4**		
Net income		**2,093**	**11.2**	**2,541**	**12.7**	**21.4 %**
Attributable to non-controlling interests	31	40	0.2	**22**	**0.1**	– 45.0 %
Attributable to shareholders of Henkel AG & Co. KGaA		2,053	11.0	**2,519**	**12.6**	22.7 %
Earnings per ordinary share – basic and diluted in euros		4.72		**5.79**		22.7 %
Earnings per preferred share – basic and diluted in euros		4.74		**5.81**		22.6 %

Consolidated statement of comprehensive income

See Notes 15 and 21 for further explanatory information

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in million euros	2016	2017
Net income	**2,093**	**2,541**
Components to be reclassified to income:		
Exchange differences on translation of foreign operations	141	**– 1,334**
Gains / losses from derivative financial instruments (Hedge reserve per IAS 39)	–	**– 14**
Gains / losses from financial instruments in the available-for-sale category (Available-for-sale reserve)	–	**–**
Components not to be reclassified to income:		
Remeasurement of net liability from defined benefit pension plans (net of taxes)	– 138	**124**
Other comprehensive income (net of taxes)	**3**	**– 1,224**
Total comprehensive income for the period	**2,096**	**1,317**
Attributable to non-controlling interests	47	**13**
Attributable to shareholders of Henkel AG & Co. KGaA	2,049	**1,304**

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Consolidated statement of changes in equity

See Notes 10 to 14 for further explanatory information

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in million euros	Issued capital		Capital reserve	Treasury shares	Retained earnings	Other components of equity			Shareholders of Henkel AG & Co. KGaA	Non-controlling interests	Total
	Ordinary shares	Preferred shares				Currency translation	Hedge reserve per IAS 39	Available-for-sale reserve			
At January 1, 2016	**260**	**178**	**652**	**–91**	**12,984**	**–141**	**–184**	**3**	**13,661**	**150**	**13,811**
Net income	–	–	–	–	2,055[1]	–	–	–	2,055[1]	40	**2,095[1]**
Other comprehensive income	–	–	–	–	–138	134	–	–	–4	7	**3**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**1,917[1]**	**134**	**–**	**–**	**2,051[1]**	**47**	**2,098[1]**
Dividends	–	–	–	–	–633	–	–	–	–633	–33	**–666**
Sale of treasury shares	–	–	–	–	–	–	–	–	–	–	**–**
Changes in ownership interest with no change in control	–	–	–	–	–70	–	–	–	–70	–26	**–96**
Other changes in equity	–	–	–	–	38	–	–	–	38	–	**38**
At Dec. 31, 2016 / Jan. 1, 2017	**260**	**178**	**652**	**–91**	**14,236[1]**	**–7**	**–184**	**3**	**15,047[1]**	**138**	**15,185[1]**
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	–	–	–	–	75	–	–	–	75	–	**75**
At December 31, 2017	**260**	**178**	**652**	**–91**	**16,104**	**–1,332**	**–198**	**3**	**15,576**	**74**	**15,650**

[1] Adjusted following the final allocation of the purchase price for the acquisition of The Sun Products Corporation, which resulted in an increase of 2 million euros in retained earnings.

Consolidated statement of cash flows

See Note 37 for further explanatory information

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in million euros	2016	2017
Operating profit (EBIT)	**2,775**	**3,055**
Income taxes paid	– 769	**– 727**
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment[1]	570	**672**
Net gains / losses on disposal of intangible assets and property, plant and equipment, and from divestments	– 7	**– 36**
Change in inventories	10	**– 181**
Change in trade accounts receivable	– 240	**– 322**
Change in other assets	– 108	**29**
Change in trade accounts payable	341	**217**
Change in other liabilities, provisions and equity	278	**– 239**
Cash flow from operating activities	**2,850**	**2,468**
Purchase of intangible assets and property, plant and equipment including payments on account	– 557	**– 700**
Acquisition of subsidiaries and other business units	– 3,727	**– 1,830**
Purchase of associated companies and joint ventures held at equity	–	**– 5**
Proceeds on disposal of subsidiaries and other business units	–	**53**
Proceeds on disposal of intangible assets and property, plant and equipment	34	**31**
Cash flow from investing activities	**– 4,250**	**– 2,451**
Dividends paid to shareholders of Henkel AG & Co. KGaA	– 633	**– 698**
Dividends paid to non-controlling shareholders	– 33	**– 38**
Interest received	20	**22**
Interest paid	– 26	**– 56**
Dividends and interest paid and received	*– 672*	***– 770***
Repayment / Issuance of bonds	2,221	**535**
Other changes in borrowings	519	**419**
Allocations to pension funds	– 185	**– 112**
Other changes in pension obligations	– 116	**– 64**
Purchase of non-controlling interests with no change of control	– 102	**– 157**
Other financing transactions[2]	13	**– 266**
Cash flow from financing activities	**1,678**	**– 415**
Net change in cash and cash equivalents	278	**– 398**
Effect of exchange rates on cash and cash equivalents	– 65	**– 75**
Change in cash and cash equivalents	**213**	**– 473**
Cash and cash equivalents at January 1	1,176	**1,389**
Cash and cash equivalents at December 31	**1,389**	**916**

[1] Of which: Impairment in fiscal 2017: 47 million euros (fiscal 2016: 68 million euros).
[2] Other financing transactions in fiscal 2017 include payments of −231 million euros for the purchase of short-term securities and time deposits as well as for the provision of financial collateral (fiscal 2016: −34 million euros).

Additional voluntary information: Reconciliation to free cash flow

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in million euros	2016	2017
Cash flow from operating activities	2,850	**2,468**
Purchase of intangible assets and property, plant and equipment including payments on account	– 557	**– 700**
Proceeds on disposal of intangible assets and property, plant and equipment	34	**31**
Net interest paid	– 6	**– 34**
Other changes in pension obligations	– 116	**– 64**
Free cash flow	**2,205**	**1,701**

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Group segment report by business unit[1]

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 2017	**1,832**	**7,556**	**9,387**	**3,868**	**6,651**	**19,906**	**123**	**20,029**
Proportion of Henkel sales	9%	38%	47%	19%	33%	**99%**	1%	**100%**
Sales 2016	1,822	7,139	8,961	3,838	5,795	**18,593**	121	**18,714**
Change from previous year	0.6%	5.8%	4.8%	0.8%	14.8%	**7.1%**	1.8%	**7.0%**
Adjusted for foreign exchange	0.4%	7.6%	6.1%	2.1%	18.2%	**9.1%**	–	**9.0%**
Organic	1.9%	5.8%	5.0%	0.5%	2.0%	**3.1%**	–	**3.1%**
EBIT 2017	**297**	**1,360**	**1,657**	**535**	**989**	**3,181**	**–126**	**3,055**
EBIT 2016	278	1,284	1,561	526	803	**2,890**	–115	**2,775**
Change from previous year	7.1%	5.9%	6.1%	1.7%	23.2%	**10.1%**	–	**10.1%**
Return on sales (EBIT) 2017	**16.2%**	**18.0%**	**17.7%**	**13.8%**	**14.9%**	**16.0%**	**–**	**15.3%**
Return on sales (EBIT) 2016	15.2%	18.0%	17.4%	13.7%	13.9%	**15.5%**	–	**14.8%**
Adjusted EBIT 2017	**281**	**1,452**	**1,734**	**665**	**1,170**	**3,568**	**–107**	**3,461**
Adjusted EBIT 2016	293	1,336	1,629	647	1,000	**3,276**	–104	**3,172**
Change from previous year	–4.0%	8.7%	6.4%	2.7%	17.0%	**8.9%**	–	**9.1%**
Adjusted return on sales (EBIT) 2017	**15.4%**	**19.2%**	**18.5%**	**17.2%**	**17.6%**	**17.9%**	**–**	**17.3%**
Adjusted return on sales (EBIT) 2016	16.1%	18.7%	18.2%	16.9%	17.3%	**17.6%**	–	**16.9%**
Capital employed 2017[2]	**808**	**7,429**	**8,237**	**3,038**	**7,557**	**18,832**	**38**	**18,870**
Capital employed 2016[2]	779	7,054	7,833	2,882	5,104	**15,819**	77	**15,895**
Change from previous year	3.8%	5.3%	5.2%	5.4%	48.1%	**19.0%**	–	**18.7%**
Return on capital employed (ROCE) 2017	**36.8%**	**18.5%**	**20.3%**	**17.6%**	**13.1%**	**17.0%**	**–**	**16.3%**
Return on capital employed (ROCE) 2016	35.7%	18.2%	19.9%	18.2%	15.7%	**18.3%**	–	**17.5%**
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	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment 2016	43	223	266	97	194	**557**	13	**570**
of which impairment losses 2016	1	7	8	23	37	**68**	–	**68**
of which write-ups 2016	–	–	–	–	–	**–**	–	**–**
Capital expenditures (excl. financial assets) 2017	**76**	**1,214**	**1,290**	**834**	**351**	**2,475**	**6**	**2,481**
Capital expenditures (excl. financial assets) 2016	89	191	280	274	3,867	**4,421**	9	**4,430**
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**
Operating assets 2016[3]	1,399	8,698	10,096	4,233	7,752	**22,082**	459	**22,540**
Operating liabilities 2016	660	2,145	2,805	1,537	2,380	**6,722**	382	**7,104**
Net operating assets 2016[3]	739	6,553	7,291	2,696	5,372	**15,359**	77	**15,436**

[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.

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] 2017	**6,033**	**2,897**	**1,302**	**5,162**	**1,142**	**3,371**	**19,906**	**123**	**20,029**
Sales[2] 2016	5,999	2,713	1,378	4,202	1,055	3,246	**18,593**	121	**18,714**
Change from previous year	0.6 %	6.8 %	– 5.5 %	22.9 %	8.2 %	3.8 %	**7.1 %**	–	**7.0 %**
Adjusted for foreign exchange	1.3 %	6.3 %	7.5 %	24.6 %	9.5 %	6.1 %	**9.1 %**	–	**9.0 %**
Organic	0.5 %	6.0 %	1.7 %	3.0 %	4.4 %	5.9 %	**3.1 %**	–	**3.1 %**
Proportion of Group sales 2017	**30 %**	**14 %**	**6 %**	**26 %**	**6 %**	**17 %**	**99 %**	**1 %**	**100 %**
Proportion of Group sales 2016	32 %	15 %	7 %	22 %	6 %	17 %	**99 %**	1 %	**100 %**
Operating profit (EBIT) 2017	**1,463**	**280**	**58**	**731**	**112**	**537**	**3,181**	**– 126**	**3,055**
Operating profit (EBIT) 2016	1,335	328	111	505	126	485	**2,890**	– 115	**2,775**
Change from previous year	9.6 %	– 14.8 %	– 47.7 %	44.7 %	– 10.8 %	10.8 %	**10.1 %**	–	**10.1 %**
Adjusted for foreign exchange	9.8 %	– 18.3 %	– 48.0 %	47.7 %	– 8.2 %	13.3 %	**10.8 %**	–	**10.4 %**
Return on sales (EBIT) 2017	**24.3 %**	**9.7 %**	**4.5 %**	**14.2 %**	**9.8 %**	**15.9 %**	**16.0 %**	**–**	**15.3 %**
Return on sales (EBIT) 2016	22.3 %	12.1 %	8.1 %	12.0 %	11.9 %	14.9 %	**15.5 %**	–	**14.8 %**

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

In 2017, the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA, generated sales of 2,388 million euros (previous year: 2,339 million euros). Sales realized by the affiliated companies domiciled in the USA amounted to 4,864 million euros in 2017 (previous year: 3,943 million euros). In fiscal 2016 and 2017, 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, 2017 (excluding financial instruments and deferred tax assets) amounting to 18,836 million euros (previous year: 18,620 million euros), 2,149 million euros (previous year: 1,964 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 10,126 million euros at December 31, 2017 (previous year: 10,735 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, 2017, 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, 2017, as that of Henkel AG & Co. KGaA.

Members of the KPMG organization or other independent firms of auditors instructed accordingly have audited the financial statements of the material companies included in the consolidation. The Management Board of Henkel Management AG – which is the Personally Liable Partner of Henkel AG & Co. KGaA – compiled the consolidated financial statements on January 30, 2018, 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, 2017, include 14 German and 227 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.

The following table shows the changes to the scope of consolidation in fiscal 2017:

Scope of consolidation

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At January 1, 2017	**208**
Additions	45
Mergers	– 7
Disposals	– 4
At December 31, 2017	**242**

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 July 3, 2017, we completed the acquisition of the global Darex Packaging Technologies business from GCP Applied Technologies and of all associated shares. The acquisition included various share and asset deals; legal transfer of certain asset deals is still outstanding. As a consequence of the purchase agreement, overall control of the acquired Darex Packaging Technologies business was transferred to Henkel as defined in IFRS 10 Consolidated Financial Statements, and the business therefore fully consolidated, effective July 3, 2017. The purchase price was 938 million euros, settled in cash. The transaction is in line with our strategy to strengthen our portfolio through targeted acquisitions and reinforces the position of our Adhesive Technologies business as global market and technology leader. Provisional goodwill was recognized in the amount of 686 million euros. Goodwill of 221 million euros was recognized for tax purposes.

Effective July 3, 2017, we completed the acquisition of all shares of Sonderhoff Holding GmbH based in Cologne, Germany. The purchase price was 119 million euros, settled in cash. This acquisition expands the sealant expertise of Henkel and reinforces the position of our Adhesive Technologies business as global market and technology leader.

Effective September 1, 2017, the acquisition of all shares of Nattura Laboratorios, S.A. de C.V., Mexico, and associated companies in the USA, Colombia and Spain was completed. Through this acquisition, Henkel will further strengthen its Hair Salon business and expand its footprint in both the emerging and mature markets. The purchase price was 392 million euros, settled in cash. Provisional goodwill was recognized in the amount of 265 million euros. Tax-deductible goodwill is not expected.

Effective December 28, 2017, we completed the acquisition of all shares of Zotos International Inc., the North American hair salon business of Shiseido Company, Limited. This acquisition is part of our strategy to strengthen Henkel's position in attractive markets and categories and expands our Hair Salon business in the USA, the world's largest single hair salon market. The purchase price was 403 million euros, settled in cash. Provisional goodwill was recognized in the amount of 280 million euros. Tax-deductible goodwill is not expected.

The goodwill acquired through the acquisition of Darex Packaging Technologies, Nattura Laboratorios, S.A. de C.V. and Zotos International Inc. represents both offensive and defensive synergies, achieved through integration in Henkel's existing organization, and mirrors the growth potential of the acquired businesses.

Because the acquisition of Zotos International Inc. was recently completed, and Darex Packaging Technologies business, Sonderhoff Holding GmbH and Nattura Laboratorios, S.A. de C.V. were acquired during the course of the year, the allocation of the purchase prices to the acquired assets and liabilities in accordance with IFRS 3 Business Combinations is provisional.

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 the global Darex Packaging Technologies business – and thus its business activities – had been completed by January 1, 2017, sales for the Henkel Group for the reporting period January 1 to December 31, 2017, would be higher by 262 million euros and income after tax would be lower by 5 million euros, taking acquisition-related costs into account. The business activities actually contributed 133 million euros to sales and –9 million euros to income after tax. Acquisition-related costs amounted to 7 million euros.

If the acquisition of all shares of Sonderhoff Holding GmbH and of Nattura Laboratorios, S.A. de C.V. and the acquisition of Zotos International Inc. – and thus their business activities – had been completed by January 1, 2017, sales for the Henkel Group for the reporting period January 1 to December 31, 2017, would be higher by 389 million euros and income after tax would be higher by 25 million euros, taking acquisition-related costs into account. The business activities actually contributed 73 million euros to sales and 7 million euros to income after tax. Acquisition-related costs amounted to 4 million euros.

In the second quarter of 2017, we spent around 8 million euros for the acquisition of the outstanding non-controlling shares in Shanghai Henkel Xianghua Adhesives Co. Ltd. based in Shanghai, China, increasing our ownership interest to 100 percent.

In the third quarter of 2017, we spent around 140 million euros for the acquisition of the outstanding non-controlling shares in Henkel Polybit Industries Ltd. based in Umm al-Quwain, United Arab Emirates, which are held on behalf of the Henkel Group. A performance-related purchase price component was also agreed. The carrying amount of the acquired non-controlling interests was 37 million euros. Retained earnings were reduced by 143 million euros.

In the fourth quarter of 2017, we spent around 3 million euros for the acquisition of the outstanding non-controlling shares in Eczacibasi Schwarzkopf based in Istanbul, Turkey, increasing our ownership interest to 100 percent.

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Acquisitions

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in million euros	Darex Packaging Technologies, effective July 3, 2017 Fair value	Others Fair value	Total
Intangible assets	858	782	**1,640**
Property, plant and equipment	65	113	**178**
Other non-current assets	6	18	**24**
Non-current assets	**929**	**913**	**1,842**
Inventories	32	60	**92**
Trade accounts receivable	56	61	**117**
Liquid funds	15	40	**55**
Other current assets	13	10	**23**
Current assets	**116**	**171**	**287**
Total assets	**1,045**	**1,084**	**2,129**
Net assets	**938**	**968**	**1,906**
Non-current liabilities	**55**	**75**	**130**
Other current provisions / liabilities	21	23	**44**
Trade accounts payable	31	18	**49**
Current liabilities	**52**	**41**	**93**
Total equity and liabilities	**1,045**	**1,084**	**2,129**

Reconciliation of the purchase price to provisional goodwill

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in million euros	2017
Darex Packaging Technologies, effective July 3, 2017	
Purchase price	**938**
Adjustment based on purchase agreement	**–**
Fair value of the acquired assets and liabilities	**252**
Provisional goodwill	**686**
Others	
Purchase price	**968**
Adjustment based on purchase agreement	**–**
Fair value of the acquired assets and liabilities	**296**
Provisional goodwill	**672**

Divestments

On January 1, 2017, we sold our professional Western European building material business for around 27 million euros. This transaction resulted in one-time gains of 19 million euros.

In the first half of 2017, we sold our global electronic mold compound business, including Henkel Huawei Electronics, our company in Lianyungang, China. The sale price was around 34 million euros whereby a divestment gain of 1 million euros was recognized.

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. Acquisition-related costs 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, 2017, was 1 million euros (previous year: 7 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	2016	2017	2016	2017
Chinese yuan	CNY	7.36	**7.63**	7.32	**7.80**
Mexican peso	MXN	20.67	**21.33**	21.77	**23.66**
Polish zloty	PLN	4.36	**4.26**	4.41	**4.12**
Russian ruble	RUB	74.07	**65.95**	64.30	**69.39**
Turkish lira	TRY	3.34	**4.12**	3.71	**4.55**
US dollar	USD	1.11	**1.13**	1.05	**1.20**

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 IAS 39)	
"Loans and receivables"	(Amortized) cost using the effective interest method
"Available for sale"	Fair value with gains or losses recognized directly in equity[1]
"Held for trading"	Fair value through profit or loss
"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 IAS 39)	
"Measured at amortized cost"	(Amortized) cost using the effective interest method
"Held for trading"	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 21 on pages 149 to 161) 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.

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 adjusted as if the new methods of recognition and measurement had always been applied

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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 30 on pages 164 to 166), intangible assets (Note 1 on pages 125 to 128), provisions for pensions and similar obligations (Note 15 on pages 135 to 143), income tax provisions and other provisions (Note 16 on pages 144 and 145), financial instruments (Note 21 on pages 149 to 161) and share-based payment plans (Note 34 on pages 168 and 169).

Material discretionary judgments are made in respect of the demarcation of the cash-generating units as explained in Note 1 on pages 125 to 128 and the segment reporting as explained in Note 35 on pages 169 and 170. Contingent forward contracts for acquired minority interests are recognized by the anticipated acquisition method.

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
IAS 7 (Amendment) Disclosure Initiative	January 1, 2017
IAS 12 (Amendment) Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017
Improvements to IFRSs 2014–2016: Amendments to IFRS 12	January 1, 2017

- The amendment to IAS 7 improves disclosures relating to changes in liabilities arising from financing activities. Entities are required to make additional disclosures in relation to changes in such financial liabilities for which related cash inflows and outflows are reflected in cash flow from financing activities. Associated financial assets must also be included in the disclosures (for example, assets from hedging transactions). The following must be disclosed: changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values, and other changes. The information must be disclosed as a statement of reconciliation from the opening balance on the statement of financial position to the closing balance on the same statement. The Group discloses the changes between the opening and closing balances of the relevant financial liabilities in a reconciliation statement (Note 37 on page 172).
- The amendments to IAS 12 clarify the accounting procedure for deferred tax claims relating to unrealized losses on debt instruments that are measured at fair value. The changes will not have any material impact on the consolidated financial statements of Henkel.
- The Annual Improvements to IFRSs (2014–2016) included amendments to three IFRSs, of which only one was mandatorily applicable in 2017: IFRS 12 clarifies that disclosures under IFRS 12 must always include those shares in subsidiaries, joint ventures or associates that are classified as available for sale as defined in IFRS 5, with the exception of the disclosures stipulated under IFRS 12.B10-B16 (Financial Information). The changes will not have any material impact on the consolidated financial statements of Henkel.

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 Financial Instruments	January 1, 2018
IFRS 15 Revenue from Contracts with Customers	January 1, 2018
IFRS 16 Leases	January 1, 2019
IFRS 4 (Amendment) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	January 1, 2018
IFRS 15 (Amendment) Clarifications to IFRS 15	January 1, 2018
Improvements to IFRSs 2014–2016: Amendments to IFRS 1 and IAS 28	January 1, 2018

IFRS 9 Financial Instruments, issued in July 2014, supersedes the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidance 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. The standard has also adopted the guidance on recognition and derecognition of financial instruments from IAS 39. The classification and measurement rules of IFRS 9 must be applied retrospectively. Adjustment of prior-year periods is not required. The rules for hedge accounting must be applied prospectively.

IFRS 9 contains three key 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. Henkel does not expect the application of the new classification requirements to substantially affect the recognition of its financial assets.

IFRS 9 will mainly affect the valuation of trade accounts receivable at Henkel. 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. To determine these allowances, the expected credit losses are measured over the lifetime of the assets given their current nature. To calculate the expected credit losses, customers are grouped by similar credit default risks. In addition to this collective assessment, credit risks are also assessed individually if the default risk

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has increased significantly as of the reporting date. The effects upon first-time application on January 1, 2018, must be recognized in equity. We expect the application of IFRS 9 to result in a change in the valuation allowances on trade accounts receivable of less than 5 million euros, which will affect equity accordingly by the same amount. Given the current situation, we expect a minor impact on marketing, selling and distribution expenses in the year of implementation.

Under IFRS 9, the Group must ensure that its hedge accounting is consistent with the Group risk management objectives and strategy. All types of hedge accounting currently applied by Henkel comply with the requirements of IFRS 9.

Within 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. Under IAS 39, this (effective) portion of a cash flow hedge was recognized in the hedge reserve in equity. The amounts recorded in equity were recognized through profit or loss in the period in which the results were affected by the hedged transaction. Under IFRS 9, these amounts will initially be included as part of the initial cost when recognizing the underlying. They will continue to affect the result for the period in which the hedged transaction influences the result for the period.

Under IAS 39, the non-designated components were recognized directly through profit or loss. According to IFRS 9, however, these components must be recognized in equity in future and included as part of the initial cost when recognizing the underlying. Henkel expects the effects of the anticipated changes in the accounting method for non-designated components to be in the low single-digit million euro range.

IFRS 9 also requires extensive new disclosures, particularly with regard to credit risk and expected defaults, and to hedge accounting.

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. 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.

IFRS 15 mainly affects Henkel's accounting for product returns and the timing of sales deductions. 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.

Henkel will apply IFRS 15 to all contracts using the cumulative method. Accordingly, the effects of first-time application must be recognized cumulatively in equity upon first-time application on January 1, 2018. The application of IFRS 15 will result in an increase in both other current assets and other current provisions. The resulting decrease in equity is expected to be in the range of upper double-digit million euros. The statement of financial position and statement of income for the comparable prior periods will not be adjusted. Given the current situation, we expect a minor impact on sales and on cost of sales in the year of implementation. The quality and scope of the disclosures in the notes to the financial statements will also be expanded.

We do not expect IFRS 15 to have any further material effects.

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 does not plan to apply IFRS 16 before the effective date.

The Group has started to assess the possible impacts of applying IFRS 16 to its consolidated financial statements. The most substantial impact that has been identified so far is that the Group will have to recognize new assets and liabilities for its

operating leases. 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 depreciation of right-of-use assets and interest expenses for liabilities arising from the lease.

A conclusive assessment and quantification of the impacts is not possible. Also, no decision has yet been made with regard to the transition method that will be applied.

Accounting regulations not yet adopted into EU law

In fiscal 2017, 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 92

	Mandatory for fiscal years beginning on or after
IFRS 2 (Amendment) Classification and Measurement of Share-Based Payment Transactions	January 1, 2018
IFRS 9 (Amendment) Prepayment Features with Negative Compensation	January 1, 2019
IFRS 10 and IAS 28 (Amendment) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	outstanding
IAS 28 (Amendment) Long-term Interests in Associates and Joint Ventures	January 1, 2019

These new standards and amendments to existing standards will be applied by Henkel starting in fiscal 2018 or later. A conclusive assessment of the effects is not possible.

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Notes to the consolidated statement of financial position

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

Non-current assets

All non-current assets with definite useful lives are depreciated or amortized 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

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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

94

	Trademarks and other rights					
in million euros	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Intangible assets in development	Goodwill	Total
At January 1, 2016	**2,079**	**1,598**	**270**	**117**	**8,861**	**12,925**
Acquisitions	1,012	26	12	–	2,560[1]	**3,610**
Divestments	–	–	–	–	–	**–**
Additions	–	6	8	69	–	**83**
Disposals	–	– 30	– 8	–	–	**– 38**
Reclassifications to assets held for sale	–	– 8	–	–	– 3	**– 11**
Reclassifications	– 101	101	105	– 105	–	**–**
Translation differences	77	29	4	–	240	**350**
At December 31, 2016 / January 1, 2017	**3,067**	**1,722**	**391**	**81**	**11,658**	**16,919**
Acquisitions	85	197	–	–	1,358	**1,640**
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 December 31, 2017	**2,877**	**1,841**	**443**	**83**	**11,940**	**17,184**

[1] Adjusted following the final allocation of the purchase price for the acquisition of The Sun Products Corporation, which resulted in an increase of 21 million euros in goodwill.

Accumulated amortization / impairment

95

in million euros	Trademarks and other rights					
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Intangible assets in development	Goodwill	Total
At January 1, 2016	**12**	**1,039**	**181**	**–**	**11**	**1,243**
Divestments	–	–	–	–	–	**–**
Write-ups	–	–	–	–	–	**–**
Scheduled amortization	–	104	34	–	–	**138**
Impairment losses	–	–	1	–	–	**1**
Disposals	–	– 28	– 8	–	–	**– 36**
Reclassifications to assets held for sale	–	– 5	–	–	–	**– 5**
Reclassifications	–	–	–	–	–	**–**
Translation differences	– 4	16	2	–	–	**14**
At December 31, 2016 / 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 December 31, 2017	**8**	**1,248**	**246**	**–**	**29**	**1,531**

Net book values

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in million euros	Trademarks and other rights					
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Intangible assets in development	Goodwill	Total
At December 31, 2017	**2,869**	**593**	**197**	**83**	**11,911**	**15,653**
At December 31, 2016	3,059	596	181	81	11,647	**15,564**

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 116 and 117.

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).

The goodwill impairment of 18 million euros relates to discontinued product lines in our General Industry business.

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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 35 on page 169 and in the combined management report on pages 72 to 77.

Book values – Goodwill

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Cash-generating units in million euros	At December 31, 2016			At December 31, 2017		
	Goodwill	Terminal growth rate	Weighted average cost of capital	Goodwill	Terminal growth rate	Weighted average cost of capital
Packaging and Consumer Goods Adhesives	2,012	1.50%	7.00%	**1,882**	**1.50%**	**7.25%**
Transport and Metal	476	1.50%	7.00%	**1,104**	**1.50%**	**7.25%**
General Industry	416	1.00%	7.00%	**442**	**1.00%**	**7.25%**
Electronics	1,513	1.50%	7.00%	**1,346**	**1.50%**	**7.25%**
Adhesives for Consumers, Craftsmen and Building	404	1.00%	7.00%	**374**	**1.00%**	**7.25%**
Total Adhesive Technologies	**4,821**			**5,148**		
Branded Consumer Goods	1,461	1.00%	6.25%	**1,324**	**1.00%**	**6.25%**
Hair Salon Business	314	1.00%	6.25%	**806**	**1.00%**	**6.25%**
Total Beauty Care	**1,775**			**2,130**		
Laundry Care	3,748	1.00%	6.25%	**3,514**	**1.30%**	**6.25%**
Home Care	1,303	1.00%	6.25%	**1,119**	**1.40%**	**6.25%**
Total Laundry & Home Care	**5,051**			**4,633**		

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 21 on pages 149 to 161). 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 inflation rises to our customers) is assumed for the purpose of impairment testing. The euro to US dollar exchange rate applied is 1.15. Taking into account specific tax effects, the cash flows of the various cash-generating units are discounted at different rates reflecting the weighted average cost of capital (WACC) in each business unit: 6.25 percent after tax for both Laundry & Home Care and Beauty Care, and 7.25 percent after tax for Adhesive Technologies.

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: 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 5 percent per year (previous year: 2 to 4 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 5.5 percent per year (previous year: 3 to 5.5 percent) on average over the detailed four-year forecasting horizon, thus exceeding the market average.

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

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

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

Book values – Trademarks and other rights

98

Cash-generating units (summarized) in million euros	At December 31, 2016 Trademarks and other rights with indefinite useful lives	Terminal growth rate	Weighted average cost of capital	At December 31, 2017 Trademarks and other rights with indefinite useful lives	Terminal growth rate	Weighted average cost of capital
Packaging and Consumer Goods Adhesives	51	1.50%	7.00%	**51**	**1.50%**	**7.25%**
Transport and Metal	18	1.50%	7.00%	**18**	**1.50%**	**7.25%**
General Industry	–	1.00%	7.00%	**–**	**1.00%**	**7.25%**
Electronics	90	1.50%	7.00%	**90**	**1.50%**	**7.25%**
Adhesives for Consumers, Craftsmen and Building	67	1.00%	7.00%	**66**	**1.00%**	**7.25%**
Total Adhesive Technologies	**226**			**225**		
Branded Consumer Goods	603	0.20 – 1.80%	6.25 – 9.00%	**540**	**0.20 – 2.00%**	**6.25 – 8.84%**
Hair Salon Business	124	0.20 – 1.80%	6.25 – 7.80%	**191**	**0.20 – 2.00%**	**6.25 – 10.35%**
Total Beauty Care	**727**			**731**		
Laundry Care	1,745	1.00 – 2.00%	6.25 – 14.40%	**1,586**	**1.00 – 2.00%**	**6.25 – 13.78%**
Home Care	361	1.00 – 2.00%	6.25 – 14.30%	**327**	**1.00 – 2.00%**	**6.25 – 13.15%**
Total Laundry & Home Care	**2,106**			**1,913**		

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 21 on pages 149 to 161). 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 mainly reflects inflation expectations) is assumed for the purpose of impairment testing. The euro to US dollar exchange rate applied is 1.15. Taking into account specific tax effects, the cash flows of the various cash-generating units are discounted at different rates, with a range between 6.25 and 13.78 percent applied as the weighted average cost of capital (WACC) to each cash-generating unit. The impairment tests revealed sufficient impairment buffers so that – as in the previous year – no impairment of trademarks and other rights with indefinite useful lives was registered.

The trademarks and other rights with indefinite useful lives with a net book value of 2,869 million euros (previous year: 3,059 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 2017.

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2 Property, plant and equipment

Cost

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in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At January 1, 2016	**2,228**	**3,125**	**1,047**	**302**	**6,702**
Acquisitions	85	160	11	21	**277**
Divestments	–	–	–	–	**–**
Additions	44	142	68	222	**476**
Disposals	– 41	– 137	– 83	–	**– 261**
Reclassifications to assets held for sale	– 155	– 10	–	–	**– 165**
Reclassifications	41	179	51	– 271	**–**
Translation differences	12	20	1	– 10	**23**
At December 31, 2016 / January 1, 2017	**2,214**	**3,479**	**1,095**	**264**	**7,052**
Acquisitions	99	70	5	4	**178**
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 December 31, 2017	**2,298**	**3,505**	**1,098**	**331**	**7,232**

Accumulated depreciation / impairment

100

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, 2016	**1,081**	**2,181**	**782**	**– 3**	**4,041**
Divestments	–	–	–	–	**–**
Write-ups	–	–	–	–	**–**
Scheduled depreciation	65	192	107	–	**364**
Impairment losses	50	13	4	–	**67**
Disposals	– 27	– 129	– 81	–	**– 237**
Reclassifications to assets held for sale	– 75	– 9	–	–	**– 84**
Reclassifications	– 4	4	– 3	3	**–**
Translation differences	4	8	2	–	**14**
At December 31, 2016 / 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 December 31, 2017	**1,113**	**2,297**	**817**	**–**	**4,227**

Net book values

101

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, 2017	**1,185**	**1,208**	**281**	**331**	**3,005**
At December 31, 2016	1,120	1,219	284	264	2,887

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. Acquisition-related costs incurred in order to make the asset ready for the intended use are capitalized. An overview of the primary investment projects undertaken during the fiscal year can be found on page 78 in the combined management report.

At December 31, 2017, 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 125. Scheduled depreciation and impairment losses recognized are allocated to the relevant functions in the consolidated statement of income.

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3 Other financial assets

Analysis

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in million euros	At December 31, 2016			At December 31, 2017		
	Non-current	Current	Total	Non-current	Current	Total
Receivables from associated companies	4	1	5	**–**	**1**	**1**
Financial receivables from third parties	13	25	38	**14**	**12**	**26**
Derivative financial instruments	–	103	103	**–**	**64**	**64**
Investments accounted for using the equity method	7	–	7	**1**	**–**	**1**
Other investments	56	–	56	**22**	**–**	**22**
Receivable from Henkel Trust e.V.	–	501	501	**–**	**605**	**605**
Securities and time deposits	–	2	2	**–**	**203**	**203**
Financial collateral provided	–	7	7	**–**	**37**	**37**
Sundry financial assets	15	95	110	**13**	**150**	**163**
Total	**95**	**734**	**829**	**50**	**1,072**	**1,122**

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

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

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

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

- Receivables from sureties and guarantee deposits amounting to 35 million euros (previous year: 37 million euros)
- Receivables from suppliers amounting to 15 million euros (previous year: 21 million euros)
- Receivables from employees amounting to 11 million euros (previous year: 14 million euros)

4 Other assets

Analysis

103

in million euros	At December 31, 2016			At December 31, 2017		
	Non-current	Current	Total	Non-current	Current	Total
Tax receivables	–	242	242	**–**	**247**	**247**
Payments on account	–	55	55	**–**	**79**	**79**
Overfunding of pension obligations	24	–	24	**30**	**–**	**30**
Reimbursement rights related to employee benefits	102	13	115	**102**	**10**	**112**
Accruals	21	88	109	**28**	**77**	**105**
Sundry other assets	8	36	44	**9**	**38**	**47**
Total	**155**	**434**	**589**	**169**	**451**	**620**

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.

The valuation, recognition and breakdown of deferred taxes in respect of the various items in the statement of financial position are disclosed under Note 30 (“Taxes on income”) on pages 164 to 166.

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 rendering of services (raw materials and supplies). Payments on account made for the purpose of purchasing inventories are likewise disclosed under the inventories heading.

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

Inventories are measured using either the “first in, first out” (FIFO) or the average cost method. Manufacturing cost includes not only the direct costs but also appropriate portions of necessary overheads (for example goods 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 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 142 million euros (previous year: 142 million euros). The carrying amount of inventories recognized at fair value less costs to sell amounted to 346 million euros (previous year: 359 million euros). The carrying amount of inventories pledged as security for liabilities was unchanged year on year at 0 million euros.

Analysis of inventories (104)

in million euros	At December 31, 2016	At December 31, 2017
Raw materials and supplies	544	**595**
Work in progress	95	**109**
Finished products and merchandise	1,290	**1,359**
Payments on account for merchandise	9	**17**
Total	**1,938**	**2,080**

7 Trade accounts receivable

Trade accounts receivable amounted to 3,544 million euros (previous year: 3,349 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 income of 1 million euros (previous year: net expense of 25 million euros).

Trade accounts receivable (105)

in million euros	At December 31, 2016	At December 31, 2017
Trade accounts receivable, gross	3,467	**3,647**
less: cumulative valuation allowances on trade accounts receivable	118	**103**
Trade accounts receivable, net	**3,349**	**3,544**

Development of valuation allowances on trade accounts receivable (106)

in million euros	2016	2017
Valuation allowances at January 1	**112**	**118**
Additions / Releases	22	**– 3**
Derecognition of receivables	– 15	**– 10**
Currency translation effects	– 1	**– 2**
Valuation allowances at December 31	**118**	**103**

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8 Cash and cash equivalents

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

The volume of cash and cash equivalents decreased compared to the previous year from 1,389 million euros to 916 million euros. Of this figure, 742 million euros (previous year: 1,259 million euros) relates to cash and 174 million euros (previous year: 130 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.

Compared to December 31, 2016, assets held for sale decreased by 14 million euros to 81 million euros. This item mainly relates to the site in Scottsdale, Arizona, USA, which will probably be sold in the second half of 2018 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, 2016: 13 million euros).

Assets and liabilities held for sale

107

in million euros	At December 31, 2016	At December 31, 2017
Intangible assets and property, plant and equipment	92	**80**
Inventories and trade accounts receivable	2	**–**
Cash and cash equivalents	–	**–**
Other assets	1	**1**
Provisions	13	**–**
Borrowings	–	**–**
Other liabilities	–	**–**
Net assets	**82**	**81**

10 Issued capital

Issued capital

108

in million euros	At December 31, 2016	At December 31, 2017
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, 2017.

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.

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 has also been authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to cancel treasury shares without the need for further resolution by the Annual General Meeting.

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.

Treasury shares held by the corporation at December 31, 2017 amounted to 3,680,552 preferred shares (December 31, 2016: 3,680,552). This represents 0.84 percent of the capital stock and a proportional nominal value of 3.7 million euros.

See also the explanatory notes on pages 37 and 38.

11 Capital reserve

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

12 Retained earnings

Recognized in retained earnings are the following:
- Amounts allocated in the financial statements of Henkel AG & Co. KGaA in previous years
- Amounts allocated from consolidated net income less those amounts attributable to non-controlling interests
- Buy-back of treasury shares by Henkel AG & Co. KGaA at cost and the proceeds from their disposal
- Actuarial gains and losses recognized in equity
- The acquisition or disposal of ownership interests in subsidiaries with no change in control
- Valuation effects following application of the anticipated acquisition method

For details on the acquisition of ownership interests in subsidiaries with no change in control in fiscal 2017, please see the section "Acquisitions and divestments" on pages 116 and 117.

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13 Other components of equity

Reported under this heading are differences reported in equity arising from the currency translation of annual financial statements of foreign subsidiaries and also the effects arising from the valuation in total comprehensive income of financial assets in the "Available for sale" category and of derivative financial instruments for which hedge accounting is used. The latter are derivatives used in connection with cash flow hedges or hedges of a net investment in a foreign entity. Due in particular to the depreciation of the US dollar versus the euro, the negative difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation increased compared to the figure at December 31, 2016, by 1,325 million euros to –1,332 million euros.

14 Non-controlling interests

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

15 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 46 to 57.

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.

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 makes the pension contribution to an investment fund established for the purpose of the company pension plan. Upon attaining retirement age, the employee can choose between an annuity through transfer of the superannuation lump-sum to a pension fund, or a one-time payment.

To provide protection under civil law of the pension entitlements of future and current pensioners of Henkel AG & Co. KGaA against insolvency, we have transferred the proceeds of the bond issued in 2005 and certain other assets to Henkel Trust e.V. The trustee invests the cash with which it has been entrusted in the capital market in accordance with investment policies laid down in the trust agreement. In addition, we also subsidize medical benefits for active and retired employees resident mainly in the USA. Under these programs, retirees are reimbursed for a certain percentage of their 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 97 million euros (previous year: 103 million euros). In 2017, we paid 46 million euros to public sector institutions (previous year: 47 million euros) and 51 million euros to private sector institutions (previous year: 56 million euros).

Multi-employer plans

Henkel provides defined pension benefits that are financed by more than one employer. The ensuing multi-employer plans are treated as defined contribution plans because, due to the limited share of the contribution volume in the plans, the information available for each of the financing companies is insufficient for defined benefit accounting. In the Henkel Group, benefits from multi-employer plans are provided for employees primarily in the USA and Japan. Withdrawal from our multi-employer plans at the present time would incur a one-time expense of around 21 million euros (previous year: around 29 million euros). Payments into multi-employer plans in fiscal 2017 amounted to 1 million euros (previous year: 2 million euros). We expect contributions of around 1 million euros in fiscal 2018.

Assumptions

Group-wide, the obligations from our pension plans are valued by an independent external actuary at the end of the fiscal year. The calculations at the end of the fiscal year are based on the actuarial assumptions below. These are given as the weighted average. The mortality rates used are based on published statistics and experience relating to each country. In Germany, the assumptions are based on the "Heubeck 2005G" mortality table. In the USA, the assumptions are based on the 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	2016	2017	2016	2017	2016	2017
Discount rate	1.60	**1.70**	4.10	**3.60**	2.10	**2.15**
Income trend	3.25	**3.25**	3.00	**3.00**	2.85	**3.10**
Expected increases in costs for medical benefits	–	**–**	6.80	**6.60**	3.60	**3.85**
in years						
Life expectancy at age 65 as of the valuation date for a person currently						
65 years old	21.2	**21.3**	22.0	**22.0**	24.0	**23.6**
40 years old	24.4	**24.5**	23.0	**24.0**	26.0	**25.8**

[1] Weighted average.

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Development of defined benefit obligation at December 31, 2016

110

in million euros	Germany	USA	Other countries	Total
At January 1, 2016	**2,966**	**1,198**	**1,091**	**5,255**
Changes in the Group	– 7	1	–	**– 6**
Translation differences	–	46	– 63	**– 17**
Actuarial gains (–) / losses (+)	224	30	177	**431**
of which: from changes in demographic assumptions	–	–	– 4	**– 4**
of which: from changes in financial assumptions	233	26	164	**423**
of which: from experience adjustments	– 9	4	17	**12**
Current service cost	43	16	26	**85**
Employee contributions	16	–	1	**17**
Gains (–) / losses (+) arising from the termination and curtailment of plans	– 9	–	– 4	**– 13**
Interest expense	64	48	25	**137**
Retirement benefits paid out of plan assets	– 173	– 69	– 38	**– 280**
Employer payments for pension obligations	– 6	– 33	– 10	**– 49**
Other changes	2	–	– 1	**1**
At December 31, 2016	**3,120**	**1,237**	**1,204**	**5,561**
of which: obligations not covered by plan assets	98	182	115	**395**
of which: obligations covered by plan assets	3,022	940	1,089	**5,051**
of which: obligations covered by reimbursement rights	–	115	–	**115**

Development of plan assets at December 31, 2016

111

in million euros	Germany	USA	Other countries	Total
At January 1, 2016	**2,577**	**834**	**921**	**4,332**
Changes in the Group	–	–	–	**–**
Translation differences	–	28	– 62	**– 34**
Employer contributions	98	27	60	**185**
Employee contributions	16	–	1	**17**
Retirement benefits paid out of plan assets	– 173	– 69	– 38	**– 280**
Planned income on plan assets	66	34	21	**121**
Remeasurements in equity	132	17	95	**244**
Other changes	2	–	– 1	**1**
At December 31, 2016	**2,718**	**871**	**997**	**4,586**

Development of asset ceiling at December 31, 2016

112

in million euros	Germany	USA	Other countries	Total
At January 1, 2016	**–**	**–**	**7**	**7**
Interest cost for asset ceiling	–	–	–	**–**
Remeasurements in equity	–	–	1	**1**
At December 31, 2016	**–**	**–**	**8**	**8**

Development of the net obligation at December 31, 2016

113

in million euros	Germany	USA	Other countries	Total
Net obligation at January 1, 2016	**389**	**364**	**177**	**930**
Recognized through profit or loss				
Current service cost	43	16	26	**85**
Gains (–) / losses (+) arising from the termination and curtailment of plans	– 9	–	– 4	**– 13**
Interest expense	– 2	14	4	**16**
Recognized in other comprehensive income				
Actuarial gains (–) / losses (+)	224	30	177	**431**
Remeasurements in equity	– 132	– 17	– 95	**– 244**
Change in the effect of the asset ceiling	–	–	1	**1**
Other items recognized in equity				
Employer payments	– 104	– 60	– 70	**– 234**
Changes in the Group	– 7	1	–	**– 6**
Translation differences	–	18	– 1	**17**
Net obligation at December 31, 2016	**402**	**366**	**215**	**983**
Overfunding of pension obligations	–	18	6	**24**
Recognized provision at December 31, 2016	**402**	**384**	**221**	**1,007**

Development of defined benefit obligation at December 31, 2017

114

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**

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Development of plan assets at December 31, 2017

115

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**

Development of asset ceiling at December 31, 2017

116

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

117

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**

Analysis of reimbursement rights

118

in million euros	2016	2017
At January 1	**111**	**115**
Changes in the Group	–	–
Translation differences	5	– 11
Employer contributions	3	8
Employee contributions	–	–
Retirement benefits paid	– 8	– 12
Interest income	5	4
Remeasurements in equity	– 1	8
At December 31	**115**	**112**

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

- 1,881 million euros (previous year: 1,960 million euros) for active employees,
- 914 million euros (previous year: 930 million euros) for former employees with vested benefits, and
- 2,637 million euros (previous year: 2,671 million euros) for retirees.

The average weighted duration of pension obligations is 15 years (previous year: 16 years) for Germany, 9 years (previous year: 9 years) for the USA and 19 years (previous year: 20 years) for other countries.

In determining net liability, we take into account amounts that are not recognized due to asset ceiling restrictions. If the fair value of the plan 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 10 million euros as the asset ceiling (previous year: 8 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 have been 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 33 on page 167. In 2017, allocations to the pension fund amounted to 112 million euros (previous year: 185 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 2018 are expected to total 56 million euros.

Analysis of plan assets

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	At December 31, 2016			At December 31, 2017		
in million euros	Quotation on active markets	No quotation on active markets	Total	Quotation on active markets	No quotation on active markets	Total
Shares	**1,407**	**–**	**1,407**	**1,476**	**–**	**1,476**
Europe	646	–	646	709	–	709
USA	229	–	229	177	–	177
Others	532	–	532	590	–	590
Bonds and hedging instruments	**3,086**	**5**	**3,091**	**3,307**	**– 28**	**3,279**
Government bonds	1,048	–	1,048	1,260	–	1,260
Corporate bonds	2,038	–	2,038	2,047	–	2,047
Derivatives	–	5	5	–	– 28	– 28
Alternative investments	**–**	**275**	**275**	**–**	**254**	**254**
Cash	**–**	**104**	**104**	**–**	**106**	**106**
Liabilities [1]	**–**	**– 501**	**– 501**	**–**	**– 605**	**– 605**
Other assets	**–**	**210**	**210**	**–**	**202**	**202**
Total	**4,493**	**93**	**4,586**	**4,783**	**– 71**	**4,712**

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

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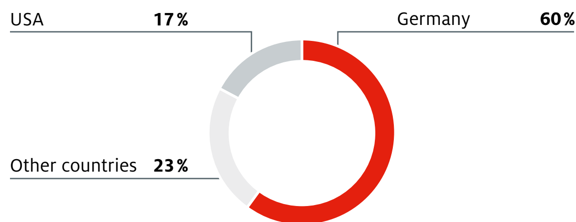
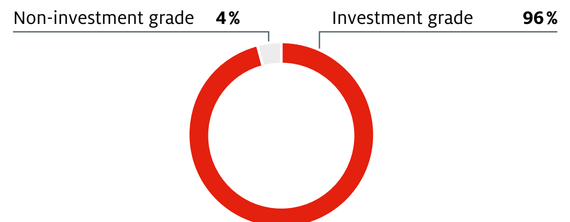
Plan assets by country 2017 120



Classification of bonds by rating 2017 121



The objective of the investment strategy for the global plan assets is the long-term security of pension payments. This is ensured by comprehensive risk management that takes into account the asset and liability portfolios of the defined benefit pension plans. Henkel pursues a liability-driven investment (LDI) approach in order to achieve the investment objective. This approach takes into account the structure of the pension obligations and manages the cover ratio of the pension plans. In order to improve the funding ratio, Henkel invests plan assets in a diversified portfolio 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, 2017, other assets making up the plan assets included the present value of a non-current receivable of 62 million euros (previous year: 64 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 106 million euros (previous year: 115 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 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 of the annuity 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 essentially relate 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.

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
2018	141	121	36	**298**
2019	128	94	33	**255**
2020	129	92	35	**256**
2021	132	91	36	**259**
2022	132	88	36	**256**

The future level of the funded status and thus of the pension obligations depends on the development of the discount rate, among other factors. Companies based in Germany and the USA account for 77 percent of our pension obligations. The medical costs for employees of our subsidiaries in the USA which are incurred after retirement are also recognized in the pension obligations for defined benefit plans. A rate of increase of 6.6 percent (previous year: 6.8 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:

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Sensitivities – Present value of pension obligations at December 31, 2016

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in million euros	Germany	USA	Other countries	Total
Present value of obligations	3,120	1,237	1,204	**5,561**
In the event of:				
Increase in the discount rate by 0.5 pp	2,903	1,187	1,091	**5,181**
Reduction of the discount rate by 0.5 pp	3,364	1,293	1,338	**5,995**
Rise in future income increases by 0.5 pp	3,119	1,242	1,232	**5,593**
Reduction of future income increases by 0.5 pp	3,118	1,230	1,180	**5,528**
Rise in retirement benefits increases by 0.5 pp	3,280	1,235	1,287	**5,802**
Reduction of retirement benefits increases by 0.5 pp	2,970	1,235	1,140	**5,345**
Rise in medical costs by 0.5 pp	3,118	1,238	1,205	**5,561**
Reduction of medical costs by 0.5 pp	3,118	1,232	1,205	**5,555**

pp = percentage points

Sensitivities – Present value of pension obligations at December 31, 2017

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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

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.

16 Income tax provisions and other provisions

Development in 2017

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in million euros	At January 1, 2017	Acquisitions	Utilized	Released	Added	Other changes	At December 31, 2017
Income tax provisions	**464**	**6**	**– 181**	**– 11**	**189**	**– 3**	**464**
of which: non-current	106	0	0	0	– 76	– 3	**27**
of which: current	358	6	– 181	– 11	265	0	**437**
Restructuring provisions	**265**	**1**	**– 130**	**– 26**	**128**	**– 14**	**224**
of which: non-current	58	1	– 12	– 3	20	1	**65**
of which: current	207	0	– 118	– 23	108	– 15	**159**
Sundry provisions	**2,048**	**45**	**– 1,457**	**– 167**	**1,457**	**– 56**	**1,870**
of which: non-current	289	5	– 47	– 7	70	– 37	**273**
of which: current	1,759	40	– 1,410	– 160	1,387	– 19	**1,597**
Total	**2,777**	**52**	**– 1,768**	**– 204**	**1,774**	**– 73**	**2,558**
of which: non-current	453	6	– 59	– 10	14	– 39	**365**
of which: current	2,324	46	– 1,709	– 194	1,760	– 34	**2,193**

Provisions are recognized for obligations toward third parties where the outflow of resources is probable and the expected obligation can be reliably estimated. Provisions are measured to the best estimate of the expenditures required in order to meet the current obligation as of the reporting date. Price increases expected to take place prior to the time of performance are included in the calculation. Provisions in which the interest effect is material are discounted to the reporting date at a pre-tax interest rate. For obligations in Germany, we have applied interest rates of between –0.1 and 2.2 percent (previous year: –0.1 and 2.3 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.

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Analysis of sundry provisions by function 126

in million euros	At December 31, 2016	At December 31, 2017
Sales	**977**	**944**
of which: non-current	10	**8**
of which: current	967	**936**
Payroll	**691**	**583**
of which: non-current	199	**158**
of which: current	492	**425**
Production and engineering	**45**	**44**
of which: non-current	20	**20**
of which: current	25	**24**
Various sundry obligations	**335**	**299**
of which: non-current	60	**87**
of which: current	275	**212**
Total	**2,048**	**1,870**
of which: non-current	289	**273**
of which: current	1,759	**1,597**

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. A euro amount in the double-digit millions range has been accrued for claims arising from product liability actions in the USA. 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 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.

17 Borrowings

Borrowings

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in million euros	At December 31, 2016 Non-current	Current	Total	At December 31, 2017 Non-current	Current	Total
Bonds	2,254	4	2,258	**2,157**	**509**	**2,666**
Commercial paper[1]	–	381	381	**–**	**729**	**729**
Liabilities to banks[2]	1,042	40	1,082	**916**	**30**	**946**
Other borrowings	4	–	4	**3**	**–**	**3**
Total	**3,300**	**425**	**3,725**	**3,076**	**1,268**	**4,344**

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

Bonds

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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			2016	2017	2016	2017	2016	2017	2016	2017	
Henkel AG & Co. KGaA	Bond	500 million euros	499	**500**	501	**501**	501	**501**	0% p.a.	**0% p.a.**	9/13/2018
Henkel AG & Co. KGaA	Bond	700 million euros	698	**698**	699	**700**	699	**700**	0% p.a.	**0% p.a.**	9/13/2021
Henkel AG & Co. KGaA	Bond	750 million US dollars	709	**624**	707	**619**	710	**622**	1.5% p.a.	**1.5% p.a.**	9/13/2019
Henkel AG & Co. KGaA	Bond	300 million GB pounds[2]	348	**336**	344	**335**	345	**336**	0.875% p.a.	**0.875% p.a.**	9/13/2022
Henkel AG & Co. KGaA	Bond	600 million US dollars	–	**499**	–	**498**	–	**503**	–	**2.0% p.a.**	6/12/2020
Total bonds			**2,254**	**2,657**	**2,251**	**2,653**	**2,255**	**2,662**			

[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.

Henkel issued a fixed-rate bond with a volume of 600 million US dollars in June 2017 to finance its acquisitions of 2017.

Interest rate swaps were used in fiscal 2017 to convert into fixed-rate payments the floating-rate interest payments in US dollars that are due for the 1.1 billion US dollar syndicated bank loan recognized under liabilities to banks.

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18 Other financial liabilities

Analysis

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	At December 31, 2016			At December 31, 2017		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Liabilities to non-consolidated affiliated companies and associated companies	–	7	7	**–**	**7**	**7**
Liabilities to customers	–	58	58	**–**	**45**	**45**
Derivative financial instruments	13	64	77	**28**	**72**	**100**
Sundry financial liabilities	133[1]	35	136	**57**	**90**	**147**
Total	**146**	**164**	**310**	**85**	**214**	**299**

[1] Adjusted following final allocation of the purchase price for the acquisition of The Sun Products Corporation, which resulted in an increase of 32 million euros.

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 52 million euros relating to the acquisition of the Darex Packaging Technologies business, as well as the contingent purchase price liability of 27 million euros relating to our acquisition in Nigeria (previous year: 75 million euros) and liabilities from finance leases of 13 million euros (previous year: 17 million euros).

19 Other liabilities

Analysis

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in million euros	At December 31, 2016 Non-current	At December 31, 2016 Current	At December 31, 2016 Total	At December 31, 2017 Non-current	At December 31, 2017 Current	At December 31, 2017 Total
Other tax liabilities	–	211	211	**–**	**178**	**178**
Liabilities to employees	6	41	47	**7**	**37**	**44**
Liabilities relating to employee deductions	–	62	62	**–**	**44**	**44**
Liabilities in respect of social security	–	23	23	**–**	**24**	**24**
Sundry other liabilities	19	58	77	**10**	**57**	**67**
Total	**25**	**395**	**420**	**17**	**340**	**357**

The sundry other liabilities primarily comprise various income deferrals for other accounting periods amounting to 22 million euros (previous year: 29 million euros) and payments on account received in the amount of 5 million euros (previous year: 10 million euros).

20 Trade accounts payable

Trade accounts payable increased from 3,665 million euros to 3,717 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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21 Financial instruments report

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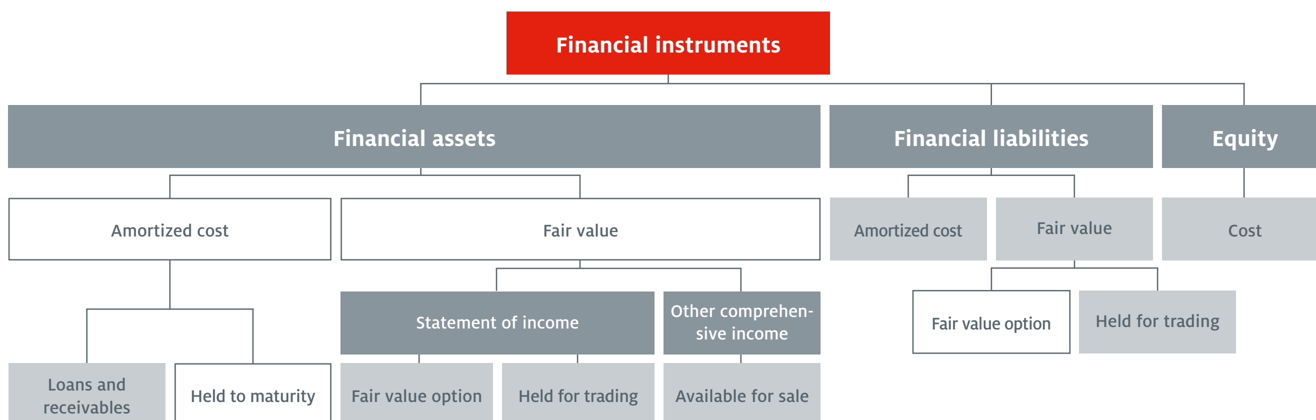

Financial instruments explained by category

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

Within the Henkel Group, financial instruments are reported within 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 on the transaction date. All financial instruments are initially reported at their fair value. Transaction costs are only capitalized if the financial instruments are not subsequently remeasured to fair value through profit or loss. For subsequent remeasurement, financial instruments are divided into the following classes in accordance with IAS 39:

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

Different valuation categories are allocated to these two classes. Financial instruments assigned to the valuation categories "Available for sale" and "Held for trading" are generally measured at fair value. Other securities and time deposits as well as other investments which are not measured using the equity method, both part of other financial assets in the statement of financial position, are categorized as "Available for sale." Only the derivative financial instruments held by the Henkel Group which are not included in hedge accounting are designated as "Held for trading." We recognize all other financial instruments including the financial assets categorized as "Loans and receivables" at amortized cost using the effective interest method. The measurement categories "Held to maturity" and "Fair value option" are not currently used within the Henkel Group.

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

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

The derivative financial instruments that are not included in a designated hedging relationship are categorized as "Held for trading" and recognized at their fair value. All fair value changes are recognized through profit or loss. Hedge accounting is applied in individual cases – where possible and economically sensible – in order to avoid profit and loss variations arising from fair value changes in derivative financial instruments. 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 153 to 156.

All financial liabilities – with the exception of derivative financial instruments and the contingent purchase price liability relating to our acquisition in Nigeria – are essentially recognized at amortized cost using the effective interest method.

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

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Carrying amounts and fair values of financial instruments

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At December 31, 2016 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value, through other comprehensive income	Fair value, through profit or loss	
Assets					
Loans and receivables	**5,392**	5,392	–	–	**5,392**
Trade accounts receivable	**3,349**	3,349	–	–	**3,349**
Other financial assets	**654**	654	–	–	**654**
Receivables from associated companies	**5**	5	–	–	**5**
Financial receivables from third parties	**38**	38	–	–	**38**
Receivables from Henkel Trust e.V.	**501**	501	–	–	**501**
Sundry financial assets	**110**	110	–	–	**110**
Cash and cash equivalents	**1,389**	1,389	–	–	**1,389**
Financial assets available for sale	**65**	56	9	–	**65**
Other financial assets	**65**	56	9	–	**65**
Other investments	**56**	56	–	–	**56**[1]
Floating-interest securities (level 2)	**2**	–	2	–	**2**
Financial collateral provided (level 1)	**7**	–	7	–	**7**
Financial assets held for trading (level 2)	**72**	–	–	72	**72**
Derivative financial instruments not included in a designated hedging relationship	**72**	–	–	72	**72**
Derivative financial instruments included in a designated hedging relationship (level 2)	**31**	–	31	–	**31**
Total	**5,560**	**5,448**	**40**	**72**	**5,560**
Liabilities					
Amortized cost	**7,516**	7,516	–	–	**7,513**
Trade accounts payable	**3,665**	3,665	–	–	**3,665**
Borrowings without a hedging relationship	**3,725**	3,725	–	–	**3,722**
Other financial liabilities	**126**	126	–	–	**126**
Financial liabilities held for trading (level 2)	**68**	–	–	68	**68**
Derivative financial instruments not included in a designated hedging relationship	**68**	–	–	68	**68**
Derivative financial instruments included in a designated hedging relationship (level 2)	**9**	–	9	–	**9**
Other financial liabilities (level 3)	**75**	–	75	–	**75**
Sundry financial liabilities	**75**	–	75	–	**75**
Total	**7,668**	**7,516**	**84**	**68**	**7,665**

[1] Measured at amortized cost; see explanatory notes on page 119.

Carrying amounts and fair values of financial instruments

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At December 31, 2017 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value, through other comprehensive income	Fair value, through profit or loss	
Assets					
Loans and receivables	**5,255**	5,255	–	–	**5,255**
Trade accounts receivable	**3,544**	3,544	–	–	**3,544**
Other financial assets	**795**	795	–	–	**795**
Receivables from associated companies	**1**	1	–	–	**1**
Financial receivables from third parties	**26**	26	–	–	**26**
Receivables from Henkel Trust e.V.	**605**	605	–	–	**605**
Sundry financial assets	**163**	163	–	–	**163**
Cash and cash equivalents	**916**	916	–	–	**916**
Financial assets available for sale	**262**	22	240	–	**262**
Other financial assets	**262**	22	240	–	**262**
Other investments	**22**	22	–	–	**22**[1]
Floating-interest securities (level 2)	**203**	–	203	–	**203**
Financial collateral provided (level 1)	**37**	–	37	–	**37**
Financial assets held for trading (level 2)	**54**	–	–	54	**54**
Derivative financial instruments not included in a designated hedging relationship	**54**	–	–	54	**54**
Derivative financial instruments included in a designated hedging relationship (level 2)	**10**	–	10	–	**10**
Total	**5,581**	**5,277**	**250**	**54**	**5,581**
Liabilities					
Amortized cost	**8,233**	8,233	–	–	**8,229**
Trade accounts payable	**3,717**	3,717	–	–	**3,717**
Borrowings without a hedging relationship	**4,344**	4,344	–	–	**4,340**
Other financial liabilities	**172**	172	–	–	**172**
Financial liabilities held for trading (level 2)	**61**	–	–	61	**61**
Derivative financial instruments not included in a designated hedging relationship	**61**	–	–	61	**61**
Derivative financial instruments included in a designated hedging relationship (level 2)	**39**	–	39	–	**39**
Other financial liabilities (level 3)	**27**	–	27	–	**27**
Sundry financial liabilities	**27**	–	27	–	**27**
Total	**8,360**	**8,233**	**66**	**61**	**8,356**

[1] Measured at amortized cost; see explanatory notes on page 119.

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

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

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

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The fair value of the contingent purchase price liability reported under other financial liabilities that resulted from our acquisition in Nigeria is classified as level 3. The fair value of the contingent purchase price liability as of January 1, 2017, was 75 million euros. As a result of remeasurement as of December 31, 2017, this figure was adjusted by 48 million euros to 27 million euros.

The measurement effects were recognized directly in equity and reported in the statement of changes in equity as other changes in equity. The fair value 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 up to 2025. A discount rate was applied as derived from the capital costs in euros. A further material valuation parameter – in addition to the terminal growth rate reflected in the perpetual annuity of 1.5 percent and the weighted average cost of capital (WACC) of 11.5 percent that was used as the discount rate – is 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.

We did not perform any reclassifications between the valuation categories or transfers within the fair value hierarchy either in fiscal 2017 or in the previous year.

Net gains and losses from financial instruments by category

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

Net results of the measurement categories and reconciliation to financial result

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in million euros	2016	2017
Loans and receivables	19	**18**
Financial assets available for sale	0	**0**
Financial assets and liabilities held for trading including derivatives in a designated hedging relationship	65	**– 385**
Financial liabilities measured at amortized cost	– 29	**– 61**
Total net results	**55**	**– 428**
Foreign exchange effects	– 74	**402**
Interest expense of pension obligations less interest income from plan assets and reimbursement rights	– 11	**– 11**
Other financial result (not related to financial instruments)	– 3	**– 14**
Financial result	**– 33**	**– 51**

The net result of “Loans and receivables” is attributable in full to interest income. Net income arising from additions and releases of valuation allowances amounting to 1 million euros (previous year: –25 million euros) and income from payments on financial instruments already written off and derecognized amounting to 0 million euros (previous year: 1 million euros) were recognized in operating profit.

The net result from securities and time deposits classified as “Available for sale” amounts to 0 million euros (previous year: 0 million euros) for interest income, 0 million euros (previous year: 0 million euros) for income from sales and 0 million euros (previous year: 0 million euros) for income from other investments. As was also the case in 2016, the measurement of these financial instruments at fair value did not result in recognition of a gain or loss in equity.

The net result from “Held for trading” financial instruments and derivatives in a designated hedging relationship includes, in addition to the outcome of measurement of these derivatives at fair value amounting to –389 million euros (previous year: 66 million euros), income of 2 million euros arising from the reversal of the valuation allowance made for counterparty credit risk (previous year: –2 million euros). Moreover, 2 million euros of interest income and expenses from interest rate and currency derivatives and amounts recycled from cash flow hedges recognized in equity are also included under this heading (previous year: 1 million euros).

The net result from “Financial liabilities measured at amortized cost” is essentially derived from the interest expense for borrowings amounting to –57 million euros (previous year: –25 million euros). Fees amounting to –4 million euros for procuring money and loans were also recognized under this heading (previous year: –4 million euros).

The realization and valuation of financial assets and liabilities in foreign currencies (without derivative financial instruments) resulted in income of 402 million euros (previous year: –74 million euros).

Derivative financial instruments

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

Hedge accounting is not applied to the large majority of derivative financial instruments. We recognize through profit or loss the fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of Group strategy. These are largely compensated by fair value changes in the hedged items. In hedge accounting, derivative

financial instruments are qualified as instruments for hedging the fair value of a recognized underlying ("fair value hedge"), as instruments for hedging future cash flows ("cash flow hedge") or as instruments for hedging a net investment in a foreign entity ("hedge of a net investment in a foreign entity"). The following table provides an overview of the derivative financial instruments utilized and recognized within the Group, and their fair values:

Derivative financial instruments

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At December 31 in million euros	Nominal value		Positive fair value[2]		Negative fair value[2]	
	2016	2017	2016	2017	2016	2017
Forward exchange contracts[1]	4,000	**4,899**	80	**61**	– 64	**– 68**
(of which: for hedging loans within the Group)	(2,433)	**(2,710)**	(53)	**(48)**	(– 44)	**(– 49)**
(of which: designated as cash flow hedge)	(657)	**(554)**	(11)	**(7)**	(–9)	**(– 7)**
Foreign exchange options[1]	1	**8**	–	**–**	–	**–**
Interest rate swaps[3]	–	**917**	–	**3**	–	**–**
(of which: designated as cash flow hedge)	–	**(917)**	–	**(3)**	–	**–**
Cross-currency swaps[4]	350	**338**	–	**–**	– 13	**–21**
(of which: designated as cash flow hedge)	–	**(338)**	–	**–**	–	**(– 21)**
Equity forward contracts	167	**128**	23	**–**	–	**– 11**
(of which: designated as cash flow hedge)	147	**128**	20	**–**	–	**(– 11)**
Total derivative financial instruments	**4,518**	**6,290**	**103**	**64**	**– 77**	**– 100**

[1] Maturity less than 1 year.
[2] Fair values including accrued interest and excluding valuation allowance for counterparty credit risk of 0 million euros (previous year: 2 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 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 Term	Euro		US dollar	
	2016	2017	2016	2017
1 month	– 0.37	**– 0.37**	0.77	**1.56**
3 months	– 0.32	**– 0.33**	1.00	**1.69**
6 months	– 0.22	**– 0.27**	1.32	**1.84**
1 year	– 0.08	**– 0.19**	1.69	**2.11**
2 years	– 0.16	**– 0.15**	1.46	**2.08**
5 years	0.08	**0.31**	1.96	**2.25**
10 years	0.66	**0.89**	2.32	**2.40**

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 2017 amounts to 0 million euros (previous year: 2 million euros). The reversal was recognized in profit or loss under financial result.

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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 2017 nor in fiscal 2016.

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. The gains and losses recorded in equity are subsequently recognized through profit or loss in the period in which the results are affected by the hedged transaction.

Cash flow hedges (after income taxes)

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in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	End balance
2017	**–215**	**–10**	**–8**	**–233**
2016	–215	31	–31	**–215**

The initial value of the cash flow hedges recognized in equity relates substantially to currency hedges for past acquisitions and for planned materials purchases.

An addition of 1 million euros after income taxes relates to currency hedges of planned inventory purchases against fluctuations in spot rates. Of the gains recognized in equity, 4 million euros was reclassified to operating profit in the reporting period. The positive and negative fair values of the derivatives contracted as a currency hedge of planned inventory purchases amounted to 7 million and –7 million euros respectively. The cash flows from the currency derivatives and the cash flows from the hedged inventory purchases are expected to occur and affect profit or loss in the next fiscal year.

An addition after income taxes of 3 million euros resulted from the hedges to protect planned payments relating to our long-term incentive (LTI) scheme – some of which were made in the course of the fiscal year just ended – against fluctuations in Henkel share prices. Of the gains recognized in equity, 4 million euros were reclassified to operating profit in the reporting period. The negative fair values of the equity forward contracts totaled 11 million euros. The cash flows relating to these derivatives will occur during the next fiscal year, as will the cash flows from the hedged LTI payments.

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. An addition of 1 million euros after income taxes relates to hedges of future interest payments. The negative fair value of the cross-currency swap amounted to 21 million euros. The cash flows from the cross-currency swap that are attributable to the interest payments were recognized proportionately through profit or loss as an interest expense in the reporting period.

Interest rate swaps were used in fiscal 2017 to convert into fixed-rate payments the floating-rate interest payments in US dollars that are due for the 1.1 billion US dollar syndicated bank loan recognized under liabilities to banks. An addition of 2 million euros after income taxes relates to these hedges. The positive fair values of the interest rate swaps amounted to 3 million euros. The cash flows from the interest rate hedge and the hedged cash flows from the syndicated bank loan are expected to be realized in 2018 and 2019 and will be recognized proportionately for the relevant periods through profit or loss as an interest expense.

A further addition of –17 million euros relates to the hedging of US dollar payments for the acquisition of the Darex Packaging Technologies business.

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

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

An addition of 4 million euros relates to the hedge of our net investments in Chinese yuans and Russian rubles.

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)	End balance
2017	**31**	**4**	**–**	**35**
2016	31	–	–	**31**

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

Management of currency, interest rate and liquidity risks is based on the treasury guidelines introduced by the Management Board, which are binding on the entire corporation. They define the targets, principles and competences of the Corporate Treasury 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 80 and 81. There were no major risk clusters in the reporting period.

Credit risk

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

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

Maximum risk position

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in million euros	2016	2017
Trade accounts receivable	3,349	**3,544**
Derivative financial instruments not included in a designated hedging relationship	72	**54**
Derivative financial instruments included in a designated hedging relationship	31	**10**
Other financial assets	719	**1,057**
Cash and cash equivalents	1,389	**916**
Total carrying values	**5,560**	**5,581**

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

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

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

We make valuation allowances with respect to financial assets so that the assets are recognized at their fair value at the reporting date. In the case of impairment losses on trade accounts receivable that have already occurred but have not yet been identified, we apply global valuation allowances on the basis of empirical evidence, taking into account the overdue

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structure of the assets concerned. As a rule, the impairment test on loans and receivables that are more than 180 days overdue results in a valuation allowance of 100 percent.

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.

In all, we reversed valuation allowances on loans and receivables in 2017 in the amount of 1 million euros (previous year: −25 million euros).

The carrying amount of loans and receivables with terms renegotiated because they would have otherwise fallen overdue or been impaired was 0 million euros (previous year: 0 million euros).

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

Age analysis of non-impaired overdue loans and receivables

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Analysis

in million euros	Less than 30 days	30 to 60 days	61 to 90 days	More than 91 days	Total
At December 31, 2017	**268**	**84**	**43**	**13**	**408**
At December 31, 2016	235	73	35	7	**350**

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. 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:

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

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At December 31	Gross amount recognized in the statement of financial position[1]		Amount eligible for offsetting		Financial collateral received / provided		Net amount	
in million euros	2016	2017	2016	2017	2016	2017	2016	2017
Financial assets	103	**64**	76	**55**	21	**5**	6	**4**
Financial liabilities	77	**100**	76	**55**	7	**37**	−6	**8**

[1] Fair values excluding valuation allowance of 0 million euros made for counterparty credit risk (previous year: 2 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 from the positive fair values of derivatives (previous year: 2 million euros).

Liquidity risk

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

We minimize this risk by deploying financing instruments in the form of issued bonds and commercial paper. With the help of our existing debt issuance program in the amount of 6 billion euros, this is also possible on a short-term and flexible basis. In order to ensure the financial flexibility of Henkel at any time, the liquidity within the Group is largely centralized and managed through the use of cash pools. We predominantly invest cash in financial assets traded in a liquid market in order to ensure that they can be sold at any time to procure liquid funds. In addition, the Henkel Group has at its disposal confirmed credit lines of 1.5 billion euros. These credit lines have terms until 2019. 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.

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 cash flows is shown in the following table.

Cash flows from financial liabilities

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in million euros	Dec. 31, 2016 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	Dec. 31, 2016 Total cash flow
Bonds	**2,258**	14	1,946	353	**2,312**
Commercial paper [1]	**381**	385	–	–	**385**
Liabilities to banks	**1,082**	53	1,071	–	**1,124**
Trade accounts payable	**3,665**	3,665	–	–	**3,665**
Sundry financial instruments [2]	**205**	100	96	11	**207**
Original financial instruments	**7,591**	**4,217**	**3,113**	**364**	**7,693**
Derivative financial instruments	**77**	**64**	**–**	**13**	**77**
Total	**7,668**	**4,281**	**3,113**	**377**	**7,770**

[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.

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	**3,717**	3,717	–	–	**3,717**
Sundry financial instruments [2]	**202**	143	52	9	**204**
Original financial instruments	**8,260**	**5,179**	**3,190**	**9**	**8,378**
Derivative financial instruments	**100**	**69**	**16**	**–**	**85**
Total	**8,360**	**5,248**	**3,206**	**9**	**8,463**

[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.

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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 changes in market prices. Market risks primarily take the form of currency risk, interest rate risk and various price risks (particularly the commodity price risk, and the share price risk arising from our Long-Term Incentive [LTI]). Henkel uses equity forward contracts to hedge against the share price risk.

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

The currency and interest rate risk management of the Group is supported by an integrated treasury system which is used to identify, measure and analyze the Group's currency exposure and interest rate risks. In this context, "integrated" means that the entire process from the conclusion of financial transactions to their entry in the accounts is covered. Much of the currency trading takes place on internet-based, multibank dealing platforms. These foreign currency transactions are automatically transferred into the treasury system. The currency exposure and interest rate risks reported by all subsidiaries under standardized reporting procedures are 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. The resultant currency exposure breaks down into two categories, namely transaction and translation risks.

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

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2017 amounted to 95 million euros after hedging (previous year: 99 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 is based on one year in our internal risk reports as it provides a more comprehensive representation of the risk associated with a fiscal year. The risk arises from imports and exports by Henkel AG & Co. KGaA and its foreign subsidiaries. Due to the international nature of its activities, the Henkel Group has a portfolio with more than 50 different currencies. The following table shows the value-at-risk for Henkel's major currencies.

Currency exposure[1]

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in million euros	2016	2017
Russian ruble	19	**19**
Chinese yuan	9	**9**
British pound	4	**9**
Canadian dollar	8	**6**
US dollar	– 14	**– 3**
Others	73	**55**
	99	**95**

[1] Transaction risk.

The value-at-risk analysis assumes a time horizon of one year and a unilateral confidence interval of 95 percent. We adopt the variance-covariance approach as our basis for calculation. Volatilities and correlations are determined using historical data. The value-at-risk analysis is based on the operating book positions and budgeted positions in foreign currency, normally with a forecasting horizon of nine months.

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

Interest rate risk

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 an effective means of hedging against interest rates rising over the short term. In addition to the two fixed-rate euro-denominated bonds, 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. To hedge against rising US dollar interest rates, the floating-rate interest payable in US dollars for the syndicated bank loan was converted into fixed-rate interest payments in fiscal 2017. All other financial instruments bear floating interest rates. Our exposure (after hedging) to interest rate risk at the reporting dates was as follows:

Interest rate exposure

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	Carrying amounts	
in million euros	2016	2017
Fixed-interest financial instruments		
Euro	– 1,546	**– 1,535**
US dollar	– 712	**– 2,048**
Others	–	**–**
	– 2,258	**– 3,583**
Floating-interest financial instruments		
Euro	357	**94**
US dollar	– 1,797	**– 749**
Chinese yuan	511	**316**
Russian ruble	26	**24**
Others	860	**673**
	– 43	**358**

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The calculation of the interest rate risk is based on sensitivity analyses. The analysis of cash flow risk examines all the main floating-interest financial instruments as of the reporting date. Net financial position is defined as cash and cash equivalents plus readily monetizable financial instruments classified as "Available for sale" or according to the "Fair value option," 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 and calculate the hypothetical 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

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in million euros	2016	2017
Based on an interest rate change of 100 basis points	–	**14**
of which:		
Cash flow through profit and loss	–	**4**
Fair value recognized in equity through comprehensive income	–	**10**

Other price risks (commodity price risk)

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 98 and 99.

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

Notes to the consolidated statement of income

22 Sales and principles of income recognition

Sales increased year on year to 20,029 million euros (previous year: 18,714 million euros). Revenues and their development by business unit and region are summarized in the Group segment report and in the key financials by region on pages 113 and 114. A detailed explanation of the development of major income and expense items can be found in the combined management report on pages 67 to 71.

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

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

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

23 Cost of sales

The cost of sales increased from 9,742 million euros to 10,680 million euros.

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

24 Marketing, selling and distribution expenses

Marketing, selling and distribution expenses amounted to 4,876 million euros (previous year: 4,635 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.

25 Research and development expenses

Research and development expenses increased year on year to 476 million euros (previous year: 463 million euros). Expenditures directly attributable to research and development activities amounted to 469 million euros (previous year: 460 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.

26 Administrative expenses

Administrative expenses amounted to 980 million euros (previous year: 1,062 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.

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27 Other operating income

Other operating income

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in million euros	2016	2017
Gains on disposal of non-current assets	13	**18**
Release of provisions[1]	37	**10**
Insurance claim payouts	2	**10**
Write-ups on non-current assets	–	**–**
Payments on derecognized receivables	1	**–**
Impairment reversal on assets held for sale	–	**–**
Sundry operating income	56	**91**
Total	**109**	**129**

[1] Including income from the release of provisions for pension obligations (curtailment gains) of 6 million euros in 2017 (2016: 13 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. The figure also includes income of 19 million euros (previous year: 0 million euros) from the sale of our professional Western European building material business.

28 Other operating expenses

Other operating expenses

148

in million euros	2016	2017
Losses on disposal of non-current assets	– 7	**– 5**
Other taxes	– 1	**–**
Amortization, depreciation of other assets	– 1	**–**
Sundry operating expenses	– 137	**– 86**
Total	**– 146**	**– 91**

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.

29 Financial result

Financial result

149

in million euros	2016	2017
Interest result	– 5	**– 37**
Other financial result	– 26	**– 10**
Investment result	– 2	**– 4**
Total	**– 33**	**– 51**

Interest result

150

in million euros	2016	2017
Interest and similar income from third parties	20	**18**
Interest to third parties	– 25	**– 55**
Total	**– 5**	**– 37**

Other financial result

151

in million euros	2016	2017
Interest result from net obligation (pensions)	– 15	**– 15**
Interest income from reimbursement rights (IAS 19)	5	**4**
Other financial expenses	– 118	**– 402**
Other financial income	102	**403**
Total	**– 26**	**– 10**

Other financial expenses include –380 million euros (previous year: –106 million euros) from currency losses. Other financial income includes 395 million euros (previous year: 98 million euros) from currency gains. Please see page 153 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 4 million euros for expenses from the valuation of companies that are recognized by the equity method (2016: 2 million euros).

30 Taxes on income

Income tax expense / income breaks down as follows:

Income before tax and analysis of taxes

152

in million euros	2016	2017
Income before tax	**2,742**	**3,004**
Current taxes	830	**654**
Deferred taxes	– 181	**– 191**
Taxes on income	**649**	**463**
Tax rate in percent	23.7 %	**15.4 %**

Main components of tax expense and income

153

in million euros	2016	2017
Current tax expense / income in the reporting year	816	**664**
Current tax adjustments for prior years	14	**–10**
Deferred tax expense / income from temporary differences	– 164	**50**
Deferred tax expense / income from unused tax losses	– 8	**46**
Deferred tax expense from tax credits	– 4	**1**
Deferred tax income from changes in tax rates	– 8	**– 289**
Increase / decrease in valuation allowances on deferred tax assets	3	**1**

Deferred tax expense by items on the statement of financial position

154

in million euros	2016	2017
Intangible assets	16	**– 281**
Property, plant and equipment	– 38	**– 16**
Financial assets	– 1	**– 56**
Inventories	8	**9**
Other receivables and other assets	14	**1**
Special tax items	– 2	**– 3**
Provisions	– 66	**52**
Liabilities	– 104	**55**
Tax credits	– 4	**1**
Unused tax losses	– 4	**47**
Financial statement figures	**– 181**	**– 191**

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

155

in million euros	2016	2017
Income before tax	2,742	**3,004**
Tax rate (including trade tax) of Henkel AG & Co. KGaA	31 %	**31 %**
Expected tax charge	**850**	**931**
Tax reductions due to differing tax rates abroad	– 122	**– 100**
Tax increases / reductions for prior years	6	**7**
Tax increases / reductions due to changes in tax rates	– 8	**– 289**
Tax increases / reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	3	**1**
Tax reductions due to tax-free income and other items	– 208	**– 192**
Tax increases / reductions arising from additions and deductions for local taxes	– 1	**– 6**
Tax increases due to withholding taxes	43	**53**
Tax increases due to non-deductible expenses	86	**58**
Tax charge disclosed	**649**	**463**
Tax rate	**23.7 %**	**15.4 %**

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.

Tax expenses and income for the reporting year reflect the impacts of the tax reform in the USA that came into effect on December 22, 2017. The reduced rate of corporate tax was applied to deferred tax items, resulting in deferred tax income of 294 million euros.

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

156

in million euros	Deferred tax assets December 31, 2016	Deferred tax assets December 31, 2017	Deferred tax liabilities December 31, 2016	Deferred tax liabilities December 31, 2017
Intangible assets	360	**381**	1,037	**724**
Property, plant and equipment	18	**29**	73	**76**
Financial assets	1	**–**	168	**101**
Inventories	50	**37**	3	**2**
Other receivables and other assets	38	**26**	48	**42**
Special tax items	–	**–**	33	**30**
Provisions	822	**677**	9	**8**
Liabilities	182	**147**	12	**39**
Tax credits	7	**6**	–	**–**
Unused tax losses	102	**51**	–	**–**
Amounts netted	–550	**–405**	–550	**–405**
Financial statement figures	**1,030**	**949**	**833**	**617**

The deferred tax assets of 677 million euros (previous year: 822 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 724 million euros (previous year: 1,037 million euros) relating to intangible assets are mainly attributable to business combinations. The tax reform in the USA necessitated remeasurement of the deferred tax liabilities on intangible and financial assets at reporting year-end, resulting in a lower figure.

An excess of deferred tax assets is only recognized insofar as it is likely that the company concerned will achieve sufficiently positive taxable profits in the future against which the deductible temporary differences can be offset and tax loss carry-forwards can be used. Deferred taxes have not been recognized with respect to unused tax losses of 249 million euros (previous year: 269 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, 171 million euros (previous year: 190 million euros) expire after more than three years. Thereof 48 million euros (previous year: 58 million euros) are attributable to state taxes of our US subsidiaries (tax rate around 2.5 percent). Of the tax losses carried forward, 52 million euros are non-expiring (previous year: 73 million euros). Deferred tax liabilities of 52 million euros (previous year: 62 million euros) relating to the retained earnings of foreign subsidiaries have been recognized due to the fact that these earnings will be distributed in 2018.

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: 10 million euros) which may be carried forward without restriction. In addition to the unused tax losses listed in the table, an interest expense of 12 million euros (previous year: 5 million euros) is available which may be carried forward in full with no expiration.

Expiry dates of unused tax losses and tax credits

157

in million euros	Unused tax losses December 31, 2016	Unused tax losses December 31, 2017	Tax credits December 31, 2016	Tax credits December 31, 2017
Expire within				
1 year	12	**24**	1	**1**
2 years	2	**1**	–	**–**
3 years	7	**128**	–	**–**
more than 3 years	674	**403**	6	**5**
May be carried forward without restriction	107	**95**	–	**–**
Total	**802**	**651**	**7**	**6**

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 257 million euros are attributable to our US subsidiaries. Of this amount, 2 million euros relate to federal and state tax loss carryforwards, and 251 million euros (previous year: 231 million euros) relate exclusively to state taxes.

Equity-decreasing deferred taxes of 71 million euros were recognized (previous year: equity-increasing deferred taxes of 55 million euros). Within this figure, an expense of 66 million euros (previous year: income of 55 million euros) results from actuarial gains and losses on pension obligations. The change in tax rate following the tax reform in the USA reduced equity by 56 million euros. In addition, an expense of 2 million euros (previous year: income of 0 million euros) is attributable to hedges of net investments in foreign entities, while currency effects resulted in an expense of 3 million euros (previous year: 1 million euros).

31 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 22 million euros (previous year: 41 million euros) and that of losses was 0 million euros (previous year: 1 million euros).

The non-controlling interests included in the Henkel Group at the end of fiscal 2017 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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32 Reconciliation of adjusted net income

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in million euros		2016	2017	+/–
EBIT (as reported)		**2,775**	**3,055**	**10.1 %**
One-time gains		–1	**–21**	–
One-time charges		121	**182**	–
Restructuring expenses		277	**245**	–
Adjusted EBIT		**3,172**	**3,461**	**9.1 %**
Adjusted return on sales	in %	16.9	**17.3**	0.4 pp
Financial result		–33	**–51**	54.5 %
Taxes on income (adjusted)		–775	**–853**	10.1 %
Adjusted tax rate	in %	24.7	**25.0**	0.3 pp
Adjusted net income		**2,364**	**2,557**	**8.2 %**
Attributable to non-controlling interests		41	**23**	–43.9 %
Attributable to shareholders of Henkel AG & Co. KGaA		2,323	**2,534**	9.1 %
Adjusted earnings per ordinary share	in euros	**5.34**	**5.83**	**9.2 %**
Adjusted earnings per preferred share	in euros	**5.36**	**5.85**	**9.1 %**

Of the one-time gains recognized in 2017, 19 million euros is attributable to the sale of Henkel's professional Western European building material business (2016: 0 million euros), 1 million euros to performance-related purchase price components (2016: 1 million euros) and 1 million euros to a release of provisions for legal disputes (2016: 0 million euros).

The adjusted charges for fiscal 2017 include expenses of 131 million euros relating to the integration of The Sun Products Corporation (2016: 42 million euros), 23 million euros to the optimization of our IT system architecture for managing business processes (2016: 26 million euros), 11 million euros to acquisition-related costs (2016: 20 million euros), and 17 million euros relating to the discontinuation of product lines in our General Industry business (2016: 0 million euros).

Of the restructuring expenses in fiscal 2017, 77 million euros fall under cost of sales (2016: 47 million euros) and 122 million euros fall under marketing, selling and distribution expenses (2016: 77 million euros). A further 7 million euros is assigned to research and development expenses (2016: 3 million euros), and 39 million euros to administrative expenses (2016: 150 million euros).

Taxes on income amounting to 853 million euros reflect the tax effects of the adjustments to EBIT. Moreover, the figure for fiscal 2017 has been adjusted for the one-time impacts of the tax reform in the USA. This adjustment resulted in an earnings effect totaling 270 million euros.

33 Payroll cost and employee structure

Payroll cost[1]

159

in million euros	2016	2017
Wages and salaries	2,427	**2,552**
Social security contributions and staff welfare costs	410	**447**
Pension costs	164	**168**
Total	**3,001**	**3,167**

[1] Excluding personnel-related restructuring expenses of 87 million euros (previous year: 137 million euros).

Number of employees per function[1]

160

	2016	2017
Production and engineering	26,550	**28,150**
Marketing, selling and distribution	13,600	**13,650**
Research and development	2,700	**2,700**
Administration	7,100	**7,450**
Total	**49,950**	**51,950**

[1] Basis: annual average headcount of full-time employees, excluding apprentices and trainees, work experience students and interns; figures rounded.

34 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 to participate, 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 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.

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.

In fiscal 2017, an equity-increasing payroll 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 to participate 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. In addition, an Outperformance Reward, which awarded CPUs based on the achievement of target figures established in advance, was set at the beginning of the four-year medium-term plan.

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.

Due to the extension of the cycle, one tranche with a three-year term and another with a four-year term were issued in 2013. 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 110.35 euros (closing price of Henkel preferred shares on December 29, 2017; on December 30, 2016: 113.25 euros) per CPU. The overall payout of the long-term incentive is subject to a cap.

The eleventh four-year cycle, which was issued in 2013, became due for payment in 2017, together with the Outperformance Reward. At December 31, 2017, the CPU Plan worldwide comprised 471,923 CPUs (December 31, 2016: 516,200 CPUs) from the four-year tranche issued in 2014, 520,448 CPUs (December 31, 2016: 576,746 CPUs) from the tranche issued in 2015, and 502,700 CPUs (December 31, 2016: 560,687 CPUs) from the tranche issued in 2016. This resulted in an additional expense in the reporting year of 43.0 million euros (December 31, 2016: 61.8 million euros). The corresponding provision amounted to 122.9 million euros (December 31, 2016: 189.5 million euros), of which 53.1 million euros (December 31, 2016: 97.6 million euros) is vested.

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35 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 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.

Reportable segments

Adhesives for Consumers, Craftsmen and Building

In the Adhesives for Consumers, Craftsmen and Building 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 segment covers four business areas: Packaging and Consumer Goods Adhesives, Transport and Metal, General Industry, and Electronics.

The Packaging and Consumer Goods Adhesives business 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 business 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 business, 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 business 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.

Beauty Care

The Beauty Care segment covers our globally active Branded Consumer Goods business with Hair Care, Hair Colorants, Hair Styling, Body Care, Skin Care and Oral Care, as well as the professional Hair Salon business.

Laundry & Home Care

The Laundry & Home Care segment covers the global activities of Henkel in laundry and home care branded consumer goods. The Laundry Care business includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers, and other fabric care products. Our Home Care business area 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, 69 million euros (previous year: 61 million euros) is attributable to Adhesive Technologies, 76 million euros (previous year: 94 million euros) to Beauty Care and 90 million euros (previous year: 119 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.

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.

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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in million euros	Net operating assets		Financial statement figures	Net operating assets		Financial statement figures
	Annual average[1] 2016	December 31, 2016	December 31, 2016	Annual average[1] 2017	December 31, 2017	December 31, 2017
Goodwill at book value	9,742	11,647[4]	11,647[4]	11,601	11,911	**11,911**
Other intangible assets and property, plant and equipment (including assets held for sale)	5,833	6,899	6,899	6,759	6,828	**6,828**
Deferred taxes	–	–	1,017	–	–	**949**
Inventories	1,818	1,938	1,938	2,066	2,080	**2,080**
Trade accounts receivable from third parties	3,326	3,349	3,349	3,560	3,544	**3,544**
Intra-group accounts receivable	1,291	1,311	–	1,520	1,874	**–**
Other assets and tax refund claims[2]	530	630[4]	1,712[4]	636	599	**2,079**
Cash and cash equivalents			1,389			**916**
Operating assets / Total assets	**22,540**	**25,774**	**27,951**	**26,142**	**26,836**	**28,307**
Operating liabilities	7,104	7,815	–	7,796	8,063	**–**
of which: Trade accounts payable to third parties	3,382	3,665	3,665	3,735	3,717	**3,717**
Intra-group accounts payable	1,291	1,311	–	1,520	1,874	**–**
Other provisions and other liabilities[2] (financial and non-financial)	2,431	2,839	3,011	2,540	2,472	**2,750**
Net operating assets	15,436	17,925	–	18,347	18,773	**–**
– Goodwill at book value	9,742	–	–	11,601	–	**–**
+ Goodwill at cost[3]	10,201	–	–	12,124	–	**–**
Capital employed	15,895	–	–	18,870	–	**–**

[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] Adjusted following final allocation of the purchase price for the acquisition of The Sun Products Corporation.

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36 Earnings per share

Earnings per share

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in million euros (rounded)	2016 Reported	2016 Adjusted	2017 Reported	2017 Adjusted
Net income attributable to shareholders of Henkel AG & Co. KGaA	**2,053**	**2,323**	**2,519**	**2,534**
Dividends, ordinary shares	416	416	**460**	**460**
Dividends, preferred shares	283	283	**312**	**312**
Total dividends	699	699	**772**	**772**
Retained earnings, ordinary shares	810	972	**1,045**	**1,054**
Retained earnings, preferred shares	544	652	**702**	**708**
Retained earnings	**1,354**	**1,624**	**1,747**	**1,762**
Number of ordinary shares	259,795,875	259,795,875	**259,795,875**	**259,795,875**
Dividend per ordinary share in euros	1.60	1.60	**1.77**[3]	**1.77**[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	3.12	3.74	**4.02**	**4.06**
Earnings per ordinary share in euros	**4.72**	**5.34**	**5.79**	**5.83**
Number of outstanding preferred shares[2]	174,482,323	174,482,323	**174,482,323**	**174,482,323**
Dividend per preferred share in euros	1.62	1.62	**1.79**[3]	**1.79**[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	3.12	3.74	**4.02**	**4.06**
Earnings per preferred share in euros	**4.74**	**5.36**	**5.81**	**5.85**
Number of ordinary shares	259,795,875	259,795,875	**259,795,875**	**259,795,875**
Dividend per ordinary share in euros	1.60	1.60	**1.77**[3]	**1.77**[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)	3.12	3.74	**4.02**	**4.06**
Diluted earnings per ordinary share in euros	**4.72**	**5.34**	**5.79**	**5.83**
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	1.62	1.62	**1.79**[3]	**1.79**[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)	3.12	3.74	**4.02**	**4.06**
Diluted earnings per preferred share in euros	**4.74**	**5.36**	**5.81**	**5.85**

[1] See combined management report, Corporate governance, Composition of issued capital / Shareholders' rights on pages 36 and 37.
[2] Weighted annual average of preferred shares.
[3] Proposal to shareholders for the Annual General Meeting on April 9, 2018.

37 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 –1,830 million euros (previous year: – 3,727 million euros), as well as outflows for investments in intangible assets and property, plant and equipment, including payments on account, in the amount of –700 million euros (previous year: – 557 million euros).

Outflows for the acquisition of subsidiaries and other business units relate to the acquisitions as described in the section “Acquisitions and divestments” on pages 116 and 117.

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.

Reconciliation of assets and liabilities reflected in cash flow from financing activities

163

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 lease commitments	Total
At January 1, 2017	**1**	**9**	**616**	**– 1,007**	**– 3,725**	**– 17**	**– 4,123**
Change in cash flow from financing activities[3]	354	231	104	72	– 886	2	**– 123**
of which:							
Interest paid	– 2	–	–	–	51	0	**49[1]**
Issuance of bonds	–	–	–	–	– 535	–	**– 535**
Other changes in borrowings	360	–	–	–	– 402	2	**– 40[2]**
Allocations to pension funds	–	–	–	112	–	–	**112**
Other changes in pension obligations	–	–	104	– 40	–	–	**64**
Other financing transactions	– 4	231	–	–	–	–	**227[2]**
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] Does not include cash outflow of 7 million euros for fees and other financial charges relating to the procurement of money and loans.
[2] Differs from the cash flow statement due to currency differences and currency results of intra-group financing and capital transactions.
[3] 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.

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38 Contingent liabilities

Analysis 164

in million euros	December 31, 2016	December 31, 2017
Liabilities under guarantee and warranty agreements	5	**10**

39 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, 2017, they were due for payment as follows:

Operating lease commitments 165

in million euros	December 31, 2016	December 31, 2017
Due in the following year	98	**79**
Due within 1 to 5 years	162	**168**
Due after 5 years	144	**147**
Total	**404**	**394**

Within the Group, we primarily lease office space and equipment, automobiles, and IT equipment. Some of these contracts contain extension options and price adjustment clauses. In the course of fiscal 2017, 80 million euros became due for payment under operating leases (previous year: 75 million euros).

Finance lease commitments 2016 166

in million euros At Dec. 31, 2016	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	10	2	9
Due after 5 years	7	1	6
Total	**19**	**3**	**17**

Finance lease commitments 2017 167

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**

As of the end of 2017, commitments arising from orders for property, plant and equipment amounted to 68 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, 2017 amounted to 4 million euros (previous year: 4 million euros).

40 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 46 to 57. Related parties as defined in IAS 24 also include Henkel Trust e.V. and Metzler Trust e.V.

Information required by Section 160 (1) number 8 German Stock Corporation Act [AktG]:

Henkel AG & Co. KGaA, Düsseldorf, has been notified that on December 17, 2015 the proportion of voting rights held by the members of the Henkel family share-pooling agreement represented in total a share of 61.02 percent of the voting rights (158,535,741 votes) in Henkel AG & Co. KGaA (International Securities Identification Number [ISIN]: DE0006048408), held by

- 131 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, 13 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 22 (2) German Securities Trading Act [WpHG], whereby the shares held by the two private limited companies, by the 13 limited partnerships with a limited company as general partner, and by the one limited partnership, representing a percentage of 16.97 percent of the voting rights (44,081,965 votes), are also attributed (per Section 22 (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 (latest notification: November 5, 2014).

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 18.

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 131). The receivable does not bear interest.

41 Exercise of exemption options

Adopting the same approuch as in 2016, the following German companies included in the consolidated financial statements of Henkel AG & Co. KGaA exercised exemption options in fiscal 2017:

- 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.

42 Remuneration of the corporate bodies

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,565,000 euros plus value-added tax (previous year: 1,572,896 euros) and 2,215,754 euros (previous year: 2,350,000 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 25,326,382 euros (previous year: 26,503,197 euros).

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, 102,214,945 euros (previous year: 100,771,135 euros) is deferred. The total remuneration for this group of persons (Section 285 (9b) and Section 314 (1) (6b) HGB) in the reporting year amounted to 7,265,411 euros (previous year: 7,127,205 euros). For further details regarding the compensation of the corporate bodies, please refer to the audited remuneration report on pages 46 to 57.

43 Declaration of compliance with the Corporate Governance Code [DCGK]

In February 2017, 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

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44 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 the printed form 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

45 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 2016 and 2017 were as follows:

Type of fee

168

in million euros	2016	of which Germany	2017	of which Germany
Audits	10.8	2.6	**10.3**	**2.5**
Other audit-related services	0.4	0.3	**0.5**	**0.3**
Tax advisory services	1.2	0.2	**1.0**	**0.3**
Other services	0.2	0.1	**0.8**	**0.8**
Total	**12.6**	**3.2**	**12.6**	**3.9**

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 in connection with the issuance of a bond, 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 audits of parts of the compliance management system and the audit of the non-financial report.

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, an audit performed as part of a project to update the treasury system software, services focusing on the implementation of regulatory requirements, and other project-related advisory services.

Subsequent events

After December 31, 2017, there were no reportable events of particular significance for the net assets, financial position and results of operations of the Henkel Group.

Düsseldorf, January 30, 2018

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

Independent Auditor’s Report

To Henkel AG & Co. KGaA, Düsseldorf

Report on the Audit of the Consolidated Financial Statements and of the Group 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, 2017, 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, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Henkel AG & Co. KGaA for the financial year from January 1 to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the Group’s corporate governance statement which is included in section “Fundamental principles of the Group” of the group 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, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group 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 group management report does not cover the content of the Group’s 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 group management report.

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group 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 Group 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) 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 group 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, 2017. 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, 2017, goodwill of EUR 11,911 million and brands and other rights with indefinite useful lives of EUR 2,869 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 brands 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 extrapolated for subsequent years using assumptions about perpetuity growth rates. 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, for example the launch of new products, and to estimate their effects on the forecasts for the cash flows. We assessed the appropriateness of the estimated perpetuity growth rates using relevant market analysis. We also confirmed adherence to budget by making a retrospective comparison. Furthermore, we evaluated Henkel's planning process by surveying those responsible for the process and verifying the process steps.

As even small changes in the cost of capital materially affect the fair value, we involved our valuation specialists and focused on the assumptions and data used to determine the weighted average cost of capital and also verified the calculation procedure. This also involved comparisons with the peer group relevant to Henkel as regards the cost of equity utilized. In addition, we conducted our own sensitivity analyses for the cash-generating units to establish the effects of incremental changes to assumptions on the measurement of goodwill and intangible assets.

Finally, for the purposes of an overall assessment, we compared the total calculated fair values less costs to sell for the individual cash-generating units with the current market capitalization of the Henkel Group.

We also assessed whether the disclosures required pursuant to IAS 36 in the notes to the consolidated financial statements are appropriate.

OUR 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.

Accounting of acquisitions made in the financial year

See pages 116 and 117 in the notes to the consolidated financial statements for information on acquisitions made in the financial year

THE FINANCIAL STATEMENT RISK

In the 2017 financial year, Henkel made acquisitions totaling EUR 1,906 million.

The assets and liabilities acquired were recognized at fair value at the date of acquisition. Goodwill is recognized as the remaining portion of the purchase price that is not allocated to the acquired assets and liabilities as part of the purchase price allocation.

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

For individual assets acquired, especially brands, technologies and customer relationships, no observable market values are available. To determine the corresponding fair values, complex valuation models based on assumptions are used. This measurement is highly dependent on estimates of future cash flows as well as the cost of capital applied and, due to judgment, subject to considerable uncertainty. In this context and due to the underlying complexity of the valuation models, there is a risk for the financial statements that the fair values (particularly of intangible assets) have not been determined appropriately. There is also a risk that the disclosures in the notes to the consolidated financial statements as required by IFRS 3 are not appropriate.

OUR AUDIT APPROACH

We confirmed the qualifications and objectivity of the experts engaged by Henkel to perform the purchase price allocation. With the support of our valuation specialists, we also assessed the appropriateness of the valuation models and of the business plans underlying the measurement. This involved assessing the mathematical accuracy of the valuation models and also evaluating the expectations of the future short-, medium- and long-term development of revenue and costs by comparing them with external market data and interviewing management.

During our audit, we also focused on detecting the value drivers for the identified intangible assets to be measured. In this regard, we analyzed whether the assumptions for the value drivers for brands (useful life, license fees, risk premiums) and customer relationships (grouping of customers, duration, reduction rates, risk premiums) were appropriate and consistent with observable market parameters.

For the goodwill resulting from the purchase price allocation, we analyzed the key synergy drivers and assessed them based on the information and supporting documents provided to us.

We also focused on the assumptions and parameters used to determine the weighted average cost of capital, particularly whether the determination of the peer group to derive the cost of equity was appropriate, and evaluated the calculation procedure.

Furthermore, we assessed whether the disclosures required pursuant to IFRS 3 in the notes to the consolidated financial statements were complete and appropriate.

OUR CONCLUSIONS

The purchase price allocations included in the consolidated financial statements were performed appropriately as a whole, on the basis of suitable valuation models, assumptions and data.

The disclosures in the notes to the consolidated financial statements are complete and appropriate.

Explanation to the reconciliation of performance measures in segment reporting

See segment reporting, Note 32 in the notes to the consolidated financial statements for an explanation to the reconciliation of performance measures

THE FINANCIAL STATEMENT RISK

Revenue growth and return on sales, as well as earnings per share, are adjusted for the purposes of management and analysis.

In the consolidated financial statements of Henkel AG & Co. KGaA, nominal revenue growth of 7.0 percent is adjusted for exchange rate effects (2.0 percentage points) and for effects from acquisitions and divestments (– 5.9 percentage points) to organic growth of 3.1 percent, and EBIT of EUR 3,055 million is adjusted by EUR 406 million to EUR 3,461 million. The adjusted return on sales is 17.3 percent. Organic revenue growth, adjusted EBIT and adjusted return on sales are presented in segment reporting and explained in the notes to the consolidated financial statements.

There is a risk that the adjustments made are not appropriately presented in the notes to the consolidated financial statements.

OUR AUDIT APPROACH

We verified the derivation of the performance measures from the Group's accounting and critically analyzed the adjustments accounted for. We assessed whether the adjustments made were consistent with the information and explanations provided to us, in line with the audit findings and appropriately presented in the notes to the consolidated financial statements.

OUR CONCLUSIONS

The reconciling items of segment reporting on the performance measures of organic growth, adjusted EBIT and adjusted return on sales are appropriately presented in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises:

- the Group's corporate governance statement, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group 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 group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group 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 group 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 group 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 group 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 group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group 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 group 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 group 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 group management report.

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

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 group management report, whether due to fraud or error, design 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 group 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 group 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 group 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 group 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 group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

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.

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

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 6, 2017. We were engaged by the supervisory board, represented by the Audit Committee Chair, on July 5, 2017. 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 30, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Klaus Becker
Wirtschaftsprüfer

Marcus Rohrbach
Wirtschaftsprüfer

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

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 1,435,475,690.42 euros for fiscal 2017 be applied as follows:

a)	Payment of a dividend of 1.77 euros per ordinary share (259,795,875 shares)	= 459,838,698.75 euros
b)	Payment of a dividend of 1.79 euros per preferred share (178,162,875 shares)	= 318,911,546.25 euros
c)	Carried forward as retained earnings	= 656,725,445.42 euros
		1,435,475,690.42 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 1.77 euros per ordinary share qualifying for a dividend and 1.79 euros per preferred share qualifying for a dividend, with corresponding adjustment of the payout totals and of retained earnings carried forward to the following year.

Düsseldorf, January 30, 2018

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board

Responsibility statement by the Personally Liable Partner

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the management report of the Group, which is combined with the management report of Henkel AG & Co. KGaA, includes a fair review of the development, performance and results of the business and the position of the Group, together with a cogent description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, January 30, 2018

Henkel Management AG

Management Board
Hans Van Bylen,
Jan-Dirk Auris, Carsten Knobel, Kathrin Menges,
Bruno Piacenza, Jens-Martin Schwärzler

Corporate bodies of Henkel AG & Co. KGaA

Boards / memberships as defined by Section 125 (1) sentence 5 German Stock Corporation Act [AktG] as at November 2017

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]

Winfried Zander*
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 since: 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

Johann-Christoph Frey
Private Investor, Klosters

Born in 1955
Member since: April 11, 2016

Peter Hausmann*
Member of the Executive Board of IG Bergbau, Chemie, Energie and responsible for Wages / Finance, Hannover

Born in 1954
Member since: April 15, 2013

Memberships:
Continental AG[1]
Covestro AG[1]
Vivawest GmbH (Vice Chair)[1]
50 Hertz Transmission AG (Vice Chair)[1]

Birgit Helten-Kindlein*
Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1964
Member since: April 14, 2008

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]

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 Australia Pty. Ltd. (Chair), Australia[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]

* Employee representatives.
[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Angelika Keller*
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 since: 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

Dr. rer. nat. Martina Seiler*
Chemist, Duisburg
Chairwoman of the General Senior Staff Representative Committee and 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:
E.ON SE [1]
Merck KGaA [1]
DKSH Holding Ltd., Switzerland [2]
E. Merck OHG [2]

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

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
Birgit Helten-Kindlein
Winfried Zander

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]

Boris Canessa
(until April 30, 2017)
Private Investor, Düsseldorf

Born in 1963
Member from: April 11, 2016

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]
E.ON SE[1]
Porsche Automobil Holding SE[1]
ThyssenKrupp AG (Chair)[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 company.

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
Boris Canessa (until April 30, 2017)
Jean-François van Boxmeer
Werner Wenning

[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

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

Memberships:
Henkel Corporation (Chair), USA[2]
Henkel Technology Corporation, USA[2]

Pascal Houdayer
(until October 31, 2017)
Beauty Care

Born in 1969
Member from: March 1, 2016

Membership:
The Dial Corporation (Chair), USA[2]

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, 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

Membership:
Henkel Consumer Goods Inc., USA[2]

Jens-Martin Schwärzler
(since November 1, 2017)
Beauty Care

Born in 1963
Member since: November 1, 2017

Memberships:
Henkel Consumer Goods Inc., USA[2]
Henkel US Distribution Corporation, USA[2]
The Dial Corporation, USA[2]
The Sun Products Canada Corporation, Canada[2]
The Sun Products Corporation, USA[2]

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.

Quarterly breakdown of key financials

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in million euros	1st quarter 2016	1st quarter 2017	2nd quarter 2016	2nd quarter 2017	3rd quarter 2016	3rd quarter 2017	4th quarter 2016	4th quarter 2017	Full year 2016	Full year 2017
Sales										
Adhesive Technologies	2,144	**2,295**	2,290	**2,370**	2,272	**2,373**	2,255	**2,348**	8,961	**9,387**
Beauty Care	950	**1,011**	988	**997**	968	**941**	932	**920**	3,838	**3,868**
Laundry & Home Care	1,333	**1,726**	1,345	**1,703**	1,479	**1,636**	1,638	**1,586**	5,795	**6,651**
Corporate	30	**32**	31	**29**	29	**31**	31	**32**	121	**123**
Henkel Group	**4,456**	**5,064**	**4,654**	**5,098**	**4,748**	**4,981**	**4,856**	**4,886**	**18,714**	**20,029**
Cost of sales	–2,293	**–2,649**	–2,373	**–2,678**	–2,453	**–2,674**	–2,623	**–2,679**	–9,742	**–10,680**
Gross profit	**2,163**	**2,415**	**2,281**	**2,420**	**2,295**	**2,307**	**2,233**	**2,207**	**8,972**	**9,349**
Marketing, selling and distribution expenses	–1,092	**–1,237**	–1,167	**–1,242**	–1,171	**–1,154**	–1,205	**–1,243**	–4,635	**–4,876**
Research and development expenses	–114	**–121**	–118	**–119**	–116	**–114**	–115	**–122**	–463	**–476**
Administrative expenses	–225	**–258**	–240	**–248**	–232	**–251**	–365	**–223**	–1,062	**–980**
Other operating expenses and income	–15	**24**	1	**28**	–1	**–38**	–22	**24**	–37	**38**
EBIT										
Adhesive Technologies	364	**431**	403	**446**	423	**427**	371	**353**	1,561	**1,657**
Beauty Care	143	**149**	162	**155**	155	**121**	67	**110**	526	**535**
Laundry & Home Care	236	**274**	218	**265**	228	**227**	121	**223**	803	**989**
Corporate	–25	**–30**	–26	**–27**	–31	**–26**	–33	**–42**	–115	**–126**
Henkel Group	**717**	**823**	**757**	**839**	**775**	**750**	**526**	**643**	**2,775**	**3,055**
Interest result	2	**–4**	2	**–7**	–4	**–13**	–5	**–13**	–5	**–37**
Other financial result	–9	**–9**	–2	**1**	–11	**–6**	–4	**4**	–26	**–10**
Investment result	–	**–**	–1	**–**	–	**–1**	–1	**–3**	–2	**–4**
Financial result	**–7**	**–13**	**–1**	**–6**	**–15**	**–20**	**–10**	**–12**	**–33**	**–51**
Income before tax	**710**	**810**	**756**	**833**	**760**	**730**	**516**	**631**	**2,742**	**3,004**
Taxes on income	**–172**	**–203**	**–184**	**–202**	**–176**	**–166**	**–117**	**108**	**–649**	**–463**
Net income	**538**	**607**	**572**	**631**	**584**	**564**	**399**	**739**	**2,093**	**2,541**
Attributable to non-controlling interests	13	**10**	11	**7**	8	**–**	8	**5**	40	**22**
Attributable to shareholders of Henkel AG & Co. KGaA	**525**	**597**	**561**	**624**	**576**	**564**	**391**	**734**	**2,053**	**2,519**
Earnings per preferred share in euros	**1.21**	**1.38**	**1.30**	**1.44**	**1.33**	**1.30**	**0.90**	**1.69**	**4.74**	**5.81**

in million euros	1st quarter 2016	1st quarter 2017	2nd quarter 2016	2nd quarter 2017	3rd quarter 2016	3rd quarter 2017	4th quarter 2016	4th quarter 2017	Full year 2016	Full year 2017
EBIT (as reported)	**717**	**823**	**757**	**839**	**775**	**750**	**526**	**643**	**2,775**	**3,055**
One-time gains	–	**–19**	–1	**–2**	–	**–**	–	**–**	–1	**–21**
One-time charges	7	**39**	22	**36**	27	**56**	65	**51**	121	**182**
Restructuring expenses	27	**11**	41	**36**	35	**91**	174	**107**	277	**245**
Adjusted EBIT	**751**	**854**	**819**	**909**	**837**	**897**	**765**	**801**	**3,172**	**3,461**
Adjusted earnings per preferred share in euros	**1.27**	**1.41**	**1.40**	**1.55**	**1.42**	**1.54**	**1.27**	**1.35**	**5.36**	**5.85**

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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Multi-year summary

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in million euros		2011 restated [1]	2012	2013	2014	2015	2016	2017
Results of operations								
Sales		15,605	16,510	16,355	16,428	18,089	18,714	**20,029**
Adhesive Technologies		7,746	8,256	8,117	8,127	8,992	8,961	**9,387**
Beauty Care		3,399	3,542	3,510	3,547	3,833	3,838	**3,868**
Laundry & Home Care		4,304	4,556	4,580	4,626	5,137	5,795	**6,651**
Corporate		156	155	148	128	128	121	**123**
Gross margin		45.3	46.8	47.7	47.0	48.2	47.9	**46.7**
Research and development expenses		410	408	415	413	478	463	**476**
Operating profit (EBIT)		1,765	2,199	2,285	2,244	2,645	2,775	**3,055**
Adhesive Technologies		1,002	1,191	1,271	1,345	1,462	1,561	**1,657**
Beauty Care		471	483	474	421	561	526	**535**
Laundry & Home Care		419	621	682	615	786	803	**989**
Corporate		–127	–97	–141	–137	–164	–115	**–126**
Income before tax		1,610	2,018	2,172	2,195	2,645	2,742	**3,004**
Tax rate	in %	26.0	24.4	25.2	24.3	24.4	23.7	**15.4**
Net income		1,191	1,526	1,625	1,662	1,968	2,093	**2,541**
Attributable to shareholders of Henkel AG & Co. KGaA		1,161	1,480	1,589	1,628	1,921	2,053	**2,519**
Net return on sales [2]	in %	7.6	9.2	9.9	10.1	10.9	11.2	**12.7**
Interest coverage ratio		14.0	14.3	23.9	48.4	75.7	107.9	**79.3**
Net assets								
Total assets		18,487	19,525	19,344	20,961	22,323	27,951 [3]	**28,307**
Non-current assets		11,848	11,927	11,360	14,150	15,406	19,738 [3]	**19,834**
Current assets		6,639	7,598	7,984	6,811	6,917	8,213	**8,473**
Equity		8,670	9,511	10,158	11,644	13,811	15,185 [3]	**15,650**
Liabilities		9,817	10,014	9,186	9,317	8,512	12,766 [3]	**12,657**
Equity ratio	in %	46.9	48.7	52.5	55.6	61.9	54.3 [3]	**55.3**
Return on equity [4]	in %	15.0	17.6	17.1	16.4	16.9	15.2	**16.7**
Operating debt coverage ratio	in %	91.6	>500	not relevant [5]	274.8	375.2	80.8	**80.9**
Financial position								
Cash flow from operating activities		1,562	2,634	2,116	1,914	2,384	2,850	**2,468**
Capital expenditures		443	516	465	2,214	979	4,430 [3]	**2,481**
Investment ratio	as % of sales	2.8	3.1	2.8	13.5	5.4	23.7 [3]	**12.4**
Shares								
Dividend per ordinary share	in euros	0.78	0.93	1.20	1.29	1.45	1.60	**1.77 [6]**
Dividend per preferred share	in euros	0.80	0.95	1.22	1.31	1.47	1.62	**1.79 [6]**
Total dividends		345	411	529	569	639	704	**779 [6]**
Payout ratio	in %	25.5	25.6	30.0	30.0	30.2	30.3	**30.7 [6]**
Share price, ordinary shares, at year-end	in euros	37.40	51.93	75.64	80.44	88.62	98.98	**100.00**
Share price, preferred shares, at year-end	in euros	44.59	62.20	84.31	89.42	103.20	113.25	**110.35**
Market capitalization at year-end	in bn euros	17.6	24.6	34.7	36.8	41.4	45.9	**45.6**
Employees								
Total [7]	(at December 31)	47,250	46,600	46,850	49,750	49,450	51,350	**53,700**
Germany		8,300	8,000	8,050	8,200	8,350	8,250	**8,300**
Abroad		38,950	38,600	38,800	41,550	41,100	43,100	**45,400**

[1] Application of IAS 8 “Accounting policies, changes in accounting estimates and errors” (see notes on pages 116 and 117 of the 2012 Annual Report).
[2] Net income divided by sales.
[3] Adjusted following final allocation of the purchase price for the acquisition of The Sun Products Corporation.
[4] Net income divided by equity at the start of the year.
[5] Figure not relevant due to the positive balance of net financial position and pension obligations.
[6] Proposal to shareholders for the Annual General Meeting on April 9, 2018.
[7] Basis: permanent employees excluding apprentices.

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Glossary

Adjusted EBIT
Earnings Before Interest and Taxes (EBIT) adjusted for exceptional items in the form of one-time charges, one-time gains and restructuring expenses.

Capital employed
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.

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
Net financial position is defined as cash and cash equivalents plus readily monetizable financial instruments classified as "available for sale" or in the "fair value option," less borrowings, and plus positive and less 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

Published by
Henkel AG & Co. KGaA
40191 Düsseldorf, Germany
Phone: +49 (0) 211-797-0

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Edited by: Corporate Communications, Investor Relations, Corporate Accounting and Subsidiary Controlling

Coordination: Dr. Hannes Schollenberger, Dr. Eva Sewing, Wolfgang Zengerling

English translation: Donnelley Language Solutions, London

Pre-print proofing: Paul Knighton, Cambridge; Thomas Krause, Krefeld

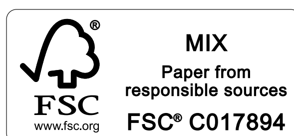
Design and typesetting:
MPM Corporate Communication Solutions, Mainz

Photographs: Maya Claussen, Anne Großmann, Nils Hendrik Müller, Fergus Padel; Henkel

Printed by: Druckpartner, Essen

Date of publication of this Report:
February 22, 2018

PR No.: 02 18 3,500
ISSN: 0724-4738
ISBN: 978-3-941517-73-8



The Annual Report is printed on LuxoArt Silk FSC. The paper is made from pulp bleached without chlorine. It has been certified and verified in accordance with the rules of the Forest Stewardship Council (FSC). The printing inks contain no heavy metals. This publication was cover-finished and bound with these Henkel products: Cellophaning with Aquence GA 6091 HGL laminating adhesive, bound using Technomelt PUR 3400 ME COOL and Technomelt GA 3960 Ultra for the highest occupational health and safety standards.

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Financial calendar

Annual General Meeting
Henkel AG & Co. KGaA 2018:
Monday, April 9, 2018

Publication of Statement
for the First Quarter 2018:
Wednesday, May 9, 2018

Publication of Report
for the Second Quarter 2018 / Half Year 2018:
Thursday, August 16, 2018

Publication of Statement
for the Third Quarter 2018 / Nine Months 2018:
Thursday, November 15, 2018

Publication of Report
for Fiscal 2018:
Thursday, February 21, 2019

Annual General Meeting
Henkel AG & Co. KGaA 2019:
Monday, April 8, 2019

Up-to-date facts and figures on Henkel also available on the internet: