Annual Report 2020

Henkel

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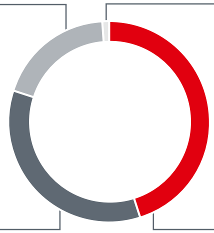
Fiscal 2020 at a glance

Key financials

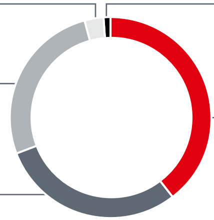
in million euros		2016	2017	2018	2019	2020	+/- 2019–2020
Sales		18,714	20,029	19,899	20,114	**19,250**	-4.3%
Operating profit (EBIT)		2,775	3,055	3,116	2,899	**2,019**	-30.4%
Adjusted[1] operating profit (adjusted EBIT)		3,172	3,461	3,496	3,220	**2,579**	-19.9%
Return on sales (EBIT margin)		14.8%	15.3%	15.7%	14.4%	**10.5%**	-3.9pp
Adjusted[1] return on sales (adjusted EBIT margin)		16.9%	17.3%	17.6%	16.0%	**13.4%**	-2.6pp
Net income		2,093	2,541	2,330	2,103	**1,424**	-32.3%
Attributable to non-controlling interests		40	22	16	18	**16**	-11.3%
Attributable to shareholders of Henkel AG & Co. KGaA		2,053	2,519	2,314	2,085	**1,408**	-32.5%
Earnings per preferred share (EPS)	in euros	4.74	5.81	5.34	4.81	**3.25**	-32.4%
Adjusted[1] earnings per preferred share (adjusted EPS)	in euros	5.36	5.85	6.01	5.43	**4.26**	-21.5%
Return on capital employed (ROCE)		17.5%	16.3%	15.5%	13.5%	**9.6%**	-3.9pp
Dividend per ordinary share	in euros	1.60	1.77	1.83	1.83	**1.83**[2]	–
Dividend per preferred share	in euros	1.62	1.79	1.85	1.85	**1.85**[2]	–

pp = percentage points

Sales by business unit 2020



Sales by region 2020



Organic sales growth

-0.7%

Adjusted[1] EBIT margin

13.4%

Adjusted[1] EPS

4.26€

Development of adjusted[1] EPS at constant exchange rates

-17.9%

Dividend per preferred share[2]

1.85€

[1] Adjusted for one-time expenses and income, and for restructuring expenses.
[2] Proposal to shareholders for the Annual General Meeting on April 16, 2021.
[3] Sales and services not assignable to the individual business units.
[4] Eastern Europe, Africa/Middle East, Latin America, Asia (excluding Japan).

Note: All individual figures in this report have been commercially rounded. Addition may result in deviations from the totals indicated.

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Adhesive Technologies

Our top brands

LOCTITE

TECHNOMELT

BONDERITE

Key financials

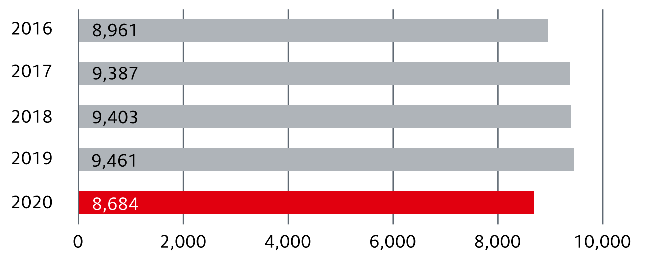
in million euros	2019	2020	+/-
Sales	9,461	**8,684**	-8.2%
Proportion of Henkel sales	47%	**45%**	–
Operating profit (EBIT)	1,631	**1,248**	-23.5%
Adjusted[1] operating profit (adjusted EBIT)	1,712	**1,320**	-22.9%
Return on sales (EBIT margin)	17.2%	**14.4%**	-2.9pp
Adjusted[1] return on sales (adjusted EBIT margin)	18.1%	**15.2%**	-2.9pp
Return on capital employed (ROCE)	17.2%	**13.4%**	-3.8pp
Economic Value Added (EVA®)	685	**410**	-40.1%

[1] Adjusted for one-time expenses and income, and for restructuring expenses.
pp = percentage points

Organic sales growth

-4.2%

Sales Adhesive Technologies
in million euros



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Beauty Care

Our top brands

Key financials

in million euros	2019	2020	+/-
Sales	3,877	**3,752**	-3.2%
Proportion of Henkel sales	19%	**19%**	–
Operating profit (EBIT)	418	**246**	-41.2%
Adjusted[1] operating profit (adjusted EBIT)	519	**377**	-27.5%
Return on sales (EBIT margin)	10.8%	**6.6%**	-4.2pp
Adjusted[1] return on sales (adjusted EBIT margin)	13.4%	**10.0%**	-3.4pp
Return on capital employed (ROCE)	10.1%	**6.2%**	-3.9pp
Economic Value Added (EVA®)	88	**-47**	-154.2%

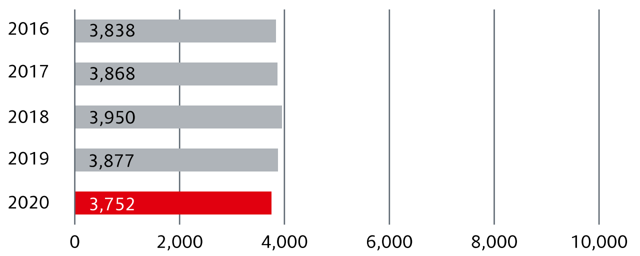
[1] Adjusted for one-time expenses and income, and for restructuring expenses.
pp = percentage points

Organic sales growth

-2.8%

Sales Beauty Care

in million euros



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Laundry & Home Care

Our top brands

Key financials

in million euros	2019	2020	+/-
Sales	6,656	**6,704**	0.7%
Proportion of Henkel sales	33%	**35%**	–
Operating profit (EBIT)	973	**688**	-29.3%
Adjusted[1] operating profit (adjusted EBIT)	1,096	**1,004**	-8.4%
Return on sales (EBIT margin)	14.6%	**10.3%**	-4.4pp
Adjusted[1] return on sales (adjusted EBIT margin)	16.5%	**15.0%**	-1.5pp
Return on capital employed (ROCE)	12.6%	**9.3%**	-3.3pp
Economic Value Added (EVA®)	356	**150**	-57.7%

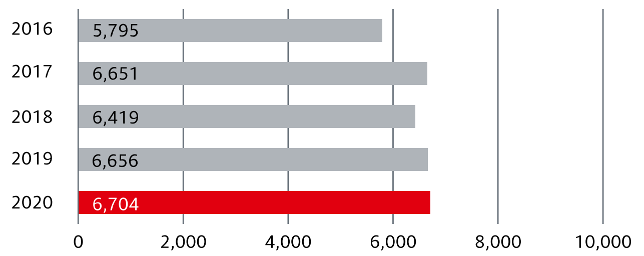
[1] Adjusted for one-time expenses and income, and for restructuring expenses.
pp = percentage points

Organic sales growth

+5.6%

Sales Laundry & Home Care

in million euros



"Our global team has what it takes to shape our successful future and deliver on our Purposeful Growth agenda."

CARSTEN KNOBEL
CHAIRMAN OF THE MANAGEMENT BOARD

Dear Shareholders and Friends of the Company,

When I wrote you my first letter as the newly appointed Chairman of the Management Board of Henkel in last year's Annual Report, the world looked very different from today. Over the past 12 months, we have encountered fundamental changes to the way we live, work and do business. People around the world have gone through very challenging times, facing severe risks to their health and the well-being of their loved ones. In 2020, over 75 million people went through a COVID-19 infection and more than 1.5 million sadly lost their lives to the virus. In addition, many had to deal with losing their jobs or their business as a result of the crisis. Around the world, people were confined to their homes, unable to connect with family members or friends, and deprived of the social fabric of their communities and work environment.

As a consequence of the pandemic, the global economy encountered a sharp decline in demand and governments around the world were confronted with rising expenditures for emergency programs. However, the impact varied across industries. While some were affected severely, such as the automotive sector, others saw rising demand for products and services, for example in the fields of hygiene or medical supplies. According to the OECD, global GDP declined by more than 4 percent in 2020. Despite hopes for a recovery in the course of 2021, backed by the roll-out of vaccination campaigns, concerted health policies and government financial support, many economies are expected to record a GDP in 2021 still below the pre-crisis level of 2019.

2020 was far beyond anything we could have imagined when we developed our Purposeful Growth agenda for Henkel at the beginning of the year. But we were able to steer the company through this unprecedented crisis, doing everything possible to protect the health and safety of employees, ensuring our business continuity, serving our customers and consumers, and supporting communities around the world.

Despite the decline of the global economy, we delivered an overall robust performance in 2020 across all business units – thanks to our diversified portfolio, successful innovations, financial strength and the outstanding commitment of our employees around the world. For the full year, our results were at the upper end of our guidance. We recorded sales of 19.3 billion euros, maintained a profitable business with an adjusted[1] EBIT margin of 13.4 percent, and generated a very strong free cash flow in excess of 2.3 billion euros, almost at the prior-year level. Based on these results, we will propose a stable dividend to shareholders at our upcoming Annual General Meeting.

At the same time, we were able to successfully launch and drive the implementation of our strategic agenda across all pillars: shaping a winning portfolio, creating competitive edge by accelerating impactful innovations, by integrating sustainability even more firmly in everything we do and by transforming digital into a value creator, and developing future-ready operating models. But most important for me, we strengthened our collaborative culture and created a strong momentum for change that will enable us to deliver superior performance and purposeful growth – for our customers and consumers, our company, teams and shareholders, and for society and the planet.

"We care. And we act!"

When we were confronted with the first wave of infections early last year, we had robust crisis management processes in place. Our crisis teams around the world acted fast, decisively and effectively, taking appropriate measures to ensure the safety of our people, as well as the continuity of our businesses. Thanks to a strong and scalable digital infrastructure and our digital upskilling efforts in recent years, the majority of our administration and non-production teams were able to work from home – endorsing government guidance in many countries to enable remote working whenever possible.

In one of my first messages to Henkel employees in March, I assured them on behalf of the entire Management Board: "Our priority in this crisis is and will always be to ensure your health and safety! We care about you and your jobs, your families, our business partners, our communities and society. And we will take action to live up to this commitment. Of this you can be sure: We care. And we act!"

Early in the year, we committed to ruling out layoffs and furlough due to the pandemic. We did not make use of any emergency aid program, such as government-backed credits or loans. On the contrary, we continued to hire and fill open positions. In total, more than 6,000 new employees joined Henkel around the world in 2020. We also continued to invest in our people's skills and our training efforts. In Germany, for example, we maintained our vocational training program at a level unchanged from 2019.

[1] Adjusted for one-time expenses and income, and for restructuring expenses.

In the course of 2020, more than 2,000 Henkel colleagues globally went through a COVID-19 infection. Fortunately, the vast majority recovered. But I regret to share with you that some of our valued colleagues also lost their lives to the virus. Our deepest sympathy, compassion and thoughts are with their families and loved ones. We will always remember our colleagues dearly.

Despite the disruption to global supply chains, temporary mandatory site closures and increased complexity in our procurement and production processes, we were able to serve our customers. Even at the peak of the crisis during the second quarter of 2020, we had more than 80 percent of our sites operational, enabling us to meet the rising demand for hygiene-related products in this crisis. This is testament to the performance and dedication of our outstanding teams in production and supply chain in these exceptional times.

We also took action in living up to our responsibility toward society and supporting our communities. We donated millions in financial aid to the World Health Organization, the United Nations Foundation and other organizations dedicated to fighting the pandemic. We donated 5 million units of our products to those in need, predominantly personal hygiene and household cleaning products. We converted production lines to quickly produce more than 110,000 liters of hand sanitizers which we also donated to health authorities, hospitals and communities. This was complemented by many individual donations and initiatives by Henkel employees to support their communities.

Delivering robust business performance in 2020

Overall, our business performance in 2020 remained robust. We achieved sales of 19.3 billion euros. This is a slight decline in organic terms of -0.7 percent compared to the prior year. While organic growth in emerging markets was positive, reaching 3.0 percent, we recorded an organic development of -3.2 percent in mature markets.

In the first quarter, the impact from the crisis was mostly driven by the downturn in Asia, predominantly affecting our Adhesive Technologies business. In the second quarter, with the majority of Asian and European countries as well as North America in a widespread shutdown, we faced a substantial decline in sales, namely in specific industrial segments such as in the automotive sector. But also, our Beauty Care Hair Salon business was severely affected by the closure of salons in many countries. Our Laundry & Home Care business, however, partially benefited from the rising demand for household and cleaning products. In the third quarter, we recorded a recovery and returned to positive organic sales growth across all business units. This was partly driven by catch-up effects from the second quarter, but mostly by the underlying strength of our businesses thanks to the flow of innovations supported by increased investments in marketing and advertising. In the fourth quarter we saw a continuation of this positive trend, even though the onset of a second, more severe wave of COVID-19 infections and related lockdowns in many countries again affected our business performance. Nevertheless, in the second half of 2020, we were able to generate strong organic sales growth for Henkel with all business units reporting positive numbers.

For the full year, our Adhesive Technologies business reported sales below the prior-year level at -4.2 percent in organic terms, reflecting the overall decline in industrial markets globally. The organic sales development in our Beauty Care business was also negative at -2.8 percent, strongly impacted by our Hair Salon business due to enforced closures. Nevertheless, our Retail business recorded good growth, driven by the successful development of top brands, as well as new product launches addressing key consumer trends. Our Laundry & Home Care business achieved a strong organic sales growth of 5.6 percent, fueled both by the surge in demand for hygiene-related products and by successful innovations addressing in particular the increased demand for more sustainable products.

At Group level, adjusted[1] earnings before interest and taxes (EBIT) decreased by 19.9 percent to 2.6 billion euros. Adjusted return on sales (EBIT margin) was at 13.4 percent, 2.6 percentage points lower than in 2019. Adjusted earnings per preferred share were at 4.26 euros, a decline of 17.9 percent at constant exchange rates.

The development of our earnings reflects substantially increased expenditures to strengthen brands, technologies and innovations, as well as to accelerate our digital transformation. Declining demand in key business segments during the COVID-19 crisis also negatively affected our profitability. However, thanks to our successful cost management, continuous efficiency improvements and the ongoing adaptation of structures, we were able to partially mitigate the impact from the crisis on our earnings.

Despite the pandemic, we were able to both deliver strong improvements in net working capital and generate a free cash flow of 2.3 billion euros in 2020, while our net financial position substantially improved to -0.9 billion euros compared to -2.0 billion at the end of 2019. Our solid financial foundation enabled us to adhere to our investment priorities and navigate our company through this crisis.

Our share price development reflects the impact of the COVID-19 crisis on the stock markets. The Henkel preferred share closed 2020 at 92.30 euros, a slight increase of 0.1 percent compared to the prior year. Accounting for a reinvestment of our dividend (prior to tax), which we held stable compared to 2019, total shareholder return amounted to 2.3 percent. This compares to a DAX performance of 3.5 percent over the same period.

Even though the global crisis impacted our businesses negatively, we will propose to our shareholders at our Annual General Meeting a stable dividend of 1.85 euros per preferred share and 1.83 euros per ordinary share. This equals a payout ratio of 43.7 percent and is thus above the higher end of our target payout range of 30 to 40 percent. The proposal of a stable dividend payout is possible thanks to our strong financial situation, underpinned by the low net financial debt level and the strong free cash flow achieved in fiscal 2020. Going forward, our dividend policy of a target payout range of 30 to 40 percent of adjusted net income after non-controlling interests remains in place.

Implementing our strategic agenda – despite the crisis

2020 has shown us the fragility of the world we live in, and it has made clear that the world is looking for new ideas, different approaches and deeper meaning. I am therefore more convinced than ever that the strategic agenda introduced last year is the right one. Our aspiration for purposeful growth aims at providing new solutions to our customers and consumers, contributing to a more sustainable way of living, developing our people and creating a sense of belonging for all of them. This will allow us to unlock the full potential of our company and enable us to be a force for good in this world.

Despite our focus on crisis management in 2020, we were able to launch and start the implementation of our growth agenda. We are fully committed to driving further progress in 2021 and the following years.

[1] Adjusted for one-time expenses and income, and for restructuring expenses.

To actively manage our portfolio, we have identified brands and categories with a total sales volume of more than one billion euros, predominantly in our consumer businesses, either for an improved performance or exit. Around 50 percent of this sales volume is earmarked to be divested or discontinued by the end of 2021. To date, we have already agreed divestments with a volume of around 100 million euros. And we are committed to executing the remainder of the divestments in 2021 as planned. At the same time, we are strengthening our portfolio through M&A, leveraging our strong balance sheet. In 2020, we agreed and closed two acquisitions with a total volume of around 500 million euros in our Beauty Care and Adhesive Technologies businesses.

In order to further strengthen our competitive edge, we are accelerating impactful innovations, boosting sustainability as a differentiating factor and transforming digital into a customer and consumer value creator.

In 2020, we increased our investments by around 200 million euros compared to 2019 to strengthen our brands, technologies and innovations, as well as to accelerate our digital transformation. And we can see how these are already making a difference: We were able to further accelerate our innovation processes and bring new products faster to market. This helped us, for example, to respond quickly to the strong surge in demand for hygiene, disinfecting and cleaning products with "fast-track innovations." We focused our efforts in particular on key trends such as hygiene, more natural and sustainable products and higher convenience. This resulted in rising market share in many key markets and categories.

To accelerate innovation and develop new business models, our consumer business units Beauty Care and Laundry & Home Care have established internal incubator teams, combining agile work approaches with the scale and expertise of a global company: The "Fritz Beauty Lab," inspired by our founder Fritz Henkel, aims to identify niches with growth potential for existing brands or white spots to create completely new brands. Love Nature is the new sustainability idea factory of our Laundry & Home Care business, focusing on sustainable solutions starting in the field of laundry and homecare products. Our new innovation center for Adhesive Technologies at our headquarters in Düsseldorf, with a total investment of 130 million euros, is nearing completion and will be operational in the first half of 2021. Going forward, innovation will remain a key driver to strengthen our competitiveness and win in highly contested global markets.

Building on our strong track record, we aim to leverage sustainability as a competitive differentiator. We have defined our next milestones for three key topics which are highly relevant for consumers, customers, business partners and society at large: On the way to becoming climate-positive by 2040, we want to reduce the carbon footprint of our production by 65 percent and save – together with consumers, customers and suppliers – 100 million tons CO_2 by 2025. We are also pursuing ambitious packaging targets for 2025: 100 percent of our consumer goods packaging will be recyclable or reusable and we aim to reduce the use of fossil-based virgin plastics by 50 percent.

In 2020, we were able to further anchor sustainability in everything we do and drive progress along the entire value chain. We launched new products addressing the rising consumer expectations toward natural and sustainable products, such as solid bars under our Beauty Care brands Nature Box and N.A.E., or in our Laundry & Home Care business by expanding our Pro Nature product range and the successful introduction of Love Nature, a cross-category sustainable brand. In Adhesive Technologies, we have developed a new technology under the Loctite brand that allows us to replace polyethylene with paper for use in food and non-food packaging. Beyond innovations for more sustainable products, we entered into a virtual power purchase agreement for energy from renewable sources, which will cover the energy demand of all Henkel sites in North America. And we were the first company to issue a plastic waste reduction bond with a volume of around 100 million euros to finance measures to reduce plastic waste across our value chain.

This year, Henkel publishes its 30th Sustainability Report which provides more details, facts and figures on how we live up to our commitment to sustainability. You can find it at: **www.henkel.com/sustainabilityreport**. Based on this strong foundation, we will drive meaningful change and progress in sustainability in this decade and beyond.

Another key driver in strengthening our competitive edge is to transform digital into a customer and consumer value creator in both our consumer and industrial businesses. To enable and accelerate this process, we created a new unit in 2020, Henkel Digital Business, or Henkel dx for short, combining digital, business process management and IT expertise in one global organization. Henkel dx has opened its first innovation hub in Berlin and plans to expand its global network with more hubs in the future. In the course of 2020, the share of sales across digital channels increased substantially, with all business units benefiting.

In order to ensure future-ready operating models and improve competitiveness and efficiency, we continuously adapt and reshape processes and structures across the entire company. In doing so, we aspire to enable new business models, to step up customer and consumer proximity with faster decision-making, and to further increase efficiency. In 2020, for example, we established a new structure in our Adhesive Technologies business unit to address and serve specific customer segments and markets to even better effect. In our Beauty Care and Laundry & Home Care business units, we further implemented organizational changes to enable a stronger regional focus and increase customer and consumer proximity.

A strong culture, shared values and a clear framework for collaborating as one team form the foundation of our growth agenda. In 2020 we took steps to foster a culture of collaboration and empowerment, upskill employees for future capabilities and enable our people to grow and develop – personally and professionally. We conducted a global Organizational Health Survey to identify strengths and areas for improvement, and to design our cultural journey going forward, backed by a systematic 360-degree feedback process. Our efforts to continuously adapt and evolve our culture and make Henkel an attractive employer of choice were also reflected in marked improvements in key employer reputation rankings and benchmarks.

Our new strategic framework for purposeful growth is also reflected in our mid- to long-term financial ambitions. We are aiming for an organic sales growth of between 2 and 4 percent and growth of adjusted[1] earnings per preferred share in the mid- to high single-digit percentage range at constant exchange rates, while maintaining our focus on free cash flow expansion.

As we enter 2021, we still face a high level of uncertainty how the pandemic will continue to evolve, how quickly the vaccination efforts will progress and how this will impact the widespread restrictions in many countries. We expect that industrial demand, as well as consumer segments which are relevant for our company, in particular the Hair Salon business, will recover. At the same time, we believe consumer demand will return to normal levels in those categories which saw higher demand due to the pandemic. In addition, we assume that current restrictions in many key markets will be lifted in the course of the first quarter and that there will be no widespread shutdowns of retail and industrial businesses and production facilities in the remainder of the year.

Based on these assumptions, we expect Henkel in fiscal 2021 to generate organic sales growth of 2.0 to 5.0 percent and adjusted return on sales (EBIT margin) in the range of 13.5 to 14.5 percent. For adjusted earnings per preferred share (EPS) at constant exchange rates, we expect an increase in the range of 5.0 to 15.0 percent.

Committed to delivering purposeful growth

On behalf of the Management Board, I would like to thank our supervisory bodies for their support, as well as their valuable advice in this challenging year. We would also like to thank our customers and consumers around the world for their trust in our company, our brands and technologies. In particular, I would like to thank you, our shareholders, for your continued confidence in our company, our strategy and our team in these exceptional times.

Looking back at my first year as Chairman of the Management Board and my 25th year with Henkel, many thoughts and emotions emerge. I am proud of the progress we have made with the implementation of our strategic agenda while addressing a global pandemic. I am impressed by the resilience of our business, which has enabled us to achieve a robust business performance and to further strengthen our financial foundation. But the most important of these is the feeling of gratitude and heartfelt respect for our employees at Henkel. The performance, collaboration and positive attitude they showed over the past year have touched and inspired me. I would like to thank all of them for their invaluable contributions in this truly exceptional year.

Looking ahead, I am more confident than ever that our global team has what it takes to shape our successful future and deliver on our Purposeful Growth agenda.

Düsseldorf, January 30, 2021

Carsten Knobel
Chairman of the Management Board

[1] Adjusted for one-time expenses and income, and for restructuring expenses.

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

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

Dear Shareholders and Friends of the Company,

2020 was a very challenging year for Henkel. The COVID-19 pandemic has drastically changed all aspects of our lives over the past months and has had a severely adverse effect on the global economy. In this crisis, the health and safety of our employees, customers and business partners were and are of the highest priority for us, prompting us to put a comprehensive range of protective measures in place at an early stage.

We also focused on keeping our supply chains and production up and running so that our customers and consumers can continue to depend on us in these difficult times.

Despite this difficult environment, we were able to generate sales of 19.3 billion euros. We actively promoted the new Purposeful Growth agenda developed by the Management Board under Carsten Knobel’s leadership as new Chairman, and have introduced specific changes that are already starting to show success.

In light of the challenging conditions and the unusual stress to which they have been exposed, I would like to thank all Henkel employees most sincerely on behalf of the Supervisory Board for their dedication and outstanding commitment over the past year. My thanks are equally due to the members of the Management Board who have steered the company with prudence and foresight through these difficult times. I would also like to express my gratitude to our employee representatives and works councils for their constantly constructive support and collaboration throughout this exceptional situation.

Last but not least, I extend my special thanks to you, our shareholders, for your continued confidence in our company, its management and employees, and our brands and technologies, even in these unusual times.

Ongoing dialog with the Management Board

We continued to diligently discharge in full our Supervisory Board duties in fiscal 2020 in accordance with the legal statutes, Articles of Association and rules of procedure governing our actions. We consistently monitored the work of the Management Board, advising and supporting it in its stewardship and in the strategic development of the corporation, and discussing with it business matters of major importance. In doing so, we were able to ascertain that the Management Board's performance of its duties was legally compliant, fit for purpose, and proper at all times.

The Management Board and Supervisory Board continued to cooperate in 2020 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. We also discussed the risk situation and dealt with compliance issues. Financial reports focused on the sales and profits of the Henkel Group as a whole, with further analysis by business unit and region. All members of the Supervisory Board and the Audit Committee consistently had sufficient opportunity to critically review and address the issues raised by each of these reports and associated explanations, and to provide their individual guidance.

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

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

Supervisory Board meetings

The Supervisory Board and the Audit Committee each held four regular meetings in the reporting year. Because of the COVID-19 pandemic, most of these meetings were a mixture of personal attendance and video/telephone conferences. Attendance at the meetings of the Supervisory Board and the Audit Committee – including participation by video/telephone conference – was 95.4 percent. For details of individual Supervisory Board members' attendance at meetings, please refer to the remuneration report.

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 reviewed the overall economic situation and Henkel's business performance. Similarly, we were regularly updated on the impacts of the COVID-19 pandemic and the associated actions taken to protect our employees.

As already discussed in our last Annual Report, our meeting on March 3, 2020 focused on the annual and consolidated financial statements for 2019, including the combined management report for Henkel AG & Co. KGaA and the Group, together with the risk report, corporate governance report and separate combined non-financial statement for Henkel AG & Co. KGaA and the Group, which was issued in the form of the Sustainability Report. We also approved the declaration of compliance for 2020. In addition, we conferred in depth on the development of the new corporate strategy, its focal areas and the actions and activities involved.

In our meeting on April 20, 2020, we focused on the performance of our business units in the first three months of the fiscal year, the impacts of the COVID-19 pandemic and the associated efforts to manage this crisis in terms of both assuring the health of our employees and business partners, and the analysis of various financial scenarios and associated actions.

We also reviewed the status of implementation of our strategic priorities and the next steps to be taken. The position occupied by our Adhesive Technologies business unit in its competitive environment, the key success factors and the strategic development of this business unit were likewise discussed. We also approved our proposals for resolution by the Annual General Meeting 2020, which was held online as a result of the COVID-19 pandemic.

In our meeting on September 18, 2020, we focused both on the performance of our business units over the first eight months, and on the progress achieved in implementing our strategic priorities in the business units and functions. Aspects under the headings "winning portfolio," "innovation," "sustainability," and "future-ready operating models" were specifically discussed. We also talked about our sustainability initiatives with regard to climate positivity, circular economy and social progress, including the relevant voluntary engagement of our employees.

Our digitalization strategy and our new unit "Henkel dx" were further focal areas of discussion, with in-depth examination of the issues surrounding the creation of digital business value, the structure of implementation components, and boosting digital innovation. We likewise reviewed our objectives with regard to strengthening our culture of collaboration and empowering our people.

Our meeting on December 11, 2020 focused on the expected results for 2020 and our balance sheet and financial planning for fiscal 2021. We also discussed in detail the budgets of our business units on the basis of comprehensive documentation. The intra-Group Finance and HR functions were also on the agenda, with discussions of the respective organizational structures, the key challenges, and the strategic priorities and implementation of same.

Committees of the Supervisory Board

In order to enable us to efficiently comply with the duties incumbent upon us according to legal statute and our Articles of Association, we have established an Audit Committee and a Nominations Committee. Prof. Dr. Theo Siegert and Prof. Dr. Michael Kaschke, both of whom chaired the Audit Committee in the year under review, comply with the statutory requirements of impartiality and expertise in the fields of accounting or auditing, with both experienced in the application of accounting principles and internal control procedures. For more details on the responsibilities and composition of the committees, please refer to the corporate governance statement (on pages 35 to 52) and the membership lists on page 277 of this Annual Report.

Committee activities

Following the appointment of the external auditor by the 2020 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 half-year financial report for fiscal 2020. The audit fee was also established, and the key audit matters were discussed. It was agreed 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. Appropriate procedures for the provision of non-audit-related services as permitted in the relevant EU regulations were specified. The Audit Committee also obtained the necessary validation of auditor independence for the performance of these tasks. The Audit Committee likewise engaged the external auditor to review the content of the separate, combined non-financial statement for Henkel AG & Co. KGaA and the Group, which is compiled as a separate non-financial report and made available in the public domain through publication on our website.

The Audit Committee met four times in the year under review. The Chairman of the Audit Committee also remained in regular contact with the auditor outside of the meetings. The meetings and resolutions were prepared through the provision of reports and other information by the Management Board. The heads of the relevant Group functions also reported on individual agenda items and were available to answer questions. The Chairman 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 half-year financial report) 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 its findings with regard to the half-year financial report that it reviewed on behalf of the Supervisory Board, on its findings with regard to the quarterly statements that it reviewed on behalf of the Management Board, and on the main issues and occurrences relevant to the work of the Audit Committee. There were no objections raised in response to these reports.

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

Related party transactions and the internal procedures adopted by the corporation in this respect were also discussed.

At its meeting on February 25, 2021, attended by the auditor, the Audit Committee discussed the annual and consolidated financial statements, together with the combined management report for Henkel AG & Co. KGaA and the Group, and also the separate, combined non-financial report for Henkel AG & Co. KGaA and the Group for fiscal 2020, as well as the audit reports and auditor’s notes, the associated proposal for appropriation of profit, and the risk report, and prepared the corresponding resolutions for the Supervisory Board. As in previous years, other members of the Supervisory Board took part as guests in this specifically accounting-related meeting of the Audit Committee.

Corporate governance and declaration of compliance

The Supervisory Board again dealt with questions of corporate governance in the reporting year. We particularly focused on related party transactions, with delegation of responsibility to the Audit Committee for issuing the requisite approvals. There were no transactions that required approval or disclosure.

Details of Henkel's corporate governance can be found in the corporate governance statement (pages 35 to 52 of this Annual Report), with which we fully acquiesce.

At our meeting on February 26, 2021, we discussed and approved the joint declaration of compliance for 2021 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 accessed through the company website.

Annual and consolidated financial statements/Audit

In its capacity as auditor appointed for 2020 by the Annual General Meeting, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Düsseldorf, (PwC) 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 2020. The annual financial statements and the combined management report were prepared in accordance with German statutory provisions. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU, and in accordance with the supplementary German statutory provisions pursuant to Section 315e (1) German Commercial Code [HGB]. The consolidated financial statements in their present form exempt us from the requirement to prepare consolidated financial statements in accordance with German law.

PwC 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.

PwC also reviewed the separate, combined non-financial statement for Henkel AG & Co. KGaA and the Group for fiscal 2020 as compiled by the Management Board to ensure its content included the disclosures required by law. The review was based on the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" as published by the International Auditing and Assurance Standards Board (IAASB) for the purpose of obtaining limited assurance. Based on its review and the evidence obtained, the auditor is not aware of any circumstances that might prompt it to believe that the disclosures in the separate, combined non-financial report for Henkel AG & Co. KGaA and the Group for fiscal 2020 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 2020 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 26, 2021 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 at the Audit Committee's meeting on February 25, 2021. Having received the final results of the review conducted by the Audit Committee and concluded our own examination, we see no reason for objection to the aforementioned documents. We confirm the results of PwC'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 26, 2021, we concurred with the recommendations of the Audit Committee and therefore approved the annual financial statements, the consolidated financial statements, the combined management report and the separate, combined non-financial report as prepared by the Management Board.

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

We also approved our proposals for resolution at the Annual General Meeting at our meeting on February 26, 2021. Following the recommendation of the Audit Committee, the Supervisory Board proposes the engagement of PwC to audit the annual and consolidated financial statements and to review the half-year financial report for fiscal 2021.

Risk management

Risk management issues were examined by both the Audit Committee and the plenary Supervisory Board, with emphasis on the risk management system in place at Henkel and any major individual risks of which we needed to be notified; there were no identifiable risks that might jeopardize the continued existence of the corporation as a going concern. The structure and function of the risk early warning system were also integral to the audit performed by PwC, 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

A number of changes occurred in the Supervisory Board and Management Board, some of which were included in last year's Annual Report.

Following the routine election of new shareholder representatives by the Annual General Meeting 2020, Dr. Kaspar von Braun and Prof. Dr. Theo Siegert left the Supervisory Board. Simone Menne and Lutz Bunnenberg were elected as new members to the Supervisory Board; the other shareholder representatives were re-elected.

During the constituent meeting, I was re-elected as Chair, while Birgit Helten-Kindlein was confirmed as Vice Chair of the Supervisory Board. Furthermore, new members were elected to the Audit and Nominations Committees, with others being re-elected.

Following the election of new shareholder representatives, we thanked the departing members of the Supervisory Board – some of whom had been members for many years – for their successful dedication to the interests of the company. We are particularly grateful to Prof. Siegert for his many years of active involvement on the Supervisory Board and as Chairman of the Audit Committee.

Following his death on December 11, 2020, we remembered Peter Emmerich, who had represented the employees on the Supervisory Board since April 9, 2018. Michael Baumscheiper joined the Supervisory Board as the elected replacement.

As already reported last year, Hans Van Bylen left the Management Board by mutual agreement at the end of December 31, 2019. Carsten Knobel was appointed new Chairman of the Management Board and Marco Swoboda as Chief Financial Officer, both effective January 1, 2020.

Looking ahead to the new fiscal year, the COVID-19 pandemic will continue to exert strong influence on our daily routines, and on society and the economy as a whole and will thus pose further challenges for all employees and managers of the corporation. We must therefore remain very flexible in our response to developments while at the same time adjusting to the long-term impacts. We believe that Henkel is well equipped for the future and are confident that we will continue to move the company forward.

We thank you for your ongoing trust and support.

Düsseldorf, February 26, 2021

On behalf of the Supervisory Board

Simone Bagel-Trah

Dr. Simone Bagel-Trah
(Chairwoman)

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Our Management Board

Carsten Knobel

Chairman of the Management Board

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

Marco Swoboda

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

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

Sylvie Nicol

Executive Vice President
HR/Infrastructure Services

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

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Jan-Dirk Auris

Executive Vice President
Adhesive Technologies

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

Jens-Martin Schwärzler

Executive Vice President
Beauty Care

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

Bruno Piacenza

Executive Vice President
Laundry & Home Care

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

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Shaping our future

We shape our future on the basis of a long-term strategic framework that builds on our purpose and our values.

With this strategic framework, we want to be successful in the current decade – with a clear focus on purposeful growth. This means, we aim to create superior value for customers and consumers to outgrow our markets, to strengthen our leadership in sustainability, and to enable our employees to grow both professionally and personally at Henkel.

The key elements of our strategic framework are a winning portfolio, clear competitive edge in the areas of innovation, sustainability and digitalization, and future-ready operating models – underpinned by a strong foundation of a collaborative culture and empowered people.

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Shares and bonds

In a challenging market environment, Henkel shares held up well overall in 2020. Henkel preferred shares closed the year slightly up versus the end of 2019. Following a solid start to the year, the price of Henkel shares initially dropped significantly in the wake of the COVID-19 pandemic, the resulting major decline in economic activity and the collapse of the stock markets in March. By the end of the 1st quarter, the stock market had already gradually started recovering, with share prices rising successively as a result. The price of Henkel shares also increased, not least thanks to robust performance in the first three months of 2020 and despite withdrawal of our guidance for the current fiscal year in April in light of the uncertainty surrounding the overall economic situation. The pre-release of our sales performance in the 3rd quarter and our issuance of a new guidance for full year 2020 on October 9 were very well received. Thereafter, Henkel share prices initially rose back to the level of year-end 2019. As the pandemic regained strength at the end of October, prompting predominantly regional lockdowns, share prices again dropped significantly, although Henkel shares quickly recovered as the year progressed.

Henkel preferred shares closed the year at 92.30 euros, up slightly year on year (0.1 percent), while the ordinary shares closed -6.1 percent down at 78.85 euros. Assuming reinvestment of the dividend (before tax deduction) in the shares at the time of payment, the preferred and ordinary shares generated a total return of 2.3 and -3.9 percent respectively. Henkel preferred share performance therefore fell slightly short of its DAX benchmark (3.5 percent), but was significantly better than that of the STOXX® Europe 600, which dropped -4.0 percent over the course of the year. Henkel preferred shares traded at an average premium of 12.2 percent over the ordinary shares in 2020. The trading volume (Xetra) of preferred shares decreased slightly in 2020 versus 2019. Each trading day saw an average of around 604,000 preferred shares changing hands (2019: 657,000). By contrast, the average trading volume of our ordinary shares increased marginally to around 121,000 shares (2019: 117,000). The market capitalization of our ordinary and preferred shares totaled 36.9 billion euros as of year-end 2020.

Key data on Henkel shares 2016 to 2020

in euros		2016	2017	2018	2019	2020
Earnings per share						
Ordinary share		4.72	5.79	5.32	4.79	**3.23**
Preferred share		4.74	5.81	5.34	4.81	**3.25**
Share price at year-end[1]						
Ordinary share		98.98	100.00	85.75	84.00	**78.85**
Preferred share		113.25	110.35	95.40	92.20	**92.30**
High for the year[1]						
Ordinary share		105.45	113.70	104.70	89.55	**87.55**
Preferred share		122.90	128.90	115.05	97.02	**96.02**
Low for the year[1]						
Ordinary share		77.00	96.15	83.30	76.20	**55.00**
Preferred share		88.95	110.10	93.46	81.78	**64.94**
Dividend						
Ordinary share		1.60	1.77	1.83	1.83	**1.83**[2]
Preferred share		1.62	1.79	1.85	1.85	**1.85**[2]
Market capitalization[1]		**45.9**	**45.6**	**39.3**	**38.2**	**36.9**
Ordinary shares	in bn euros	25.7	26.0	22.3	21.8	**20.5**
Preferred shares	in bn euros	20.2	19.6	17.0	16.4	**16.4**

[1] Closing share prices, Xetra trading system.

[2] Proposal to shareholders for the Annual General Meeting on April 16, 2021.

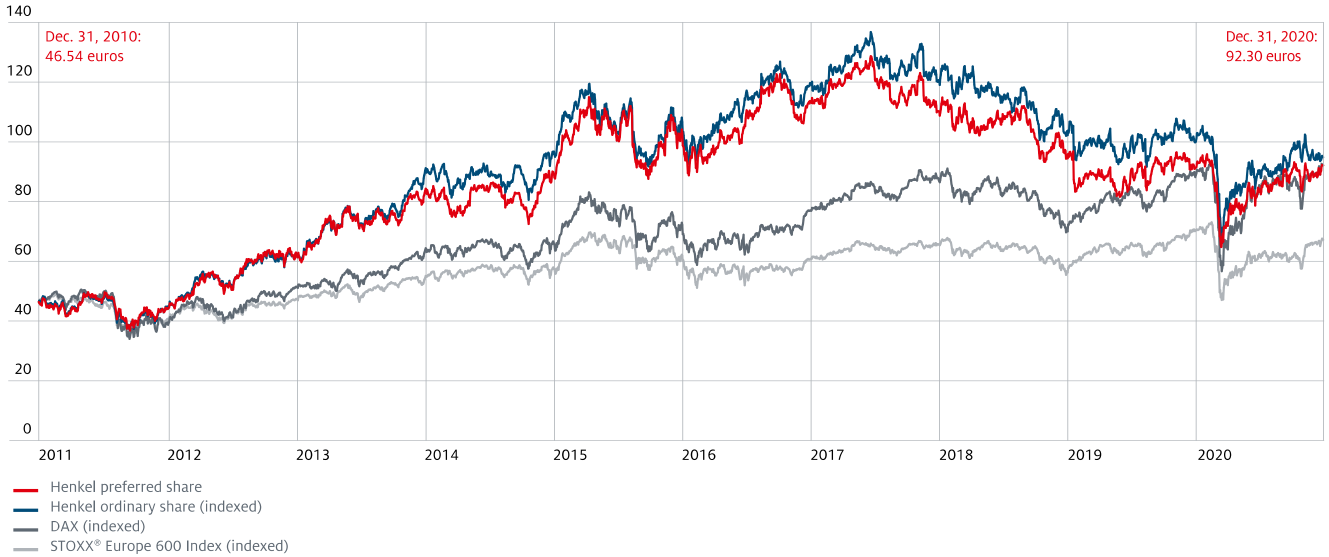
Henkel shares have proven to be a good investment for long-term investors. Over the last ten years, Henkel preferred shares have shown an average return of 8.8 percent per year (assuming reinvestment of the dividend before tax deduction), which is higher than the average DAX performance of 7.1 percent per year for the same period. By contrast, Henkel preferred shares have underperformed the DAX over the past five years with an annual return of -0.5 percent per year for the period compared to the average DAX increase of 5.0 percent per year.

Shareholders who invested the equivalent of 1,000 euros when Henkel preferred shares were issued in 1985, and reinvested the dividends received (before tax deduction) in the stock, had a portfolio value of 33,056 euros at the end of 2020. This represents an increase in value of 3,206 percent or an average return of 10.4 percent per year. Over the same period, the DAX provided an annual return of 7.3 percent.

Performance of Henkel shares versus market
January through December 2020
in euros

Performance of Henkel shares versus market from 2011 through 2020

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. One share is equivalent to four ADRs. The number of ADRs outstanding for ordinary and preferred shares at the end of the year increased significantly to approximately 13.3 million (2019: 10.3 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 STOXX® Europe 600, MSCI World and FTSE World Europe indices. Henkel's inclusion in the Dow Jones Titans 30 Personal & Household Goods Index also makes it one of the most important corporations in the personal and household goods sector worldwide. As a DAX stock, Henkel is one of the 30 most significant exchange-listed companies in Germany.

At year-end 2020, Henkel ranked 22nd in terms of the market capitalization of the preferred shares included in the DAX index (2019: 19th) and 28th in terms of average trading volume (2019: 26th). Our DAX weighting decreased slightly to 1.49 percent (2019: 1.53 percent).

Once again our advances in sustainable management earned recognition from external experts in 2020. Our performance with respect to non-financial indicators (environmental, social and governance themes) was reflected in regular positive assessments by various national and international rating agencies, from which – among other things – sustainability indices are derived.

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

Share data

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

ADR data

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

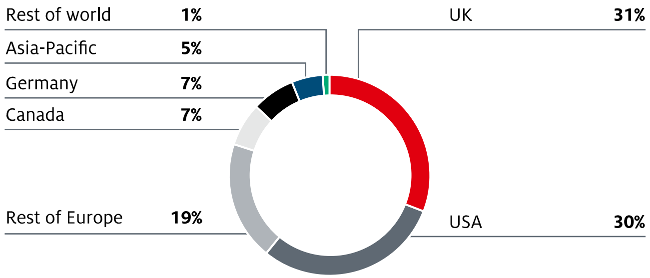
International shareholder structure

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

According to notices received by the company, members of the Henkel family share-pooling agreement own a majority of the ordinary shares amounting to 61.54 percent as of April 24, 2020. We have received no other notices indicating that a shareholder holds more than 3 percent of the voting rights (notifiable ownership).

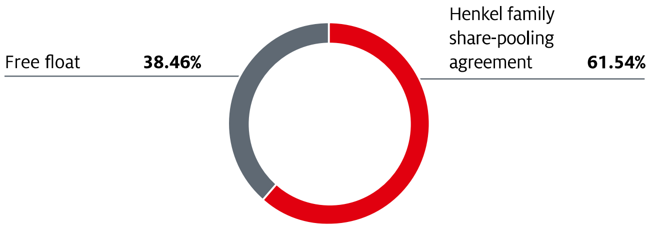
As of December 31, 2020, treasury stock amounted to 3.7 million preferred shares.

Shareholder structure:
Institutional investors holding Henkel shares



At November 30, 2020
Source: Investor Update

Shareholder structure:
Ordinary shares



At December 31, 2020
Source: Henkel

Employee share plan

Since 2001, Henkel has offered an employee share plan (ESP) enabling its employees to acquire Henkel shares. For each euro invested in 2020 by an employee (limited to 4 percent of salary up to a maximum of 4,992 euros per year), Henkel added 33 eurocents. Around 12,400 employees in 58 countries purchased Henkel preferred shares under this plan in 2020. At year-end, some 17,500 employees held a total of around 2.7 million shares in the ESP securities accounts, representing 1.5 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 ESP 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 held portfolios valued at 85,900 euros at the end of 2020 (assuming reinvestment of the dividend before tax deduction), which equates to a total return of 63,100 euros or 377 percent of the cumulative individual investment.

Henkel bonds

In January 2020, Henkel added a second tranche of 100 million British pounds to its existing 400 million British pound bond. The proceeds from the issue were used to further redeem Henkel's commercial paper liabilities. In April 2020, Henkel successfully placed a 330 million Swiss franc bond on the Swiss stock exchange. The proceeds from the issue were used partly to refinance the maturing US dollar bond in June 2020 and partly as a liquidity buffer in critical COVID-19 times. In addition, Henkel was the world's first company to successfully place a plastic waste reduction bond in July 2020. The bond is comprised of two tranches – one of 70 million US dollars and one of 25 million euros – and has a term of five years.

In 2019, Henkel successfully placed in the capital market two bonds with a total volume of 750 million British pounds. One bond was issued with a volume of 400 million British pounds and a term of three years and another bond with a volume of 350 million British pounds and a term of seven years.

Issued in 2016, a further bond with a volume of 700 million euros and a term of five years, and a 300 million British pound bond with a term of six years, remain outstanding. Further information can be found on the website:
www.henkel.com/creditor-relations

Bond data[1]

	2016		2019		2020			
Currency	EUR	GBP	GBP	GBP	GBP	CHF	USD	EUR
Volume	700 million	300 million	400 million	350 million	100 million	330 million	70 million	25 million
Coupon	0.00% p.a.	0.875% p.a.	1.00% p.a.	1.25% p.a.	1.00% p.a.	0.2725% p.a.	1.042% p.a.	0.12% p.a.
Maturity	9/13/2021	9/13/2022	9/30/2022	9/30/2026	9/30/2022	4/28/2023	7/7/2025	7/10/2025
Issue price	100.00%	99.59%	100.00%	99.99%	100.22%	100.00%	100.00%	100.00%
Issue yield	0.00% p.a.	0.95% p.a.	1.00% p.a.	1.25% p.a.	0.91% p.a.	0.2725% p.a.	1.042% p.a.	0.12% p.a.
Day count convention	Act/Act (ICMA)	Act/Act (ICMA)	Act/Act (ICMA)	Act/Act (ICMA)	Act/Act (ICMA)	30/360	30/360	Act/Act (ICMA)
Denomination	1,000 EUR	1,000 GBP	100,000 GBP	100,000 GBP	100,000 GBP	5,000 CHF	200,000 USD	200,000 EUR
Security code No.	A2BPAX	A2BPAZ	A2YN22	A2YN23	A254YF	A289R9	A289QD	A289X0
ISIN	XS1488418960	XS1488419935	XS2057835717	XS2057835808	XS2108492468	CH0541537996	XS2198440260	XS2202774969
Listing	Regulated Market of the Luxembourg Stock Exchange					SIX Swiss Exchange Ltd.	not listed	not listed

[1] Bonds outstanding as of December 31, 2020.

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Pro-active capital market communication

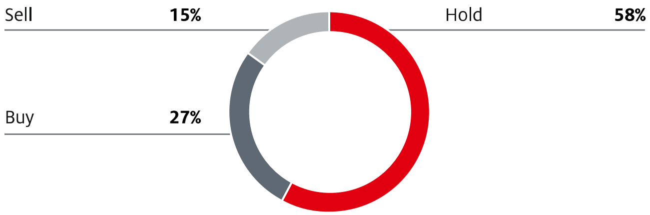
An active and open information policy ensuring prompt and continuous communication is a major component of the value-based management approach at Henkel. Hence, shareholders, shareholder associations, participants in the capital market, financial analysts, the media and the public at large are kept informed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

Up-to-date information is incorporated in the regular financial reporting undertaken by the company. The dates of the major recurring publications, and also the dates for the press conference on the preceding fiscal year and the Annual General Meeting, are published together with all relevant information on the internet at **www.henkel.com/ir**. This also serves as the portal for the live broadcast of telephone conferences and parts of the Annual General Meeting (AGM). The COVID-19 pandemic posed special challenges; however, we were able to successfully overcome these. Thanks to our comprehensive commitment to digitalization, we were able to respond quickly to the changing conditions and to switch our communication to digital channels. Due to COVID-19 restrictions, our 2020 AGM was held exclusively online. Nevertheless, we made sure all shareholders had the opportunity to directly obtain extensive information about the company.

Shareholders, the media and the public at large are regularly provided with comprehensive information through press releases and information events – most of which took place online in 2020 – while occurrences with the potential to materially affect the price of Henkel shares are communicated in the form of ad hoc announcements. The company's advancements and targets in relation to the environment, safety, health and social responsibility continue to be published annually in our Sustainability Report.

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

Analyst recommendations



At December 31, 2020
Basis: 26 equity analysts

Henkel places great importance on dialog with investors and analysts. There were 29 virtual capital market conferences and roadshows attended by people from Europe, North America and Asia, through which institutional investors and financial analysts had an opportunity to engage with representatives of the company and, in many instances, directly with senior management. In total, we exchanged views with more than 600 different institutional investors and financial analysts around the globe in individual or group meetings and telephone or video conferences.

The highlight of our Investor Relations diary was our Investor and Analyst Conference on March 5, 2020, during which Carsten Knobel (CEO) and Marco Swoboda (CFO) presented Henkel's new strategic framework for purposeful growth. The conference was originally planned to be held in London. Due to the COVID-19 pandemic and associated travel constraints, however, the event was moved at short notice to our site in Düsseldorf and took place online. Thanks to the innovative event format, both participants and the interested general public were able to access the conference digitally.

The good quality of our capital market communication was again acknowledged in 2020 by various independent rankings. In this year's Institutional Investor Europe Ranking, Henkel ranked second in the category Best Investor Relations Team in Household & Personal Care. The ranking is derived from evaluations by some 1,200 professional investors and analysts.

In addition, Henkel came first in the NetFederation IR Benchmark 2020, which analyzed the investor relations websites and digital activities of the 50 DAX, MDAX, TecDAX and SDAX companies with the highest capitalization.

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Corporate governance at Henkel AG & Co. KGaA

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

Takeover-relevant information

(Disclosures required per Sections 289a, 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 without voting rights (total nominal proportion of capital stock: 178,162,875 euros, representing 40.7 percent). All shares are fully paid in. Multiple share certificates for shares may be issued. In accordance with Art. 6 (4) of the Articles of Association, there is no right to individual share certificates. Each ordinary share grants to its holder one vote (Art. 21 (1) of the Articles of Association). The preferred shares grant to their holders all shareholder rights apart from the right to vote (Sections 139 (1) and 140 (1) German Stock Corporation Act [AktG] in conjunction with Art. 6 (1) of the Articles of Association). The preferred shares carry the following preferential right in the distribution of profit (Section 139 (1) AktG in conjunction with Art. 35 (2) of the Articles of Association) unless otherwise resolved by the Annual General Meeting:

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

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

Shareholders whose shares jointly represent at least one twentieth of the capital stock – corresponding to 21,897,938 ordinary 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 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 – equivalent to 100,000 ordinary or preferred shares or a combination of the two – may, subject to certain conditions, request that a special auditor be appointed by the court to examine certain matters (Section 142 (2) AktG).

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

Restrictions with respect to voting rights or the transfer of shares

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

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

Henkel preferred shares acquired by employees through the employee share plan, including bonus shares acquired without additional payment, are subject to a company-imposed contractual lock-up period of three years, which begins on the first day of the respective participation period. The shares may not be sold before expiration of this lock-up period. If employee shares are sold during the lock-up period, the bonus shares are forfeited.

Henkel preferred shares acquired by employees through the Long Term Incentive (LTI) Plan 2020+ are also subject to a company-imposed contractual lock-up period and may not be sold before expiration of the four-year term of each tranche.

Contractual agreements also exist with members of the Management Board governing lock-up periods for Henkel preferred shares which they purchase out of part of their variable annual cash remuneration (for additional information, please refer to the description the remuneration system on pages 53 to 76).

Major shareholders

According to notifications received by the corporation, as of April 24, 2020, a total of 61.54 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 42 on pages 271 and 272). No other direct or indirect investment in capital stock exceeding 10 percent of the voting rights has been reported to us or is known to us.

Shares with special rights

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

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

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

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

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

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

Authorization of the Management Board to issue or buy back shares

The resolution adopted by the Annual General Meeting on April 13, 2015, authorizing the Personally Liable Partner, with the approval of the Shareholders' Committee and of the Supervisory Board, to increase the capital of the corporation 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 expired on April 12, 2020.

New authorized capital was created by resolution of the Annual General Meeting on June 17, 2020 (Art. 6 (5) of our Articles of Association). Under the new resolution, 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 through to June 16, 2025, by up to a nominal amount of 43,795,875 euros in total from the issuance of up to 43,795,875 new non-voting preferred bearer shares for cash consideration (Authorized Capital 2020). The new shares have exactly the same rights as the preferred bearer shares already in circulation in respect of eligibility for distribution of profits or corporation assets. Existing shareholders must be granted pre-emptive rights. Pursuant to Section 186 (5) sentence 1 AktG, the new shares can be acquired by one or more banks or companies to be nominated by the Personally Liable Partner on condition that they offer them for purchase to the shareholders.

The authorization may be utilized to the full extent allowed or once or several times in installments. The new non-voting preferred shares participate in profit distributions from the beginning of the fiscal year in which they are issued. To the extent permitted by law, the Personally Liable Partner may, with the approval of the Shareholders' Committee and of the Supervisory Board and in derogation from Section 60 (2) AktG, determine that the new shares shall participate in profits from the beginning of a fiscal year that has already elapsed and for which, at the time of their issuance, no resolution has yet been passed by the Annual General Meeting on the appropriation of retained earnings.

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

This authorization to purchase treasury shares can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may, in particular, be transferred to third parties for the purpose of acquiring entities or participating interests in entities. Treasury shares may also be sold to third parties against payment in cash, provided that the selling price is not significantly below the quoted market price at the time of share disposal. Treasury shares may also be offered for purchase or transferred to members of the corporation's staff or managers of affiliated companies, particularly in connection with share-based payment plans, including the Long Term Incentive (LTI) Plan 2020+. The shares may likewise be used to satisfy warrants or conversion rights granted by the corporation. The Personally Liable Partner is also authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to cancel treasury shares without the need for further resolution by the General Meeting.

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

Concerning the number of treasury shares and their use, please refer to the disclosures provided in the notes to the financial statements of Henkel AG & Co. KGaA, Note 10, on pages 13 and 14, and in the notes to the consolidated financial statements, Note 10, on pages 208 and 209.

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

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

Corporate governance statement

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

The following statement takes into account the relevant recommendations of the German Corporate Governance Code (GCGC) as amended on December 16, 2019, and contains all disclosures and explanations required according to Sections 289f and 315d (corporate governance statement) of the German Commercial Code [HGB]. It should be noted that Section 317 (2) sentence 6 HGB stipulates that the audit of the disclosures pursuant to Sections 289f (2), 315d HGB is limited to the question as to whether the requisite information has been disclosed.

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

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

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

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

How Henkel applies the GCGC

The GCGC is substantially aligned to the statutory provisions applicable to a German joint stock corporation ("Aktiengesellschaft" [AG]). It is applied analogously by Henkel AG & Co. KGaA (the corporation). A description is provided below to enable a better understanding of the principles underlying the management and control structure of the corporation and the special features distinguishing us from an AG which derive from our specific legal form and our Articles of Association, with indication also of the primary rights accruing to the shareholders of Henkel AG & Co. KGaA.

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

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

In terms of its legal structure, a KGaA is a mixture of a joint stock corporation [AG] and a limited partnership [KG], with 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 the corporation by Henkel Management AG – acting through its Management Board – as the sole Personally Liable Partner (Sections 278 (2) and 283 AktG in conjunction with Art. 11 of our Articles of Association). The corporation is the sole shareholder of Henkel Management AG.

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

The general meeting of a KGaA essentially has the same rights as the shareholders' meeting of an AG. For example, it votes on the appropriation of earnings, elects members of the supervisory board (shareholder representatives) and formally approves the supervisory board's actions. It appoints the auditor and also votes on amendments to the articles of association and measures that change the company's capital, which are implemented by the management board. Additionally, as stipulated by the legal form, it also votes on the adoption of the annual financial statements of the company, formally approves the actions of the personally liable partner (general 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 that of the limited partners (Section 285 (2) AktG) or relate to the adoption of annual financial statements (Section 286 (1) AktG).

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

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

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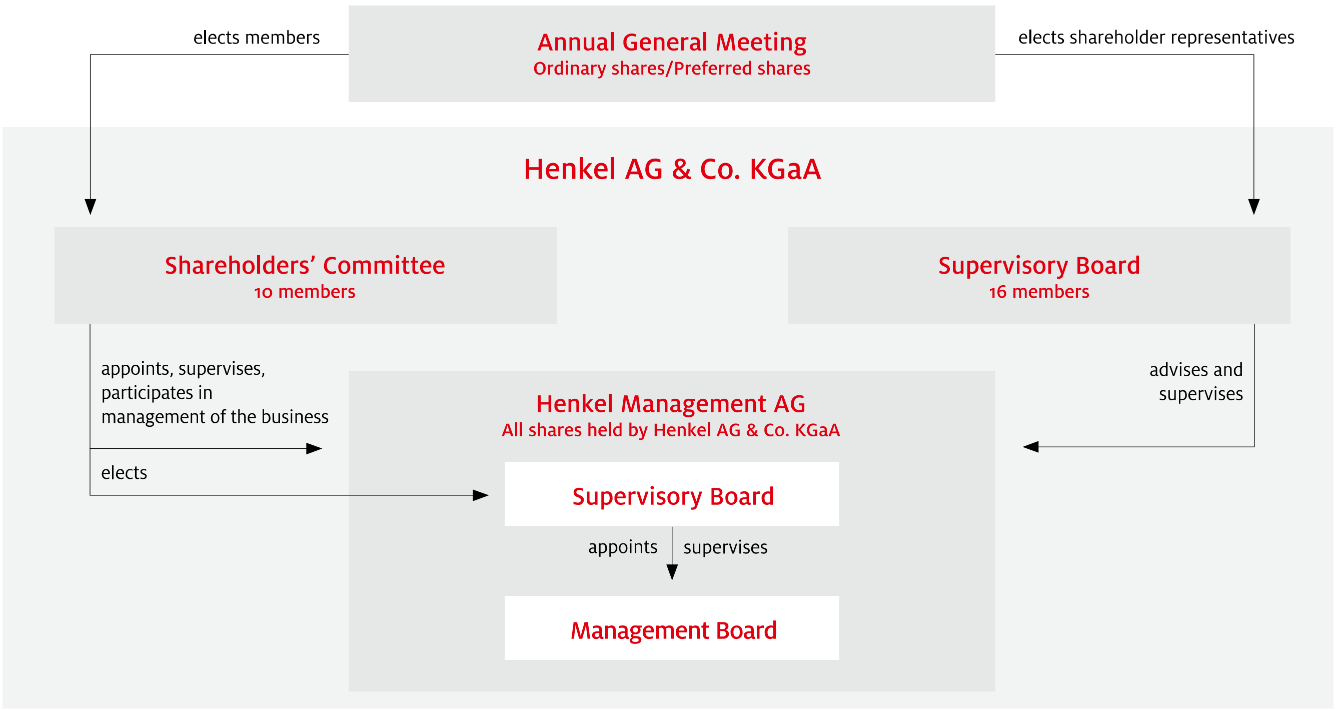
- It determines the rules of procedure for Henkel Management AG and specifies which transactions are subject to its approval.

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

Structure of Henkel AG & Co. KGaA



Application of the German Corporate Governance Code (GCGC)

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

Taking into account the special features arising from our legal form and Articles of Association, the corporation complies with all recommendations ("shall" provisions) of the GCGC, with the following exceptions:

- According to Recommendation C.5 GCGC, management board members of listed companies should not accept more than two supervisory board appointments or comparable offices in non-Group listed companies. Nor should they chair a supervisory board of a non-Group listed company. Whether the number of mandates held by members of the management board remains appropriate is to be assessed on a case-by-case basis as a more reasonable approach, rather than by means of a rigid upper limit.
- In derogation from Recommendation D.8 GCGC, individual meeting attendance by Supervisory Board members is disclosed together with individual meeting attendance by the members of the Shareholders' Committee in the remuneration report and not in the report of the Supervisory Board.
- According to Recommendation G.8 GCGC, any subsequent change in performance targets or comparison parameters should be precluded in the case of variable remuneration components. Following modifications to the Management Board remuneration since 2019 with regard to the Long Term Incentive (LTI) tranches issued in 2017 and 2018 – of which the three-year performance measurement periods end on December 31, 2019 and December 31, 2020 respectively – the method of performance measurement derogates from this recommendation insofar as the related benchmark parameters are determined pro rata temporis in accordance with the previously valid conditions for the period up to December 31, 2018, and for the period since January 1, 2019 in accordance with the conditions effective from 2019. This will ensure a cogent and consistent incentive system of Management Board compensation.

  In keeping with Recommendation G.11 GCGC giving supervisory boards the option of considering unusual developments, the Supervisory Board of Henkel Management AG can, at its discretion, include reasonable consideration of unusual developments – the effects of which are not appropriately reflected in the achievement of the targets – when determining the targets for the Short Term Incentive (STI) and for the LTI. This can result in both higher and lower target achievement values and, therefore, corresponding payout amounts.
- According to Recommendation G.10 GCGC, the amount corresponding to the variable components of remuneration awarded to the members of the Management Board should be predominantly invested by them in company shares, or be awarded in appropriately share-based form. Long-term variable remuneration awards to Management Board members should be subject to a four-year lock-up period.

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

47 percent of the total long-term remuneration (comprising the share deferral and the LTI).

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

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

In keeping with the objectives of the Management Board remuneration policy, this structure of the STI and LTI not only rewards sustainably profitable growth and thus supports the long-term development of Henkel, but also aligns the Management Board remuneration to the interests of the corporation's shareholders.

- In derogation from Recommendation G.12 GCGC to refrain from premature payment of variable remuneration components in the event of termination of a Management Board contract, all lock-up periods relating to investments in Henkel preferred shares that are financed by the recipients (share deferral) end if said recipient dies. By the same token, LTI entitlements with regard to outstanding tranches are settled on the basis of budget figures and paid to the heirs.

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

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

Remuneration report/Remuneration system

For details of the remuneration report for fiscal 2020, please refer to the Annual Report 2020, which can be found on our website **www.henkel.com/ir**. For details per Section 87a (1) AktG of the remuneration system in place for the Management Board, please refer to the notice of convocation of the Annual General Meeting on June 17, 2020 and the corresponding resolution, both of which are also available on the website **www.henkel.com/ir**.

The remuneration of the members of the Supervisory Board and of the Shareholders' Committee is governed by Article 17 (Supervisory Board remuneration) and Article 33 (Shareholders' Committee remuneration) of the Articles of Association of Henkel AG & Co. KGaA. According to Section 113 (3) AktG, listed companies must adopt resolutions governing the remuneration of their supervisory boards at least every four years, whereby a resolution simply confirming the status quo is permissible. Such a resolution will be proposed for the first time at our Annual General Meeting 2021.

Managers' transactions

In accordance with Article 19 (1) of Regulation (EU) No. 596/2014 of the European Parliament and of the Council on Market Abuse (Market Abuse Regulation), members of the Management Board, the Supervisory Board and the Shareholders' Committee, and parties related to same, are obliged by law to disclose notifiable transactions involving shares in Henkel AG & Co. KGaA or their derivative financial instruments where the value of such transactions by the member, or a party related to the member, attains or exceeds 20,000 euros in a calendar year. The transactions reported to the corporation in the past fiscal year were properly disclosed and can be seen on the website: **www.henkel.com/ir**.

Principles of corporate governance/Compliance

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

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

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

Our purpose:

- Creating sustainable value.

Our vision:

- Leading with our innovations, brands and technologies.

Our mission:

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

Our values:

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

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

Henkel is committed to ensuring that all business transactions are conducted in an ethically irreproachable, legal fashion. Consequently, Henkel expects all our employees not only to respect the corporation's internal rules and all relevant laws, but also to avoid conflicts of interest, to protect Henkel's assets and to respect the social values of the countries and cultural environments in which Henkel does business. The Management Board has therefore issued a series of Group-wide codes and standards with precepts that are binding worldwide. These regulatory instruments are not static, but are periodically reviewed and amended as appropriate, evolving in step with the changing legal and commercial conditions that affect Henkel as a globally active corporation. The Code of Conduct supports our employees in ethical and legal issues. The Leadership Commitments define the principles of management conduct. The Code of Corporate Sustainability describes the principles that drive our sustainable, socially responsible approach to business. This code also enables Henkel to meet the commitments derived from the United Nations Global Compact.

Ensuring compliance with laws and regulations is an integral component of our operating models and 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

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Compliance & Risk Committee, manages and controls compliance-related activities undertaken at the corporate level, coordinates training courses, oversees fulfillment of both internal and external regulations, and takes appropriate action in the event of compliance violations.

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

The issue of compliance is also a permanent item in the target agreements signed by all managerial staff of Henkel. Due to their position, it is particularly incumbent on them to set the right example for their subordinates, to effectively communicate the compliance rules and to ensure through the implementation of suitable organizational measures that these are obeyed.

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

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

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

Management and control structure

Management Board

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

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

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

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

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

Supervisory Board and Shareholders' Committee; (sub)committees

Composition, duties

The corporation's Supervisory Board is composed of equal numbers of shareholder and employee representatives as specified in Germany's 1976 Codetermination Act, and is made up of 16 members. In keeping with the 1976 Codetermination Act and the relevant voting procedures, the eight employee representatives are elected by the workforce and the eight shareholder representatives by the General Meeting. All members of the Supervisory Board are bound in equal measure to protect the interests of the corporation. Members are appointed for five-year terms unless otherwise specified at election. At the last election of the shareholder representatives by the Annual General Meeting 2020, their term of office was set at four years.

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

As a general rule, the Supervisory Board meets four times per year. If deemed necessary, the Management Board does not participate in such meetings. The Supervisory Board reaches its decisions by a simple majority of the votes cast. In the event of a tie, the Chair 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 Chair of the Audit Committee is elected based on a proposal of the shareholder representative members. As of December 31, 2020, the following were members of the Audit Committee: Prof. Dr. Michael Kaschke (Chair), Simone Menne (Vice Chair) and Dr. Simone Bagel-Trah as shareholder representatives, and Birgit Helten-Kindlein, Edgar Topsch and Michael Vassiliadis as employee representatives. It is a statutory requirement that the Audit Committee includes at least one independent member with expertise in the fields of accounting or auditing; all members must be familiar with the sector in which the corporation operates. Henkel's Audit Committee meets these requirements. Prof. Dr. Michael Kaschke, current Chair of the Audit Committee, and Simone Menne are both experts in the fields of accounting and auditing. Prof. Kaschke, who is neither Chair of the Supervisory Board nor a former member of the Management Board, is also independent from the controlling shareholder as defined in Recommendation C.9 GCGC in that he neither is, nor was, party to the Henkel family share-pooling agreement. The same applies to Prof. Dr. Theo Siegert, who chaired the Audit Committee up until June 17, 2020, and also in equal measure to Simone Menne.

As a general rule, the Audit Committee meets four times per year. It prepares the proceedings and resolutions of the Supervisory Board relating to the adoption of the annual financial statements and the consolidated financial statements, the review of the non-financial statement and also the auditor appointment proposal to be made to the Annual General Meeting. It issues audit mandates to the auditor and defines the focal areas of the audit, as well as deciding on the fee for the audit and other advisory services provided by the auditor. The Audit Committee specifies a cap on the provision of other advisory services, i.e., non-audit-related services as permitted in the relevant EU regulations, and oversees adherence to same. It also monitors the independence and qualifications of the auditor, requiring the latter to submit a declaration of independence, which it then evaluates. Furthermore, the Audit Committee monitors the accounts and the accounting process and assesses the effectiveness of the internal control system, the risk management system and the internal auditing and review system. It is likewise involved in compliance issues. The Group's Internal Audit function reports regularly to the Audit Committee. Prior to the respective publication dates, 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 Audit Committee is also responsible for approving related party transactions as defined in Section 111b AktG.

The Nominations Committee comprises the Chair of the Supervisory Board and two further shareholder representatives elected by the Supervisory Board based on nominations of the shareholders' representatives. The Chair of the Supervisory Board is also Chair of the Nominations Committee. The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members to the Supervisory Board (shareholder representatives). As of December 31, 2020, the following were members of the Nominations Committee: Dr. Simone Bagel-Trah (Chair), Benedikt-Richard Freiherr von Herman and Barbara Kux.

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). Members are appointed for five-year terms unless otherwise specified at election. At the last election by the Annual General Meeting of 2020, the term of office was set at four years. The Shareholders' Committee comprised ten members in the year under review.

As a general rule, the Shareholders' Committee meets six times per year. If deemed necessary, the Management Board does not participate in such meetings. It also holds a joint conference with the Management Board lasting several days. The 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. As of December 31, 2020, the following were members of the Finance Subcommittee: Dr. Christoph Henkel (Chair), Konstantin von Unger (Vice Chair), Prof. Dr. Paul Achleitner, Dr. Christoph Kneip and Prof. Dr. Ulrich Lehner.

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. As of December 31, 2020, the following were members of the Human Resources Subcommittee: Dr. Simone Bagel-Trah (Chair), Johann-Christoph Frey (Vice Chair), Alexander Birken, Dr.-Ing. Norbert Reithofer and Jean-François van Boxmeer.

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

In an onboarding procedure, newly elected members of the Supervisory Board and Shareholders' Committee are familiarized with our corporate values, applicable codes and standards, the basic organizational structure and strategy of the corporation together with the main corresponding initiatives, the corporation's operational performance and other current issues of relevance, and members' rights and obligations, taking into account the special features arising from our legal form and Articles of Association. Further, members take it upon themselves to seek the training needed to perform their duties; these efforts are supported by the corporation.

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 adopted in transactions with and between unrelated third parties. In our view, such transactions do not affect the impartiality of the members in question.

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

For details of the activities of the Supervisory Board and its committees in fiscal 2020, please refer to the Report of the Supervisory Board (pages 13 to 19).

The Shareholders' Committee continued to discharge its duties diligently in fiscal 2020 in accordance with the legal statutes and Articles of Association. In compliance with the Articles of Association, the Shareholders' Committee engaged in the management of the corporation and carefully and regularly monitored the work of the Management Board, advising and supporting it in its stewardship and in the strategic development of the corporation. It also discussed and ruled on those transactions that required its approval.

Six scheduled meetings took place in the year under review, together with one extraordinary meeting/video/telephone conference and a conference with the Management Board of several days' duration. Likewise, the Human Resources and Finance subcommittees each met six times. Due to the COVID-19 pandemic, most of the meetings were a mixture of personal attendance and video/telephone conferences. Participation in the meetings of the Shareholders' Committee and its subcommittees was 94.6 percent. For details of individual members' attendance at meetings, please refer to the remuneration report (page 92). Following the election by the Annual General Meeting of Henkel AG & Co. KGaA on June 17, 2020, of new members to the Shareholders' Committee, the Chair and Vice Chair were elected and the composition of the subcommittees decided by written procedure.

At all meetings, the reports submitted by the Management Board were discussed, and the general development of the corporation, the status of acquisitions and divestments, and other matters of strategic importance were analyzed together with the Management Board. The overall economic situation and Henkel's business performance were also discussed, together with a report on how the corporation was dealing with the COVID-19 pandemic and what actions had been taken to protect the workforce. Areas of particular focus included the new strategic alignment of the corporation and its implementation status, the status and strategic directions of the business units, financial reporting, overall performance by the business units and in the regions, capital expenditures and innovations, sustainability, and the short- and mid-term plans of both the Group and the individual business units.

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

Efficiency audit

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

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

The efficiency of the activities of the Supervisory Board and Shareholders' Committee and their respective (sub)committees, and the impartiality of their members, were confirmed in the efficiency audit performed in 2019/2020. The next efficiency audit is scheduled to take place in 2021/2022.

Interaction between Management Board, Supervisory Board and Shareholders' Committee

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

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

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

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

Our vision and values, Code of Conduct, Code of Corporate Sustainability and other codes and policies governing our stewardship of the corporation can be found on our website **www.henkel.com**.

Supervisory Board of Henkel Management AG

The corporation holds all shares in Henkel Management AG. The voting rights to which the corporation is entitled at the general meetings of Henkel Management AG are exercised by the Shareholders' Committee, which therefore also elects the members of the Supervisory Board of Henkel Management AG. Members are appointed for five-year terms unless otherwise specified at election. At the last election by the Annual General Meeting 2020, the term of office was set at four years.

The Supervisory Board of Henkel Management AG consists of three members who are also members of the Shareholders' Committee. At December 31, 2020, the following were members of the Supervisory Board: Dr. Simone Bagel-Trah (Chair), Johann-Christoph Frey (Vice Chair) and Dr.-Ing. Norbert Reithofer. Electing certain members to both corporate bodies ensures that the Shareholders' Committee not only appoints Henkel Management AG as the Personally Liable Partner, but also (through the members of the Supervisory Board of Henkel Management AG) appoints its Management Board and therefore the individuals who are responsible for managing the corporation. Effective control of management – i.e. of the Management Board of Henkel Management AG – is therefore also assured:

- The Supervisory Board of Henkel Management AG can oversee and monitor the Management Board in accordance with laws governing joint stock corporations.
- Henkel Management AG as the Personally Liable Partner and therefore (also) its Management Board can also be overseen and monitored
  - by the Shareholders' Committee which, in doing so, exercises the powers of the corporation's shareholders, and

– by the Supervisory Board at KGaA level in accordance with laws governing joint stock corporations.

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

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

Proportion of women on the Management Board

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

The proportion of women on the Management Board at December 31, 2020 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 women 25 percent
- Second management level: Proportion of women 30 percent

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

Separately from the targets for the first two levels of management below the Management Board of Henkel AG & Co. KGaA – and mindful of our globally aligned management organization – it is our goal to increase our ratio of women at all levels of management at Henkel in the long term. In 2020, we were again able to raise the proportion of women in management worldwide – to 36.9 percent at December 31, 2020.

Statutory gender quota for Supervisory Board composition

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

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

Diversity considerations governing Management Board composition/Succession planning

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

- Education/career experience
  Overall, the members of the Management Board must demonstrate knowledge, skills and professional experience in the following areas in particular:
  - Management/leadership experience: Experience with managing globally operating entities, involvement of employee representative bodies, leading and motivating employees, succession planning.
  - Understanding of the business: 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: Experience in developing and implementing 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 emerging and mature markets should be appropriately reflected in the composition of the Management Board. Henkel therefore strives to ensure that several members of different nationalities or with international backgrounds (who have spent several years working abroad or supervising foreign business activities, for example) are included on the Management Board.
- Gender
  A reasonable proportion of women shall be represented in the Management Board. Henkel therefore strives to ensure that at least one woman is a member of the Management Board.
- Seniority
  Change and continuity are two issues that must be taken into reasonable account when composing the Management Board. Henkel therefore aims to include members with different levels of seniority on the Management Board. Irrespective of this requirement, members of the Management Board should generally not be older than 63.

Implementation progress

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

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

Succession planning

Together with the Management Board, the Shareholders' Committee and the Supervisory Board of Henkel Management AG ensure the long-term succession planning with regard to Management Board composition. Although both in-house and external candidates are considered for future appointment, every effort is made to select candidates from within the organization who have proven their aptitude for such duties.

Long-term succession planning takes account of the corporate strategy and the aforementioned diversity considerations.

Key elements of the systematic management development process include:

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

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

Diversity considerations/Objectives governing Supervisory Board composition

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

- Education/career experience
  Overall, the Supervisory Board must demonstrate knowledge, skills and professional experience in the following areas in particular:
  - Management/leadership experience: Experience with managing globally operating corporations/companies and with employee management.
  - Understanding of the business: Knowledge of/experience in the fields of research and development, production/engineering, marketing, selling and distribution, digitalization/eCommerce, as well as knowledge of/experience in industrial/consumer business areas, in the key markets in which Henkel operates, and in sustainable management.
  - Financial expertise: Experience in the fields of accounting/accounting processes or with auditing financial statements, knowledge of financial instruments and funding strategies.
  - Financial control/risk management: Experience in the fields of internal control and risk management systems, as well as internal auditing systems.
  - Governance/compliance: Experience with interaction among corporate bodies (governance) and in ensuring compliance with statutory/in-house requirements.
- Impartiality, integrity
  To ensure the impartiality of its counseling activities and supervision of the Management Board, the shareholder representatives on the Supervisory Board must include what they believe to be a reasonable number of independent members, bearing in mind the corporation's ownership structure.

  According to Recommendation C.6 GCGC, a member of a supervisory board is considered independent if they are independent from the corporation and its management board and independent from a controlling shareholder.

Pursuant to Recommendation C.7 GCGC, more than half the shareholder representatives should be independent from the corporation and the Management Board. Supervisory Board members are considered independent from the corporation and its Management Board if they have no personal or business relationship with the corporation or its Management Board that may cause a material – and not merely temporary – conflict of interest.

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

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

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

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

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

- who – if not members of a management board of a listed company – exercise more than five supervisory board mandates in total for non-Group listed companies or for non-Group companies with similar requirements (chairing a supervisory board counts twice),

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

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

- Availability
  When proposing new candidates to the Annual General Meeting for election to the Supervisory Board, the Supervisory Board must make sure that the relevant candidates can devote the anticipated time required to the task.
- Internationality
  The international activities of the corporation should be appropriately reflected in the composition of the Supervisory Board. Henkel therefore strives to ensure that several members with international backgrounds (who have spent several years working abroad or supervising foreign business activities, for example) are included on the Supervisory Board.
- Gender
  A reasonable proportion of women shall be appointed to the Supervisory Board. The statutory minimum requirement of 30 percent is deemed to be reasonable. Henkel strives to increase the proportion of women when new or replacement members are elected.
- Age
  The Supervisory Board should appropriately 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.

Implementation progress

In addition to the statutory minimum quota, the Supervisory Board believes that these aforementioned requirements were met in full in the reporting period. Among the 16 members of the Supervisory Board are nine men and seven women. Shareholder representatives consist of five men and three women, while the employee representatives consist of four men and four women. This represents an overall ratio on the Supervisory Board of around 56 percent men and 44 percent women.

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

The GCGC recommendations on impartiality have been adopted. None of the shareholder representatives nor close family members of a shareholder representative is a former Management Board member, or performs board or committee functions or acts as a consultant for major competitors, and none are persons whose business or personal relationship with the corporation or members of the Management Board could give rise to material conflicts of interest that are not of a merely temporary nature. Six out of eight shareholder representatives had been on the Supervisory Board for fewer than twelve years in the year under review. According to the precepts of Recommendation C.7 GCGC, these shareholder representatives are therefore independent from the corporation and the Management Board.

Four of the eight shareholder representatives – Barbara Kux, Simone Menne, Timotheus Höttges and Prof. Dr. Michael Kaschke – are not party to the Henkel family share-pooling agreement; under GCGC Recommendation C.9, they are therefore independent from the controlling shareholder. Apart from Dr. Simone Bagel-Trah, none of the shareholder representatives in office is a member of the Shareholders' Committee or the Supervisory Board of Henkel Management AG.

As such, the shareholder representatives on the Supervisory Board include what they believe to be a reasonable number of independent members as recommended by the GCGC.

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 276 to 279. Members' vitae can be found on the website: **www.henkel.com**. Details of the compensation of the Management Board, the Supervisory Board and the Shareholders' Committee can be found in the remuneration report 2020.

Remuneration system

The remuneration policy currently in place for the members of the Management Board of Henkel Management AG, which is the sole Personally Liable Partner of Henkel AG & Co. KGaA ("Management Board"), was approved by the Annual General Meeting of June 17, 2020 of Henkel AG & Co. KGaA by a majority of around 98.9 percent. To reflect the outcome of discussions on this topic with shareholders, shareholders' representatives and investors, the Supervisory Board of Henkel Management AG has further refined the remuneration policy, made some editorial changes and added more detailed explanations, as well as deciding to implement the following adjustments, starting in 2021:

- Option to increase components of remuneration while upholding the specified caps for the respective total remuneration (see Remuneration policy, 2 a) "Regulation, structure and amounts").
- Share Ownership Guideline:
  The obligation to purchase and hold shares is a key element of Management Board remuneration policy. In addition to the existing obligation of Management Board members to purchase and hold shares, the revised policy plans to make it mandatory for them in future to hold at least as many shares acquired under the STI (share deferral) as equates to 100 percent of their basic remuneration, or 200 percent of the annual basic remuneration in the case of the CEO, for the duration of their tenure (see Remuneration policy 2 c) "Performance-related components," subsection "Share Ownership Guideline").
- Consideration of unusual developments when determining target achievement in respect of variable remuneration:
  Consistent with Recommendation G.11 of the German Corporate Governance Code (GCGC) as amended on December 16, 2019, the Supervisory Board of Henkel Management AG has defined in more detail the former options for reasonably considering unusual developments when determining variable remuneration payout amounts (see Remuneration policy, 2 c) "Performance-related components," subsection "Consideration of unusual developments when determining target achievement or specifying STI and LTI payout amounts").
- Option to grant a lump-sum pension payout in order to accumulate private pension entitlements instead of participating in the company pension scheme (see Remuneration policy, 2 g) "Pension benefits (retirement pensions and survivors' benefits)").
- Temporary deviations from the remuneration policy:
  Consistent with the specifications of Section 87a (2) sentence 2 AktG, a clause governing temporary deviation from the remuneration policy has been incorporated (see Remuneration policy 2 k) "Temporary deviations from the remuneration policy").

This revised remuneration policy for the members of the Management Board will be submitted for approval to the Annual General Meeting 2021.

1. General objectives and principles

Henkel is committed to corporate governance that is responsible, transparent and aligned to the sustainable and long-term development of the corporation. We want to create sustainable value – for our customers and consumers, for our people, for our shareholders, as well as for the communities in which we operate. We shape our future on the basis of a long-term strategic framework that builds on our purpose and our values, with a clear focus on purposeful growth.

Accordingly, the remuneration system for the Management Board, the Supervisory Board and the Shareholders' Committee takes account of the relevant duties and responsibilities, and is designed to drive implementation of our corporate strategy, to offer incentives for successful and sustainable business performance over the long term, and to avoid inappropriate risk-taking. The following principles play a key role in defining the remuneration:

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

Management Board:
- Total remuneration is aligned to sustainable long-term business performance and corresponding stakeholder targets.
- Remuneration consists of non-performance-related components and a substantial portion of variable, performance-related components.
- A large portion of the variable, performance-related remuneration is tied to future performance spanning several years such that long-term variable target remuneration accounts for a greater share of the total than short-term variable target remuneration.
- For the variable, performance-related components of remuneration, challenging financial performance indicators – related to the corporation's objectives and in some cases reflecting strategic objectives derived from the corporate strategy – exist alongside non-financial individual targets. The financial performance indicators are weighted more heavily, and are based on quantitative criteria.
- Reasonable account is taken of the remuneration and employment policy applied to the corporation's staff.
- Reasonable account is taken of the relevant function-specific duties and individual performance.
- Overall remuneration is equitable; reasonable caps on variable components of remuneration and maximum remuneration payable to a Management Board member have been defined.
- The members of the Management Board invest a substantial portion of their remuneration in Henkel preferred shares (Share Ownership Guideline).

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

2. Remuneration policy for members of the Management Board

a) Regulation, structure and amounts

The legal form of Henkel AG & Co. KGaA as a "Kommanditgesellschaft auf Aktien" with Henkel Management AG as its sole Personally Liable Partner means that, unlike in the case of joint stock corporations, the Supervisory Board of Henkel Management AG is responsible for appointing and dismissing members of the Management Board, the drafting of their contracts, assignment of their business duties, and their remuneration. Regarding Management Board remuneration, the Supervisory Board of Henkel Management AG is responsible, in particular, for:
- Determining and reviewing remuneration policy
- Specifying the non-performance-related and variable performance-related components of remuneration
- Defining individual targets each year, and measuring performance with regard to same
- Determining the extent to which financial targets have been met each year and quantifying annual and multi-year variable, performance-related remuneration
- Approving the assumption of voluntary duties or supervisory board, advisory board or similar mandates in other companies, as well as other ancillary professional activities
- Approving loans and advances

Corresponding resolutions are adopted by the Supervisory Board of Henkel Management AG, which is comprised of three members of the Shareholders' Committee of Henkel AG & Co. KGaA, after prior consultation in the Shareholders' Committee's Human Resources Subcommittee. The general rules governing the treatment of conflicts of interest are applied. Specifically, members of the Management Board are excluded from such consultations and resolutions to the extent necessary to avoid conflicts of interest. The Supervisory Board of Henkel Management AG is responsible for engaging external remuneration experts to either develop or modify the remuneration system or to assess whether Management Board remuneration is appropriate. In doing so, it ensures the independence of remuneration experts from both the Management Board and the corporation at large.

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

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

- The absolute and relative performance of the business unit for which each officer is responsible compared to market/competition performance
- The personal contribution toward implementing the strategic priorities and achieving the sustainability targets
- Achievement of the relevant separate targets agreed with each individual

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

The Supervisory Board of Henkel Management AG regularly reviews the compensation system, as well as the appropriateness of the remuneration, based on the aforementioned criteria, and adjusts it as necessary. The remuneration policy must be submitted for approval to the Annual General Meeting of Henkel AG & Co. KGaA if substantial changes are planned, and in all cases every four years. If the Annual General Meeting refuses to approve the remuneration policy, a revised compensation system must be submitted for approval at the next Annual General Meeting, at the latest.

Members of the Management Board receive non-performance-related components and performance-related components consisting of the following three main elements:

- Fixed basic remuneration
- Variable annual remuneration (Short Term Incentive, STI)
- Variable cash remuneration based on the long-term performance of the company (Long Term Incentive, LTI)

Management Board members receive 65 percent of the STI as short-term variable cash remuneration, and must invest the remaining 35 percent long term in Henkel preferred shares (Share Ownership Guideline, share deferral). Accordingly, the performance-related, long-term, variable components are made up of the share deferral and the LTI.

Fringe benefits (other emoluments) are also paid, as are pension contributions. Rules that are consistent with market practice also exist to govern the various components of remuneration upon joining or leaving the Management Board.

The Supervisory Board of Henkel Management AG has capped the maximum amounts payable both as individual variable components of remuneration and as the total compensation payable in any fiscal year – taking into account the other emoluments and pension contributions. Insofar as the Annual General Meeting adopts resolutions to lower the cap on remuneration that is specified in the remuneration policy, this change is taken into account when entering into new, or extending existing Management Board contracts.

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

The overall structure of the remuneration system reads as follows:

Remuneration system overview		General objective and strategic reference
Non-performance-related components	**Basic remuneration** • Chairman of the Management Board: currently 1,200,000 euros p.a. • Other Management Board members: 750,000 euros p.a.	• Assurance of equitable basic compensation commensurate with market conditions and the function performed • Avoidance of incentives to take inappropriate risks
	Other emoluments • Insurance, reimbursement of accommodation/relocation costs, home security costs, provision of a company car, use of a car service, other in-kind benefits; amounts vary dependent on personal needs • Caps: – Chairman of the Management Board: 250,000 euros p.a. – Other Management Board members: 175,000 euros p.a.	• Inclusion of fringe benefits and benefits in kind that are commensurate with market conditions and directly related to, and supportive of, Management Board activity
Performance-related components	**Variable annual remuneration (Short Term Incentive, STI)** • Target remuneration if all targets are met, with application of the respective functional factors: – Chairman of the Management Board: currently 3,500,000 euros – Other Management Board members: currently 1,800,000 to 2,200,000 euros • One-year performance measurement period: Amount dependent on achievements in the fiscal year (remuneration year) with respect to: – Business performance (financial targets, bonus): organic sales growth (OSG), adjusted earnings per preferred share (EPS) at constant exchange rates versus prior year (actual-to-actual comparison); each weighted 50 percent – Individual performance: Individual multiplier ranging from 0.8 to 1.2 applied to the bonus amount • Cap: 150 percent of the respective target remuneration • 65 percent freely disposable (short-term component, cash remuneration), 35 percent invested in Henkel preferred shares (long-term component; Share Ownership Guideline, share deferral)	• Incentive to meet the corporate targets for the current fiscal year • Incentive for long-term purposeful growth • Allowance for operational success relative to benchmark group • Promoting implementation of the strategic priorities and sustainability targets • Differences in performance possible between Management Board members

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Remuneration system overview		General objective and strategic reference
Performance-related components	**Share Ownership Guideline** • Obligation to purchase Henkel preferred shares • Holding a minimum portfolio while on the Management Board	• Aligning the interests of Management Board and shareholders • Incentive for long-term business performance
	Long-term variable cash remuneration (Long Term Incentive, LTI) • Target remuneration if all targets are met, with application of the respective functional factors – Chairman of the Management Board: currently 1,400,000 euros – Other Management Board members: currently 720,000 to 880,000 euros • Three-year prospective performance measurement period: The criterion is the average target achievement of the adjusted return on capital employed (ROCE) in a three-year performance measurement period (remuneration year and the two subsequent fiscal years); target value is set for each year (three yearly tranches) • Cap: 150 percent of the respective target remuneration	• Incentives to raise shareholder value over the long term • Allowance for profitability
	Functional factors • General functional factors as multipliers for the STI and LTI payout amounts based on target achievement	• Greater allowance for the different requirements and complexity of the business units/functions

TABLE CONTINUED ON NEXT PAGE

Remuneration system overview		General objective and strategic reference
Pension commitments/ Lump-sum pension payout	**Defined contribution pension scheme** • Superannuation lump sum comprised of the total annual contributions. Annual allocation (lump-sum contribution): – Chairman of the Management Board: 750,000 euros (62.5 percent of basic remuneration) – Other Management Board members: 450,000 euros (60.0 percent of basic remuneration)	• Granting of amounts enabling accumulation of an equitable company pension
	or, alternatively (starting in 2021) • Lump-sum pension payout, payable annually: – Chairman of the Management Board: currently 750,000 euros (62.5 percent of basic remuneration) – Other Management Board members: currently 450,000 euros (60.0 percent of basic remuneration)	• Granting of amounts enabling accumulation of an equitable company pension
Other regulations governing remuneration	**Malus and clawback regulations** • The Supervisory Board of Henkel Management AG is authorized – in specific circumstances – to wholly or partially withhold variable remuneration (STI, LTI) or to demand repayment, within specific limits, of variable remuneration that has already been paid	• Assurance of equitability of variable remuneration (STI, LTI) • Ensuring compliance with essential principles of corporate governance
	Remuneration cap • Caps on total remuneration (basic remuneration, other emoluments and pension commitments/lump-sum pension payouts, and variable components of remuneration): – Chairman of the Management Board: 9,550,000 euros p.a. – Other Management Board members: 5,155,000 to 5,995,000 euros p.a.	• Avoidance of inappropriately high payments
	Severance cap • Payment limited to maximum two years' compensation but no more than due for the remaining term of the contract	• Consistent with the German Corporate Governance Code, specification of a cap on payments and benefits in the event of premature termination of Management Board appointment
	Post-contractual non-competition clause • Two-year term; discretionary payment totaling 50 percent of the annual compensation, payable in 24 monthly installments • Severance pay credited against any discretionary payment for the same period	• Protecting Henkel's interests

For all Management Board members except the Chairman, the target remuneration (excluding other emoluments and pension benefits) is derived from the functional factor ranging between 0.9 and 1.1 that particularly reflects the complexity and importance of the respective business unit or function for which that member is responsible (see 2c)) and is currently within the annual range of 3,270,000 euros and 3,830,000 euros, subject to 100 percent achievement of all success targets ("at target"). At a functional factor of 1, the at-target remuneration of all Management Board members except the Chairman is 3,550,000 euros. Of this figure, 750,000 euros is attributable to basic remuneration (around 21 percent of target remuneration), 2,000,000 euros to the STI including share deferral (around 56 percent of target remuneration) and 800,000 euros to the LTI (around 23 percent of target remuneration). Accordingly, some 79 percent of the target remuneration (= 2,800,000 euros) is therefore variable. Of this total, short-term variable target remuneration (STI without share deferral) accounts for around 46 percent (= 1,300,000 euros) and long-term variable target remuneration (share deferral and LTI) for around 54 percent (= 1,500,000 euros).

The annual target remuneration for the Chairman of the Management Board (for a functional factor of 1.75) currently totals 6,100,000 euros: 1,200,000 euros basic remuneration (around 20 percent of target remuneration), 3,500,000 euros STI including share deferral (around 57 percent of target remuneration) and 1,400,000 euros LTI (around 23 percent of target remuneration). By resolution of the Supervisory Board of Henkel Management AG, a functional factor of 1.625 was specified for the Chairman of the Management Board for STI and LTI for fiscal 2020.

Other emoluments are paid to all members of the Management Board except the Chairman up to a maximum of 175,000 euros, together with annual pension contributions of 450,000 euros. Bearing in mind these amounts, and based on a functional factor of 1 and 100-percent target achievement ("at target"), members of the Management Board receive total annual remuneration (remuneration plus other emoluments and pension benefits) of up to 4,175,000 euros, of which around 33 percent (= 1,375,000 euros) takes the form of basic remuneration plus other emoluments and annual allocations to the pension reserve, while some 67 percent (= 2,800,000 euros) represents short-term and long-term variable remuneration (STI and LTI).

Other emoluments are paid to the Chairman of the Management Board up to a maximum of 250,000 euros per year, together with annual pension contributions of 750,000 euros. Bearing in mind these amounts, the Chairman of the Management Board, on achievement of all performance targets to the tune of 100 percent ("at target"), receives total annual remuneration of up to 7,100,000 euros, of which around 31 percent (= 2,200,000 euros) takes the form of basic remuneration plus other emoluments and annual allocations to the pension reserve, while some 69 percent (= 4,900,000 euros) represents short-term and long-term variable remuneration (STI and LTI).

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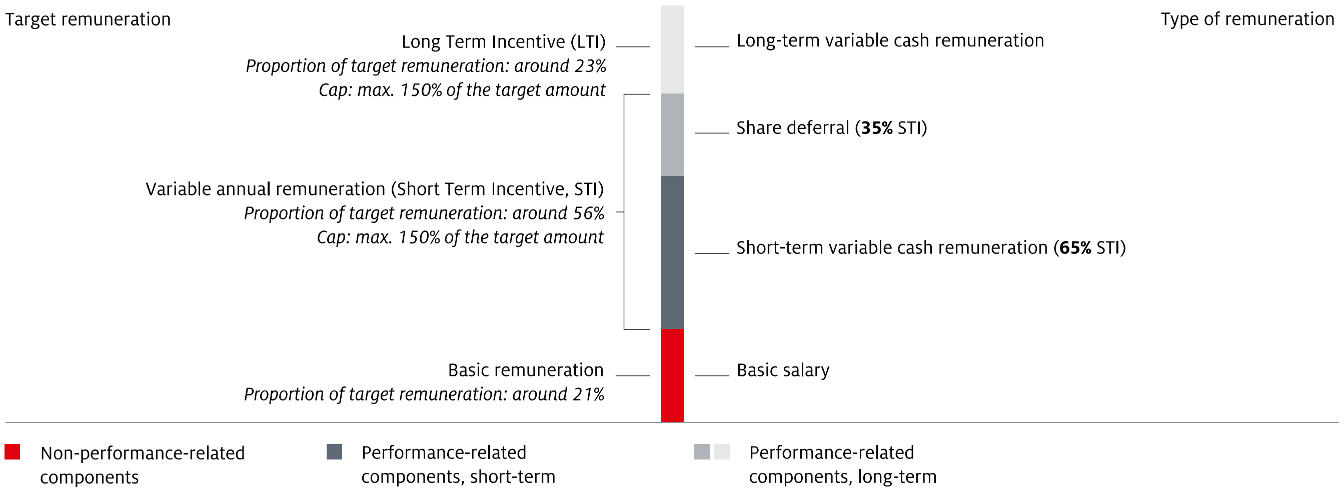
Remuneration structure (without other emoluments, pension benefits)



The Supervisory Board of Henkel Management AG regularly reviews the amounts of the individual components of remuneration and their ratio to one another and adjusts them if deemed appropriate in light of the duties and performance of a Management Board member, the state of the corporation, and the need to maintain competitiveness. Any increase in the target remuneration of an individual component of remuneration and thus of the total target remuneration is capped at 5 percent p.a. Such increase must not cause the caps, indicated below, on respective total remuneration for a fiscal year to be exceeded. Equally, the ratio of basic remuneration to the various variable components of remuneration per the above overview must not substantially change overall; care must also be taken to ensure that a large portion of the variable, performance-related remuneration continues to be tied to future performance spanning several years, and that long-term variable target remuneration still accounts for a greater share of the total than short-term variable target remuneration.

b) Non-performance-related components

Basic remuneration

The basic remuneration reflects market conditions and serves as a basic salary to secure a decent income and thus help avoid the urge to take inappropriate risks. It is paid out in monthly installments and currently 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/relocation costs and the cost of home security installations, provision of a company car that they may also use for private purposes or use of a car service, including any taxes on same, and the costs of precautionary medical

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examinations. All members of the Management Board are entitled, in principle, to the same emoluments, whereby the amounts vary depending on personal situation. These emoluments are recognized at cost or the equivalent cash value in the case of benefits in kind.

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

The Supervisory Board of Henkel Management AG can, moreover, award newly appointed Management Board members one-off compensation if remuneration commitments of a former employer are forfeited due to the move to Henkel Management AG. Such compensation is capped at 200 percent of the basic remuneration, which may result in higher maximum total remuneration in the first year of appointment to the Management Board. Members of the Management Board who are domiciled abroad may also be granted the usual tax reimbursements and compensation for currency conversion losses.

c) Performance-related components

Variable annual remuneration (Short Term Incentive, STI)

Overview STI

Components	Basis for assessment/Parameters	Weighting	Lower threshold	100% target achievement	Upper threshold
Financial targets (bonus)	Organic sales growth[1] (OSG)	50%	Minimum OSG (50% OSG target amount)	OSG target (100% OSG target amount)	Maximum OSG (150% OSG target amount)
	Adjusted earnings per preferred share (EPS)[2]	50%	80% of the prior-year figure (50% EPS target amount)	100% of the prior-year figure (100% EPS target amount)	120% of the prior-year figure (150% EPS target amount)
Individual multiplier	• Absolute and relative performance of business unit compared to market/competition • Personal contribution to the implementation of strategic priorities and sustainability targets • Achievement of personal targets			Multiplier ranging from 0.8 to 1.2	
Performance measurement period	Fiscal year (remuneration year)				
Cap[3]	150% of the STI target amount (= 3,000,000 euros[4])				

[1] Threshold/target figures derived annually from budgets.
[2] At constant exchange rates, versus prior year (actual-to-actual comparison).
[3] Including individual multiplier.
[4] Remuneration for an ordinary member of the Management Board at a functional factor of 1.

The variable annual remuneration (STI) represents a uniform incentive to achieve the financial targets derived from the budgets and the corporate strategy, and an incentive to achieve non-financial targets aligned to sustainability; it thus contributes toward implementation of the corporate strategy.

The benchmark parameters for the STI are the achieved financial targets for each fiscal year (“remuneration year”) – which determine the so-called bonus – and the individual performance of each Management Board member, in respect of which a multiplier ranging from 0.8 to 1.2 is applied.

The Henkel Group pursues a strategy of long-term, sustainable, purposeful growth. This forms the basis for derivation of the strategic financial target for organic sales growth (OSG) – i.e. sales development adjusted for foreign exchange and acquisitions/divestments – in the remuneration year, which is one of the criteria (50-percent weighting) used to determine the amount of the bonus. The other financial target (also weighted at 50 percent) is earnings per preferred share (EPS) adjusted for one-time expenses and income, for restructuring expenses, and for foreign exchange. Both targets are linked additively, i.e. the 50-percent-weighted OSG component of the bonus amount is added to the EPS component, which is also weighted at 50 percent.

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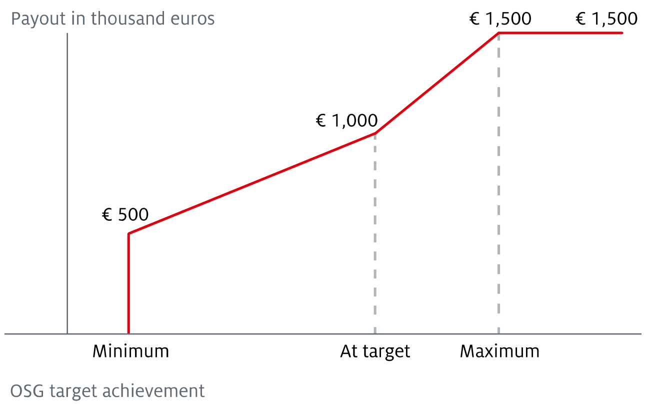
The OSG target is derived from the budget for the relevant fiscal year. It is set annually by the Supervisory Board of Henkel Management AG. EPS performance is measured on the basis of actual-to-actual comparison, i.e. the EPS at constant exchange rates in the remuneration year is compared to the EPS from the previous year.

The Supervisory Board of Henkel Management AG reserves the right to exercise due discretion in determining a target value that differs from the actual EPS in the previous year, rather than basing EPS performance for a new remuneration year on prior-year comparison. This is particularly applicable if early expectations indicate that actual EPS in the remuneration year is going to differ significantly from the prior-year figure.

An appropriate remuneration scale has been established for both key financials. Thresholds have also been defined; payment is withheld if the minimum targets are not met, and capped if they are exceeded. The scale of payment amounts attributable to the OSG target is always linear between the lower threshold (minimum amount) and the at-target amount, and between the at-target amount and the upper threshold (cap). The scale of payment amounts attributable to the EPS target is consistently linear between the lower and upper thresholds. Exceeding the relevant maximum target does not result in any further increase in the relevant OSG or EPS bonus component above and beyond 150 percent of the at-target remuneration.

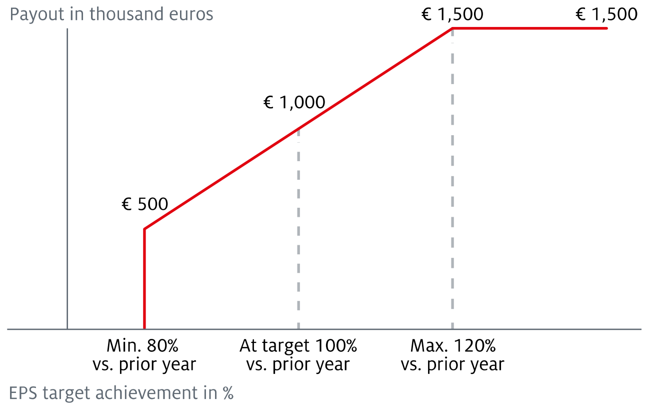
Examples of the payout curves for the OSG and EPS targets are shown below:

Key financial OSG



Remuneration for an ordinary member of the Management Board with an individual multiplier of 1 and a functional factor of 1.

Key financial EPS



Achievement of the OSG and EPS targets is determined on the basis of the figures in the consolidated financial statements of Henkel AG & Co. KGaA for the remuneration year as certified without qualification and approved in each case.

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

The following criteria play a key role in measuring individual performance:

- The absolute and relative performance of the business unit for which each officer is responsible, compared to market/competition performance
- The personal contribution toward implementing the strategic priorities and achieving the sustainability targets
- Achievement of the relevant separate targets agreed with each individual

The non-financial performance indicators are specified by the Supervisory Board of Henkel Management AG each year and published in the remuneration report.

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

Benchmark group

Adhesive Technologies	Beauty Care	Laundry & Home Care
• Sika	• Procter & Gamble (Beauty)	• Procter & Gamble (Fabric & Home Care)
• H.B. Fuller	• Beiersdorf (Consumer)	• Reckitt Benckiser (Hygiene Home)
• RPM	• Colgate-Palmolive (Oral, Personal and Home Care)	• Unilever (Home Care)
• 3M	• L'Oréal (Group)	
	• KAO (Cosmetics, Skin Care and Hair Care)	
	• Unilever (Beauty & Personal Care)	
	• Coty (Group)	

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

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

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

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

The obligation to purchase and hold shares (Share Ownership Guideline) is a key element of Management Board remuneration policy. The aim here is to promote a certain degree of alignment in the interests of the Management Board members with those of the shareholders while ensuring the sustainable and long-term performance of the corporation. In accordance with the following, Management Board members are obligated to purchase Henkel preferred shares and (starting in 2021) to hold at least as many shares as equates to 100 percent of their annual basic remuneration, or 200 percent of the annual basic remuneration in the case of the Chairman, for the duration of their tenure (minimum portfolio). Even once they have acquired the minimum portfolio, Management Board members must still continue purchasing the specified volume of Henkel preferred shares, which in turn are also subject to a lock-up period. Management Board members must pay for these shares from their after-tax net income.

The full amount of the STI is paid in cash once the annual financial statements of Henkel AG & Co. KGaA for the remuneration year have been approved by the Annual General Meeting of Henkel AG & Co. KGaA. Recipients may only dispose of around 65 percent of this payment as they wish (short-term component, cash remuneration). In compliance with the Share Ownership Guideline explained above, Management Board members are obligated to invest around 35 percent of the respective (net) payout amount in the purchase of Henkel preferred shares (= long-term component, share deferral), which 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 remuneration year.

The Share Ownership Guideline ensures that the members of the Management Board are required to accumulate a significant share portfolio during their tenure, and that they participate in the long-term performance of the corporation, whether this be positive or negative. Assuming the target for the STI is met, the total (net) amount to be invested under the STI program in shares over a four-year period is 2,450,000 euros for the Chairman of the Management Board and 1,400,000 euros for each of the other Management Board members with a functional factor of 1. As such, the amounts constitute a multiple of about 4 and 3.7 respectively of the annual (net) basic remuneration. This share portfolio continues to grow due to the fact that shares are sold, if at all, only in exceptional instances once the respective four-year lock-up period for shares acquired above and beyond the relevant minimum portfolio has expired. At the same time, the share deferral (in addition to the LTI) complies with German company law [AktG] and GCGC precepts requiring a remuneration policy that focuses on long-term business development.

Long-term variable cash remuneration (Long Term Incentive, LTI)

Overview LTI

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

[1] Respective 100% target derived from the budget.
[2] Remuneration for an ordinary member of the Management Board at a functional factor of 1.

In addition to the Share Ownership Guideline explained above, the long-term variable cash remuneration (LTI) provides incentives to promote the long-term development of the corporation.

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

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

Target achievement with regard to adjusted ROCE figures is determined on the basis of the consolidated financial statements for the relevant fiscal years as certified without qualification and approved in each case.

The LTI is paid in cash once the annual financial statements of Henkel AG & Co. KGaA for the final year in the performance measurement period have been approved by the Annual General Meeting of Henkel AG & Co. KGaA.

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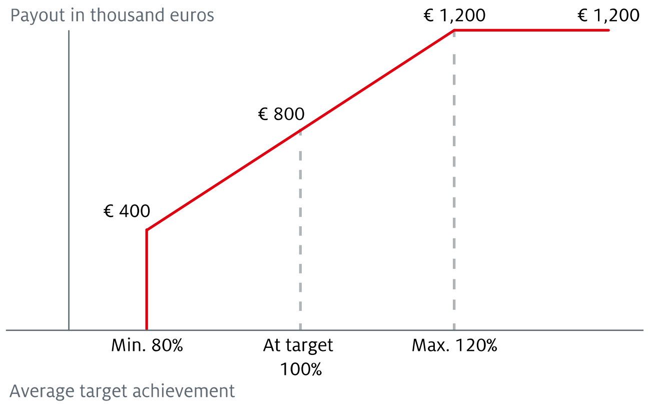
A remuneration scale has been defined for the LTI. A threshold has also been established, below which payments are withheld. The scale of payout amounts is consistently linear between the upper and lower thresholds, as follows:

LTI remuneration scale



Remuneration for an ordinary member of the Management Board at a functional factor of 1.

The total payable LTI amount is capped at 150 percent of the target amount, bearing in mind the respective functional factor.

To ensure cogent and consistent incentivization and efficacy in the structure of Management Board remuneration following the change (from adjusted EPS to adjusted ROCE) in the LTI performance indicators in 2019, the performance values governing the LTI tranches issued in 2017 and 2018, of which the three-year performance measurement periods did not end until December 31, 2019 and December 31, 2020 respectively, were determined pro rata temporis in accordance with the previously valid conditions for the periods up to December 31, 2018, while for the periods from January 1, 2019 they will be determined in accordance with the conditions that became effective as of 2019.

Functional factors governing variable remuneration

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

Functional factors*

Area of responsibility/Business unit	STI/LTI factor
CEO	1.75[1]
Finance	1.10[2]
HR/Infrastructure Services	0.90
Adhesive Technologies	1.10
Beauty Care	0.90
Laundry & Home Care	1.00

* Up until 2018, only the CEO qualified for a higher factor.
[1] A functional factor of 1.625 was specified for fiscal 2020.
[2] A functional factor of 1.0 was specified for fiscal 2020.

A marginally lower factor for individual or all variable components of remuneration may be set for newly appointed Management Board members in their first year of office.

These functional factors are regularly reviewed and adjusted if necessary, particularly if structural changes are made to Management Board responsibilities.

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Overall, the STI and LTI are calculated as follows:

Calculation of STI and LTI

STI: Bonus (key financials) [50% target achievement Organic sales growth + 50% target achievement Development of adjusted earnings per preferred share at constant exchange rates] x Multiplier for individual performance 0.8 to 1.2 x Functional factor 0.9 to 1.75 = Payout *65% cash, 35% purchase of preferred shares*

LTI: Average ROCE[1] target achievement over three years [Target achievement Year 1 + Target achievement Year 2 + Target achievement Year 3 : 3] x Functional factor 0.9 to 1.75 = Payout *in cash*

[1] Adjusted return on capital employed.

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

Consideration of unusual developments when determining target achievement or specifying STI and LTI payout amounts (starting in 2021)

Changes are not made to the benchmark parameters, nor to the STI and LTI targets in the course of a fiscal year.

When determining the STI and LTI payout amounts, the Supervisory Board of Henkel Management AG may, at its discretion, consider unusual developments of which the effects were not taken into reasonable account when setting the targets and the target remuneration; this can result in both an increase or a reduction of the target achievement and, accordingly, in the corresponding payout amounts. In this context, unusual developments are deemed to be circumstances that have occurred or of which occurrence is highly likely, which were not predicted or predictable at the time of setting the targets and which significantly impact the total remuneration of the Management Board. Such circumstances may include, in particular, substantial acquisitions, the sale of material parts of the corporation, severe changes in applicable accounting standards or tax regulations, natural catastrophes, pandemics or similar occurrences. Market developments that turn out to be less favorable than expected but deemed to be within the realms of possibility when setting the targets do not justify such adjustments. Specific target achievements and payout amounts are published in the remuneration report, together with explanations of, and the rationale behind any adjustments by the Supervisory Board of Henkel Management AG.

Accordingly, the previous policy whereby the Supervisory Board of Henkel Management AG could, at its discretion and after due consideration, decide to adjust the target or could determine a new reference value for measuring performance in the following year if adjusted EPS in the remuneration year was more than 20 percent above or below the comparable prior-year figure as a result of extraordinary events, will no longer apply from 2021 onward.

d) Special payments/bonuses

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

e) Malus and clawback regulations

The Supervisory Board of Henkel Management AG is authorized to wholly or partially withhold or refuse to pay a variable component of remuneration (STI, LTI) that was awarded for a fiscal year in which a Management Board member commits a severe breach of duty (malus).

If variable components of remuneration have already been paid, the Supervisory Board of Henkel Management AG can demand their repayment (clawback) if (i) a severe breach of duty is only discovered after the variable components of remuneration have been paid, or (ii) a financial report is found to contain a material misstatement that impacted the calculation of the variable remuneration of the Management Board.

The Supervisory Board of Henkel Management AG decides at its due discretion whether and which variable compensation components are to be withheld or reclaimed, and in what amount and for which years. Such decisions take account of the severity and consequences of a breach, the degree to which a Management Board member is at fault, the amount of loss or reputational damage suffered by the corporation, and the willingness of the Management Board member to assist in the investigation.

In cases of material misstatements in financial reports, the maximum amount that can be reclaimed is the difference between the newly calculated figure based on corrected data and the original payout amount; in all other instances, repayment of a maximum of 50 percent of the payout amount can be demanded.

Clawback is also possible if the tenure and/or employment of the Management Board member has already ended by the time the Supervisory Board of Henkel Management AG issues its reclaim demand. Irrespective of the termination of tenure or employment, the repayment obligation does not apply if more than two years have passed between the payout and the reclaim demand by the Supervisory Board of Henkel Management AG. This regulation is without prejudice to the right to assert further claims on grounds of personal misconduct by a member of the Management Board, and especially to claim damages under Section 93 AktG.

f) Ancillary activities

After consultation with the Supervisory Board of Henkel Management AG, members of the Management Board may accept supervisory board mandates and similar offices in companies in which Henkel AG & Co. KGaA holds a direct or indirect participating interest, or may engage in activities in associations and similar organizations to which Henkel AG & Co. KGaA belongs by virtue of its business activities. Any other paid or unpaid ancillary activities must be approved in advance by the Supervisory Board of Henkel Management AG. The remuneration received for offices assumed on behalf of other companies in the Henkel Group is offset against the Management Board remuneration. When accepting other offices, particularly seats on statutory supervisory boards and comparable oversight bodies of non-Group companies in Germany or abroad, the Supervisory Board of Henkel Management AG decides on a case-by-case basis whether and to what extent any compensation paid for the non-Group board activity is to be offset against the Management Board remuneration.

g) Pension benefits (retirement pensions and survivors' benefits)

The corporation has been operating a company pension scheme with purely defined contributions since January 1, 2015. Accordingly, members of the Management Board now receive a superannuation lump-sum payment comprised, at least, of the total annual non-interest-bearing (lump-sum) contributions to the plan during their time in office. The lump-sum contributions are added to the special fund set up for company pension purposes; Management Board members are entitled to any surplus return, albeit not guaranteed, from investing the lump-sum contributions. The lump-sum contributions – based on a full fiscal year – are currently 750,000 euros for the Chairman and 450,000 euros each for the other members of the Management Board.

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

Instead of granting a company pension in accordance with the defined contribution pension scheme described above, from 2021 onward, Management Board members may also be granted a so-called pension payout in the form of an earmarked lump sum to be transferred directly to the Management Board members each year. The amount of annual pension payout is equivalent to the aforementioned lump-sum contributions. As a result, Management Board members become solely responsible for funding their pensions, which lessens the administrative workload for the corporation accordingly.

If a Management Board member opts for the lump-sum pension payout route, they cannot switch/return to the company's defined contribution pension scheme.

h) Continued payment of salaries in the event of illness

In the event of illness, payment of the basic remuneration continues for the duration of the statutory period of continued payment of wages. If the illness persists beyond this period, the corporation pays the difference between the sick pay awarded by the statutory health insurance and the appropriate net basic remuneration for the duration of the illness, but over a period no longer than 72 weeks in duration or up until termination of the employment relationship.

i) Caps on total remuneration

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

Caps on annual total remuneration

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

While this remuneration policy is in place, the amounts of the individual components of remuneration may increase in line with the principles explained above, but without affecting the aforementioned caps on total remuneration.

j) Remuneration-related legal transactions; provisions governing termination of position on the Management Board

Executive contracts

The basic provisions governing appointment to the Management Board, including remuneration, are agreed with Management Board members in executive contracts. Subject to prior change by mutual agreement, the term of such a contract is equivalent to the term of office. If the member is re-appointed to the Management Board at the end of the term of office, the employment contract is extended for the duration of the new tenure. Initial appointment to the Management Board is generally for a term of three years. Any extension of an executive contract or re-appointment to the Management Board is for a period of no longer than five years.

Resignation from the Management Board/Other premature termination of executive contracts

In accordance with company law, the executive contracts do not provide for ordinary resignation from the Management Board other than at the end of the appointment period. If the appointment of a member of the Management Board ends prematurely – for whatever reason –, either party to the contract is entitled to give notice to terminate the executive contract effective from the end of the period stipulated in Section 622 (1) and (2) German Civil Code [Bürgerliches Gesetzbuch, BGB], without prejudice to any right to terminate for good cause or reason. The entire time of office on the corporation's Management Board is relevant for the calculation of all periods as are any prior periods spent working for Henkel AG & Co. KGaA or any of its affiliated companies if and insofar as they immediately preceded the appointment to the corporation's Management Board. The aforementioned is without prejudice to the right of either party to terminate for good cause or reason without the need to give notice. Equally, an executive contract can be terminated by mutual agreement.

In the event of remuneration being reduced in accordance with Section 87 (2) AktG, the Management Board member is entitled to give notice of six weeks to terminate the executive contract to the end of the next calendar quarter.

In addition, an executive contract ends without the need for separate notice at the end of the month in which that Management Board member becomes permanently incapacitated for work, in which case they qualify for pension benefits for reduced earning capacity.

Compensation payment

In the event that appointment to Management Board is terminated prematurely and due notice is given to terminate the executive contract effective from the end of the period stipulated in Section 622 (1) and (2) BGB, the executive contracts provide for a compensation settlement amounting to the remuneration for the remaining term of the contract (basic remuneration plus variable remuneration for single and multiple years). This compensation is limited to a maximum of two years' remuneration (basic remuneration plus variable remuneration for single and multiple years) ("severance payment cap") and may not extend over a period that exceeds the remaining term of the executive contract. Members of the Management Board are not entitled to compensation, however, if the premature termination of their tenure is prompted by circumstances that would have entitled the corporation to terminate the executive contract without notice for good cause or reason for which the Management Board member is responsible. The Supervisory Board of Henkel Management AG is authorized to reduce the compensation settlement to the reasonable amount in application of Section 87 (2) AktG.

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

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

Payment/forfeiture of variable components of remuneration

When a member leaves the Management Board, the STI is calculated pro rata temporis and paid out on the contractually agreed due dates; personal investment from these amounts in Henkel preferred shares (share deferral) is no longer required. Unless otherwise agreed individually, LTI entitlements are calculated at the end of the relevant performance measurement period and paid out on the contractually agreed due dates. However, entitlements from any tranche of which the performance measurement 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 executive contract. Special provisions apply in the case of death: All lock-up periods relating to investments in Henkel preferred shares that are financed by the recipients (share deferral) shall end. By the same token, LTI entitlements with regard to outstanding tranches are settled on the basis of budget figures and paid to the heirs.

Post-contractual non-competition clause

Management Board 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 remuneration (basic remuneration plus variable remuneration for single and multiple years), which is payable in 24 monthly installments unless the Supervisory Board of Henkel Management AG waives the non-competition clause. This discretionary payment is based on the average annual remuneration awarded to the Management Board member for the three full fiscal years leading up to the termination of their executive activity, but is equivalent to no less than 150 percent of the annual basic remuneration awarded in the final full fiscal year prior to termination of their tenure on the Management Board. Any compensation settlements for equivalent periods are offset against the discretionary payment. The same applies to any income that the Management Board member earns – or desists from earning without compelling reason – during the non-competition period from any new activity elsewhere if and insofar as this income and the discretionary payment together exceed the (total) remuneration applicable to the relevant period.

Miscellaneous

The corporation can take out directors and officers insurance (D&O insurance) that also covers members of the corporate bodies. For members of the Management Board, a deductible amounting to 10 percent per loss event is applied in such cases, subject to a maximum for the fiscal year of one and a half times their annual basic remuneration. The corporation may also, at its expense, insure Management Board members against risks associated with their professional activity, in which case the Supervisory Board of Henkel Management AG may specify a reasonable deductible in the absence of any statutory deductible. The corporation insures its Management Board members against accidents, including private risks, for the duration of their executive contracts.

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

k) Temporary deviations from the remuneration policy (starting in 2021)

The Supervisory Board of Henkel Management AG may temporarily deviate from individual elements of this remuneration policy if deemed necessary in the interests of the corporation's long-term good. Such necessity may occur, in particular, in situations that could adversely affect the long-term survival and profitability of the corporation. These situations may arise due to the circumstances in the economy as a whole or exceptional occurrences in the corporation itself. The STI and LTI, and their ratio to each other, the basis for calculation, the rules governing the specification of their targets and the determination of target achievement, or the determination of the payout amounts and timing are elements of the remuneration system from which deviations are permissible in exceptional circumstances. Changes during the course of a year to targets and benchmarks that have already been specified for variable performance-related components of remuneration are not permitted.

Deviations from the remuneration system should not extend over more than three years. Such temporary deviation from the remuneration policy described above is conditional on the Supervisory Board of Henkel Management AG unanimously adopting a resolution ascertaining the occurrence of a situation necessitating temporary deviation from the remuneration policy in the interests of the long-term good of the corporation and, by the same token, unanimously deciding on the specific deviations that it believes are necessary. Insofar as executive contract provisions permit unilateral amendment of the relevant remuneration rules, the Supervisory Board of Henkel Management AG will unilaterally implement the deviations it believes to be necessary; otherwise it will make every effort to reach appropriate contractual agreement with the affected member(s) of the Management Board.

Notwithstanding the aforementioned, the Supervisory Board of Henkel Management AG may reduce remuneration to the reasonable amount calculated in application of the strict rules of Section 87 (2) AktG if the situation of the Henkel Group deteriorates to such an extent that to continue awarding the remuneration would be untenable for the corporation.

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

Regulation, structure and amounts

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

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

The components in detail:

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

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

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

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

Miscellaneous

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

The corporation can take out directors and officers insurance (D&O insurance) that also covers members of the corporate bodies. For members of the Supervisory Board and Shareholders' Committee, a deductible amounting to 10 percent per loss event is applied in such cases, subject to a maximum for the fiscal year of one and a half times their annual fixed remuneration.

The corporation provides the members of the Supervisory Board and Shareholders' Committee with technical support, equipment and benefits in kind to an extent that is appropriate for them to exercise their office. The Chairwoman of the Supervisory Board and of the Shareholders' Committee is provided with an office and secretarial support to enable her to perform these duties.

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

4. 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.

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

According to Art. 14 of the Articles of Association of Henkel Management AG, the members of the Supervisory Board of Henkel Management AG are each entitled to receive annual remuneration of 10,000 euros. However, those members of said Supervisory Board who are also and simultaneously members of the Supervisory Board or the Shareholders' Committee of Henkel AG & Co. KGaA do not receive this remuneration.

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Remuneration report 2020

This remuneration report describes the remuneration policy for the Management Board of Henkel Management AG as the sole Personally Liable Partner of Henkel AG & Co. KGaA (Management Board), the Supervisory Board and Shareholders' Committee of Henkel AG & Co. KGaA and the remuneration of Henkel Management AG as the Personally Liable Partner and its Supervisory Board for fiscal 2020.

The report contains all disclosures and explanations pursuant to the provisions of the German Commercial Code [HGB] and the concomitant principles of German Accounting Standard No. 17 [DRS 17]. It also includes the tables detailing Management Board remuneration (payments/awards) as recommended by the German Corporate Governance Code as amended on February 7, 2017 (GCGC 2017), and is in part already compliant with the requirements of the German Act Implementing the Second Shareholders' Rights Directive [Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie, ARUG II]. 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 individualized information has not been additionally disclosed in the notes to the consolidated financial statements (Sections 289a (2), 315a (2) HGB as applicable to the annual financial statements 2020).

1. Remuneration of members of the Management Board for fiscal 2020

Objectives/specification of remuneration policy

Henkel is committed to corporate governance that is responsible, transparent and aligned to the sustainable and long-term development of the corporation. We want to create sustainable value – for our customers and consumers, for our people, for our shareholders, as well as for the communities in which we operate. We shape our future on the basis of a long-term strategic framework that builds on our purpose and our values, with a clear focus on purposeful growth.

The legal form of Henkel AG & Co. KGaA means that the Supervisory Board of Henkel Management AG is responsible for appointing and dismissing members of the Management Board, the drafting of their contracts, assignment of their business duties, and their remuneration. Regarding Management Board remuneration, the Supervisory Board of Henkel Management AG is responsible, in particular, for:

- Determining and reviewing remuneration policy
- Specifying the non-performance-related and variable performance-related components of remuneration
- Defining individual targets each year, and measuring performance with regard to same
- Determining the extent to which financial targets have been met each year and quantifying annual and multi-year variable, performance-related remuneration
- Approving the assumption of voluntary duties or supervisory board, advisory board or similar mandates in other companies, as well as other ancillary professional activities
- Approving loans and advances

The remuneration system takes account of the relevant duties and responsibilities, and is designed to drive implementation of our corporate strategy, to offer incentives for successful and sustainable business performance over the long term, and to avoid inappropriate risk-taking. Members of the Management Board receive non-performance-related components and variable, performance-related components consisting of the following three elements:

- Fixed basic remuneration to assure a reasonable basic salary
- Variable annual remuneration (Short Term Incentive, STI)
- Variable cash remuneration based on the long-term performance of the company (Long Term Incentive, LTI)

The benchmark parameters for the STI are the achieved financial targets for each fiscal year – which determine the so-called bonus – and the individual performance of each Management Board member, specifically their personal contribution toward implementing the strategic priorities and sustainability targets. In keeping with our corporate strategy for purposeful growth, one financial target specified for the STI is organic sales growth (OSG) – i.e. sales development adjusted for foreign exchange and acquisitions/divestments – in the remuneration year, which is one of the criteria (50-percent weighting) used to determine the amount of the bonus. The other financial target (also weighted at 50 percent) is earnings per preferred share (EPS) adjusted for one-time expenses and income, for restructuring expenses, and for foreign exchange.

The STI is paid out in full in cash. Recipients may only dispose of around 65 percent of this payment as they wish (short-term component, cash remuneration). Members of the Management Board must invest 35 percent of the respective STI (net) payment amount long term in Henkel preferred shares (long-term component, Share Ownership Guideline/share deferral). The aim here is to promote a certain degree of alignment in the interests of the Management Board members with those of the shareholders while ensuring the sustainable and long-term performance of the corporation.

The LTI amount is derived from the average return on capital employed (ROCE) over a period of three years, adjusted for one-time expenses and income, and for restructuring expenses, and – like the Share Ownership Guideline described above – serves also as an incentive to promote the long-term development of the corporation.

Ancillary benefits (other emoluments) and pension contributions are awarded in addition to the fixed basic remuneration and variable remuneration. Rules that are consistent with market practice also exist to govern the various components of remuneration upon joining or leaving the Management Board.

The Supervisory Board of Henkel Management AG has capped the maximum amounts payable both as individual variable components of remuneration and as the total compensation payable in any fiscal year – taking into account the other emoluments and pension contributions. In specific circumstances, the Supervisory Board of Henkel Management AG may withhold some or all of the variable remuneration or demand the repayment, within specific limits and time periods, of variable remuneration that has already been paid (malus and clawback regulations).

For further details of the remuneration policy in place for 2020, please refer to the discussions above and to the remuneration system approved by the Annual General Meeting 2020.

Remuneration 2020

Excluding pension commitments, the total remuneration paid to members of the Management Board serving in 2020 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 15,880,397 euros (previous year: 17,247,891 euros). Basic remuneration accounted for 4,950,000 euros (previous year: 4,950,000 euros), other emoluments for 444,057 euros (previous year: 431,024 euros), the short-term component of annual variable remuneration for 5,918,029 euros (previous year: 6,993,808 euros), the long-term component of annual variable remuneration – share deferral – for 3,186,631 euros (previous year: 2,043,252 euros), and the 2018 LTI tranche – for which the plan term of three years ended at the end of the fiscal year – for 1,381,680 euros (previous year: 2017 LTI tranche, 2,829,807 euros). In addition, members of the Management Board serving in 2020 were granted an LTI tranche for 2020 (term: 1/1/2020 – 12/31/2022) that will be paid out after the plan term of three years in 2023, subject to achievement of certain performance targets.

The basis for assessment/parameters and the target achievement/remuneration for the 2020 STI and the 2019 and 2020 LTI tranches are listed in the following tables:

Calculation of target achievement/STI remuneration 2020

Target parameter		Weighting	100% target achievement	Actual 2020	Target achievement[1]	Bonus amount[2]
Financial targets (bonus)	Organic sales growth (OSG)	50%	1.0%	-0.7%	71.5%	
	Adjusted earnings per preferred share (EPS)[3]	50%	5.43 euros	4.46 euros	55.4%	1,268,500 euros
Personal targets		• Absolute and relative performance compared to market/competition • Personal contribution to the implementation of strategic priorities and sustainability targets • Achievement of personal targets (focus topics) **Focus topics 2020:** • Implementation of strategic objectives • Financial management, scenario plans and measures • Digitalization, new business models, higher digital sales • Growth initiatives, portfolio management • Sustainability, contribution toward prioritized climate positivity and circular economy • Succession planning, leadership team development, empowerment, diversity • Management of the COVID-19 pandemic, employee protection, business continuity			**Personal target achievement/ Bonus multiplier:** Range 0.8 – 1.2	

[1] Percentage of the relevant bonus target amount.
[2] Bonus amount, given a personal multiplier and functional factor of 1 in each case.
[3] Year-on-year comparison of actual figures at constant exchange rates.

STI target parameters (bonus)

The organic sales growth figure representing 100-percent target achievement was 1.0 percent in 2020. The lower and upper thresholds were -2.0 percent and 2.0 percent respectively.

The adjusted EPS figure that is of relevance for the actual-to-actual comparison for remuneration purposes and which represents 100-percent target achievement was 5.43 euros in 2020. The lower and upper thresholds were 4.34 euros and 6.52 euros.

Individual target achievement/Bonus multiplier

The following criteria play a key role in measuring individual performance:

- The absolute and relative performance of the business unit for which each officer is responsible, compared to market/competition performance
- The contribution toward implementing the strategic priorities and achieving the sustainability targets
- Achievement of the relevant separate targets agreed with each individual (focal areas)

At the start of the year, the Supervisory Board specified the individual targets for the members of the Management Board, and evaluated their individual performance at the end of the year after consultation in the Human Resources Subcommittee of the Shareholders' Committee. For all members of the Management Board, the individual target achievement factor in the form of the individual bonus multiplier was set at 1.1, which in particular takes into consideration successful management of the COVID-19 pandemic.

Calculation of target achievement/LTI remuneration

LTI tranche	Performance year	100% target Adjusted ROCE (%)	Actual Adjusted ROCE (%)	Target achievement (%)	Average target achievement over three-year performance measurement period (%)	Remuneration for respective LTI tranche[1]
LTI tranche 2019	1. (2019)	16.9%	15.0%	88.9%		
	2. (2020)	14.1%	12.1%	85.6%	–	–
	3. (2021)	–	–	–		
LTI tranche 2020	1. (2020)	14.1%	12.1%	85.6%		
	2. (2021)	–	–	–	–	–
	3. (2022)	–	–	–		

[1] Remuneration for an ordinary member of the Management Board at a functional factor of 1.

LTI target parameters

The adjusted ROCE figure representing 100-percent target achievement was 14.13 percent in 2020. The resulting target achievement for the yearly tranche 2020 is 85.6 percent.

To ensure cogent and consistent incentivization and efficacy in the structure of Management Board remuneration following the change (from adjusted EPS to adjusted ROCE) in the LTI performance indicators in 2019, the performance values governing the LTI tranches issued in 2017 and 2018, of which the three-year performance measurement periods did not end until December 31, 2019 and December 31, 2020 respectively, were determined pro rata temporis in accordance with the previously valid conditions for the periods up to December 31, 2018, while for the periods from January 1, 2019, they will be determined in accordance with the conditions that became effective as of 2019. The resulting target achievement for the LTI tranche 2018 for performance year 2018 (based on adjusted EPS as the performance indicator) was 0 percent. Average target achievement for performance years 2019 and 2020 (based on adjusted ROCE as the performance indicator) was 87.3 percent for this period. At a functional factor of 1, this resulted in a payout amount of 363,600.00 euros.

Individual remuneration

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

The following table shows the remuneration per HGB/DRS 17 paid/awarded individually to the members of the Management Board who served in 2020 – broken down into basic remuneration, other emoluments, short-term and long-term components of variable annual remuneration (STI), LTI and the cost of the pension benefits for each member. The table shows the components of remuneration for fiscal 2020 that have already been paid (basic remuneration, other emoluments) and those that have been awarded but not yet paid (STI and LTI with plan term expiry in the year under review) and contains all the information regarding remuneration paid or awarded but not yet paid for fiscal 2020 in line with GCGC 2017.

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Remuneration of Management Board members who served in 2020

in euros		1. Basic remuneration[1]	2. Other emoluments[1]	3. Annual variable remuneration (short term, cash)[2]	Single-year remuneration (Total of 1 to 3)	4. Annual variable remuneration (long term, share deferral)	5. Long Term Incentive[3]	Multi-year remuneration (Total of 4 and 5)	Total remuneration (Total of 1 to 5)	6. Payroll cost of pension benefits	Total remuneration (Total of 1 to 6)
Carsten Knobel (Chairman of the Management Board) (since 1/1/2020)	**2020**	**1,200,000**	**167,863**	**1,473,838**	**2,841,701**	**793,605**	**363,600**	**1,157,205**	**3,998,907**	**756,040**	**4,754,947**
		25.2%	**3.5%**	**31.0%**	**59.8%**	**16.7%**	**7.6%**	**24.3%**	**84.1%**	**15.9%**	**100.0%**
Board member since 7/1/2012	2019	750,000	158,666	882,909	1,791,575	475,413	480,987	956,400	2,747,975	458,206	3,206,181
		23.4%	4.9%	27.5%	55.9%	14.8%	15.0%	29.8%	85.7%	14.3%	100.0%
Jan-Dirk Auris (Adhesive Technologies)	**2020**	**750,000**	**64,624**	**997,675**	**1,812,299**	**537,210**	**363,600**	**900,810**	**2,713,109**	**454,935**	**3,168,044**
		23.7%	**2.0%**	**31.5%**	**57.2%**	**17.0%**	**11.5%**	**28.4%**	**85.6%**	**14.4%**	**100.0%**
Board member since 1/1/2011	2019	750,000	55,317	882,909	1,688,226	475,413	480,987	956,400	2,644,626	457,722	3,102,348
		24.2%	1.8%	28.5%	54.4%	15.3%	15.5%	30.8%	85.2%	14.8%	100.0%
Sylvie Nicol (Human Resources)	**2020**	**750,000**	**43,236**	**816,280**	**1,609,516**	**439,535**	**0**	**439,535**	**2,049,051**	**450,702**	**2,499,753**
		30.0%	**1.7%**	**32.7%**	**64.4%**	**17.6%**	**0.0%**	**17.6%**	**82.0%**	**18.0%**	**100.0%**
Board member since 4/9/2019	2019	545,455	33,613	541,785	1,120,853	291,731	0	291,731	1,412,584	369,748	1,782,332
		30.6%	1.9%	30.4%	62.9%	16.4%	0.0%	16.4%	79.3%	20.7%	100.0%

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Remuneration of Management Board members who served in 2020

in euros		1. Basic remuneration[1]	2. Other emoluments[1]	3. Annual variable remuneration (short term, cash)[2]	Single-year remuneration (Total of 1 to 3)	4. Annual variable remuneration (long term, share deferral)	5. Long Term Incentive[3]	Multi-year remuneration (Total of 4 and 5)	Total remuneration (Total of 1 to 5)	6. Payroll cost of pension benefits	Total remuneration (Total of 1 to 6)
Bruno Piacenza (Laundry & Home Care)	**2020**	**750,000**	**50,098**	**906,978**	**1,707,076**	**488,373**	**363,600**	**851,973**	**2,559,048**	**453,616**	**3,012,664**
		24.9%	**1.7%**	**30.1%**	**56.7%**	**16.2%**	**12.1%**	**28.3%**	**84.9%**	**15.1%**	**100.0%**
Board member since 1/1/2011	2019	750,000	49,707	802,645	1,602,352	432,193	480,987	913,180	2,515,532	456,090	2,971,622
		25.2%	1.7%	27.0%	53.9%	14.5%	16.2%	30.7%	84.7%	15.3%	100.0%
Jens-Martin Schwärzler (Beauty Care)	**2020**	**750,000**	**58,256**	**816,280**	**1,624,536**	**439,535**	**290,880**	**730,415**	**2,354,951**	**465,332**	**2,820,283**
		26.6%	**2.1%**	**28.9%**	**57.6%**	**15.6%**	**10.3%**	**25.9%**	**83.5%**	**16.5%**	**100.0%**
Board member since 11/1/2017	2019	750,000	59,861	684,360	1,494,221	368,502	64,132	432,634	1,926,855	465,040	2,391,895
		31.4%	2.5%	28.6%	62.5%	15.4%	2.7%	18.1%	80.6%	19.4%	100.0%
Marco Swoboda (Finance)	**2020**	**750,000**	**59,980**	**906,978**	**1,716,958**	**488,373**	**0**	**488,373**	**2,205,331**	**450,697**	**2,656,028**
		28.2%	**2.3%**	**34.1%**	**64.6%**	**18.4%**	**0.0%**	**18.4%**	**83.0%**	**17.0%**	**100.0%**
Board member since 1/1/2020	2019	–	–	–	–	–	–	–	–	–	–
		–	–	–	–	–	–	–	–	–	–
Total[4]	**2020**	**4,950,000**	**444,057**	**5,918,029**	**11,312,086**	**3,186,631**	**1,381,680**	**4,568,311**	**15,880,397**	**3,031,322**	**18,911,719**
		26.2%	**2.3%**	**31.3%**	**59.8%**	**16.9%**	**7.3%**	**24.2%**	**84.0%**	**16.0%**	**100.0%**
	2019	3,545,455	357,164	3,794,608	7,697,227	2,043,252	1,507,093	3,550,345	11,247,572	2,206,806	13,454,378
		26.4%	2.7%	28.2%	57.2%	15.2%	11.2%	26.4%	83.6%	16.4%	100.0%

[1] Payout in the relevant fiscal year.
[2] Payout in the relevant following fiscal year.
[3] Amount paid at relevant fiscal year-end for LTI tranches upon expiry of their respective three-year terms; term of LTI tranche 2018: 1/1/2018 – 12/31/2020; term of LTI tranche 2017: 1/1/2017 – 12/31/2019, payout in the relevant following fiscal year.
[4] The totals for 2019 only relate to prior-year remuneration paid to members of the Management Board who also served in 2020, but not those who left in 2019.

Share Ownership Guideline/Own investment under the STI 2019 program (share deferral)

The net amounts to be invested by the members of the Management Board in office at December 31, 2020 in Henkel preferred shares under the STI 2020 program (share deferral) are shown in the following table, together with the Henkel preferred shares already held as of December 31, 2020 which were acquired under the Share Ownership Guideline in earlier years.

Shareholdings and own investments/Share deferral under the STI program

Management Board member	**Number of shares already purchased as of Dec. 31, 2020**	**Total value of existing share portfolio**[1]	**Amount invested under STI 2020**[2]
Carsten Knobel	35,573	3,283,387.90 EUR	396,802.67 EUR
Jan-Dirk Auris	46,658	4,306,533.40 EUR	268,604.88 EUR
Sylvie Nicol	1,760	162,448.00 EUR	219,767.63 EUR
Bruno Piacenza	46,313	4,274,689.90 EUR	244,186.26 EUR
Jens-Martin Schwärzler	5,590	515,957.00 EUR	219,767.63 EUR
Marco Swoboda	–	–	244,186.26 EUR

[1] 92.30 euros per share, Xetra closing price on December 30, 2020.
[2] Net amounts.

Pension benefits

The corporation has been operating a purely defined contribution system since January 1, 2015. Accordingly, members of the Management Board now receive a superannuation lump-sum payment comprised, at least, of the total annual non-interest-bearing (lump-sum) contributions to the plan during their time in office. The lump-sum contributions are added to the special fund set up for company pension purposes; Management Board members are entitled to any surplus return, albeit not guaranteed, from investing the lump-sum contributions.

The lump-sum contributions – based on a full fiscal year – are currently 750,000 euros for the Chairman and 450,000 euros each for the other members of the Management Board.

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

Cost/Present value of pension benefits

		HGB		IAS	
in euros		Payroll cost of 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
Carsten Knobel	**2020**	**755,264**	**5,315,537**	**756,040**	**5,423,389**
	2019	457,468	4,312,944	458,206	4,420,293
Jan-Dirk Auris	**2020**	**454,632**	**5,780,806**	**454,935**	**5,898,252**
	2019	457,428	5,062,931	457,722	5,180,131
Sylvie Nicol	**2020**	**450,649**	**1,194,492**	**450,702**	**1,196,560**
	2019	369,748	669,355	369,748	671,517
Bruno Piacenza	**2020**	**453,569**	**5,013,704**	**453,616**	**5,018,404**
	2019	456,047	4,347,510	456,090	4,352,193
Jens-Martin Schwärzler	**2020**	**461,865**	**2,860,608**	**465,332**	**2,962,033**
	2019	461,791	2,263,214	465,040	2,364,673
Marco Swoboda[1]	**2020**	**450,664**	**1,326,353**	**450,697**	**1,353,512**
(since 1/1/2020)	2019	–	–	–	–
Total	**2020**	**3,026,643**	**21,491,500**	**3,031,322**	**21,852,150**
	2019	2,202,482	16,655,954	2,206,806	16,988,807

[1] Including amounts vested prior to appointment to the Management Board.

Additional disclosures

The following table lists the benefits granted in line with GCGC 2017 for fiscal 2020, together with the maximum/minimum potential amounts for variable remuneration components. Variable remuneration is disclosed at the amount that would be payable upon 100-percent target achievement rather than the payout amount, together with the maximum/minimum potential amounts. For details of payments made and amounts awarded but not yet paid in fiscal 2020 in line with the recommendations of GCGC 2017, please refer to the table entitled "Remuneration of Management Board members who served in 2020" on pages 82 and 83.

Pursuant to GCGC*, payments/benefits granted for the reporting year to members of the Management Board serving in 2020

in euros		1. Basic remuneration[1]	2. Other emoluments[1]	Total (1 and 2)	3. Annual variable remuneration (short term, cash)[2]	4. Annual variable remuneration (long term, share deferral)[2]	5. Long Term Incentive[2]	Total (1 to 5)	6. Payroll cost of pension benefits	Total remuneration pursuant to GCGC (Total 1 to 6)
Carsten Knobel (Chairman)	**2020**	**1,200,000**	**167,863**	**1,367,863**	**2,112,500**	**1,137,500**	**1,300,000**	**5,917,863**	**756,040**	**6,673,903**
(since 1/1/2020)	**2020 (min)**	**1,200,000**	**167,863**	**1,367,863**	**0**	**0**	**0**	**1,367,863**	**756,040**	**2,123,903**
Board member	**2020 (max)**	**1,200,000**	**167,863**	**1,367,863**	**3,168,750**	**1,706,250**	**1,950,000**	**8,192,863**	**756,040**	**8,948,903**
since 7/1/2012	2019	750,000	158,666	908,666	1,430,000	770,000	880,000	3,988,666	458,206	4,446,872
Jan-Dirk Auris	**2020**	**750,000**	**64,624**	**814,624**	**1,430,000**	**770,000**	**880,000**	**3,894,624**	**454,935**	**4,349,559**
(Adhesive Technologies)	**2020 (min)**	**750,000**	**64,624**	**814,624**	**0**	**0**	**0**	**814,624**	**454,935**	**1,269,559**
Board member	**2020 (max)**	**750,000**	**64,624**	**814,624**	**2,145,000**	**1,155,000**	**1,320,000**	**5,434,624**	**454,935**	**5,889,559**
since 1/1/2011	2019	750,000	55,317	805,317	1,430,000	770,000	880,000	3,885,317	457,722	4,343,039
Sylvie Nicol	**2020**	**750,000**	**43,236**	**793,236**	**1,170,000**	**630,000**	**720,000**	**3,313,236**	**450,702**	**3,763,938**
(Human Resources)	**2020 (min)**	**750,000**	**43,236**	**793,236**	**0**	**0**	**0**	**793,236**	**450,702**	**1,243,938**
Board member	**2020 (max)**	**750,000**	**43,236**	**793,236**	**1,755,000**	**945,000**	**1,080,000**	**4,573,236**	**450,702**	**5,023,938**
since 4/9/2019	2019	545,455	33,613	579,068	877,500	472,500	540,000	2,469,068	369,748	2,838,816

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Pursuant to GCGC*, payments/benefits granted for the reporting year to members of the Management Board serving in 2020

in euros		1. Basic remuneration[1]	2. Other emoluments[1]	Total (1 and 2)	3. Annual variable remuneration (short term, cash)[2]	4. Annual variable remuneration (long term, share deferral)[2]	5. Long Term Incentive[2]	Total (1 to 5)	6. Payroll cost of pension benefits	Total remuneration pursuant to GCGC (Total 1 to 6)
Bruno Piacenza	**2020**	**750,000**	**50,098**	**800,098**	**1,300,000**	**700,000**	**800,000**	**3,600,098**	**453,616**	**4,053,714**
(Laundry & Home Care)	**2020 (min)**	**750,000**	**50,098**	**800,098**	**0**	**0**	**0**	**800,098**	**453,616**	**1,253,714**
Board member	**2020 (max)**	**750,000**	**50,098**	**800,098**	**1,950,000**	**1,050,000**	**1,200,000**	**5,000,098**	**453,616**	**5,453,714**
since 1/1/2011	2019	750,000	49,707	799,707	1,300,000	700,000	800,000	3,599,707	456,090	4,055,797
Jens-Martin Schwärzler	**2020**	**750,000**	**58,256**	**808,256**	**1,170,000**	**630,000**	**720,000**	**3,328,256**	**465,332**	**3,793,588**
(Beauty Care)	**2020 (min)**	**750,000**	**58,256**	**808,256**	**0**	**0**	**0**	**808,256**	**465,332**	**1,273,588**
Board member	**2020 (max)**	**750,000**	**58,256**	**808,256**	**1,755,000**	**945,000**	**1,080,000**	**4,588,256**	**465,332**	**5,053,588**
since 11/1/2017	2019	750,000	59,861	809,861	1,170,000	630,000	720,000	3,329,861	465,040	3,794,901
Marco Swoboda	**2020**	**750,000**	**59,980**	**809,980**	**1,300,000**	**700,000**	**800,000**	**3,609,980**	**450,697**	**4,060,677**
(Finance)	**2020 (min)**	**750,000**	**59,980**	**809,980**	**0**	**0**	**0**	**809,980**	**450,697**	**1,260,677**
Board member	**2020 (max)**	**750,000**	**59,980**	**809,980**	**1,950,000**	**1,050,000**	**1,200,000**	**5,009,980**	**450,697**	**5,460,677**
since 1/1/2020	2019	–	–	–	–	–	–	–	–	–

* Granted pursuant to GCGC 2017.
[1] Payout in the relevant fiscal year.
[2] Figures for 2020 reflect the target amounts payable upon 100-percent target achievement/LTI tranche 2020: 1/1/2020 – 12/31/2022; payout in 2023/LTI tranche 2019: 1/1/2019 – 12/31/2021; payout in 2022. Target amount applies to yearly tranches from 2020 onward.

Other benefits/Clawback/Caps

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

No use was made of the option to demand repayment of variable components of remuneration (clawback) in the year under review.

When determining the variable components of remuneration (STI and LTI) and awarding other emoluments, the Supervisory Board of Henkel Management AG observed the relevant caps in the remuneration policy. The caps in the remuneration policy applicable to the total remuneration of the individual members of the Management Board were also observed in respect of the variable components of remuneration and pension contributions (lump-sum contributions), and other emoluments.

2. Remuneration of members of the Supervisory Board and of the Shareholders' Committee for fiscal 2020

The Annual General Meeting has defined the remuneration for the Supervisory Board and the Shareholders' Committee in provisions contained in Art. 17 and 33 of the Articles of Association. Remuneration is of a purely fixed nature to strengthen impartiality and to avoid conflicts of interest for corporate body members performing their oversight function. In accordance with GCGC recommendations, remuneration is increased or additional remuneration paid to take account of the responsibility and scope of duties associated with being Chair, Vice Chair or member of a (sub)committee:

- 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 Chairwoman of the Supervisory Board and the Shareholders' Committee receives double, and the Vice Chair in each case one and a half times the aforementioned amounts.
- Members of the Supervisory Board who are also members of one or more committees each receive additional remuneration of 35,000 euros; if they chair one or more committees, they receive 70,000 euros. Activity in the Nominations Committee is not remunerated separately.
- Members of the Shareholders' Committee who are also members of one or more subcommittees of the Shareholders' Committee each receive additional remuneration of 100,000 euros; if they chair one or more subcommittees, they receive 200,000 euros.

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 1,562,000 euros plus VAT (previous year: 1,565,000 euros plus VAT). Of this amount, fixed fees accounted for 1,225,000 euros, attendance fees for 92,000 euros, and remuneration for committee activity (including associated attendance fees) for 245,000 euros.

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

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

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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 2020

	Components of total remuneration													
	Fixed remuneration (share of total remuneration in %)				Remuneration for Audit Committee membership (share of total remuneration in %)				Attendance fee* (share of total remuneration in %)				Total remuneration[1]	
in euros	2019	in %	2020	in %	2019	in %	2020	in %	2019	in %	2020	in %	2019	2020
Dr. Simone Bagel-Trah (Chair)[2]	140,000	77	**140,000**	**77**	35,000	19	**35,000**	**19**	8,000	4	**8,000**	**4**	183,000	**183,000**
Birgit Helten-Kindlein (Vice Chair)[2]	105,000	71	**105,000**	**71**	35,000	24	**35,000**	**24**	8,000	5	**8,000**	**5**	148,000	**148,000**
Michael Baumscheiper (since 12/11/2020)	–	–	**3,825**	**100**					–	–	**–**	**–**	–	**3,825**
Jutta Bernicke	70,000	93	**70,000**	**95**					5,000	7	**4,000**	**5**	75,000	**74,000**
Dr. Kaspar von Braun (until 6/17/2020)	70,000	93	**32,322**	**92**					5,000	7	**3,000**	**8**	75,000	**35,322**
Lutz Bunnenberg (since 6/17/2020)	–	–	**37,678**	**95**					–	–	**2,000**	**5**	–	**39,678**
Peter Emmerich (until 12/11/2020)	70,000	93	**66,175**	**94**					5,000	7	**4,000**	**6**	75,000	**70,175**
Benedikt-Richard Freiherr von Herman	70,000	93	**70,000**	**93**					5,000	7	**5,000**	**7**	75,000	**75,000**
Timotheus Höttges	70,000	93	**70,000**	**95**					5,000	7	**4,000**	**5**	75,000	**74,000**
Prof. Dr. Michael Kaschke[2]	70,000	63	**70,000**	**54**	35,000	31	**53,839**	**41**	7,000	6	**6,000**	**5**	112,000	**129,839**
Barbara Kux	70,000	93	**70,000**	**93**					5,000	7	**5,000**	**7**	75,000	**75,000**
Simone Menne[2] (since 6/17/2020)	–	–	**37,678**	**63**	–	–	**18,839**	**32**	–	–	**3,000**	**5**	–	**59,516**
Andrea Pichottka	70,000	93	**70,000**	**93**					5,000	7	**5,000**	**7**	75,000	**75,000**
Philipp Scholz	70,000	93	**70,000**	**93**					5,000	7	**5,000**	**7**	75,000	**75,000**
Dr. Martina Seiler	70,000	93	**70,000**	**93**					5,000	7	**5,000**	**7**	75,000	**75,000**
Prof. Dr. Theo Siegert[2] (until 6/17/2020)	70,000	47	**32,322**	**47**	70,000	47	**32,322**	**47**	8,000	5	**4,000**	**6**	148,000	**68,645**
Dirk Thiede	70,000	95	**70,000**	**93**					4,000	5	**5,000**	**7**	74,000	**75,000**
Edgar Topsch[2]	70,000	62	**70,000**	**62**	35,000	31	**35,000**	**31**	8,000	7	**8,000**	**7**	113,000	**113,000**
Michael Vassiliadis[2]	70,000	63	**70,000**	**62**	35,000	31	**35,000**	**31**	7,000	6	**8,000**	**7**	112,000	**113,000**
Total	**1,225,000**	**78**	**1,225,000**	**78**	**245,000**	**16**	**245,000**	**16**	**95,000**	**6**	**92,000**	**6**	**1,565,000**	**1,562,000**

* Including attendance at the Audit Committee's meeting to discuss the annual financial statements, which may also be attended by members of the Supervisory Board who are not members of the Audit Committee.

[1] Figures do not include VAT.

[2] Member of the Audit Committee. Audit Committee Chair: Prof. Dr. Theo Siegert until 6/17/2020; Prof. Dr. Michael Kaschke since 6/17/2020.

Individual meeting attendance Supervisory Board 2020

Supervisory Board member	Supervisory Board and Audit Committee meetings[1]	Attendance	Presence
Dr. Simone Bagel-Trah (Chair)	8	8	100%
Birgit Helten-Kindlein (Vice Chair)	8	8	100%
Michael Baumscheiper (since 12/11/2020)	–	–	–
Jutta Bernicke	4	3	75%
Dr. Kaspar von Braun (until 6/17/2020)	2	2	100%
Lutz Bunnenberg (since 6/17/2020)	2	2	100%
Peter Emmerich (until 12/11/2020)	3	3	100%
Benedikt-Richard Freiherr von Herman	4	4	100%
Timotheus Höttges	4	4	100%
Prof. Dr. Michael Kaschke	8	6	75%
Barbara Kux	4	4	100%
Simone Menne (since 6/17/2020)	4	3	75%
Andrea Pichottka	4	4	100%
Philipp Scholz	4	4	100%
Dr. Martina Seiler	4	4	100%
Prof. Dr. Theo Siegert (until 6/17/2020)	4	4	100%
Dirk Thiede	4	4	100%
Edgar Topsch	8	8	100%
Michael Vassiliadis	8	8	100%

[1] Number of meetings of relevance for the respective member, i.e. excluding attendance at the Audit Committee's meeting to discuss the annual financial statements by members of the Supervisory Board who are not members of the Audit Committee.

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Shareholders' Committee remuneration 2020

	Components of total remuneration								Total remuneration	
	Fixed remuneration (share of total remuneration in %)				Fee for subcommittee activity (share of total remuneration in %)					
in euros	2019	in %	**2020**	**in %**	2019	in %	**2020**	**in %**	2019	**2020**
Dr. Simone Bagel-Trah, Chair (Chair Human Resources Subcommittee)	200,000	50	**200,000**	**50**	200,000	50	**200,000**	**50**	400,000	**400,000**
Dr. Christoph Henkel, Vice Chair (Chair Finance Subcommittee)	150,000	43	**150,000**	**43**	200,000	57	**200,000**	**57**	350,000	**350,000**
Prof. Dr. Paul Achleitner (Member Finance Subcommittee)	100,000	50	**100,000**	**50**	100,000	50	**100,000**	**50**	200,000	**200,000**
Alexander Birken (since 6/17/2020) (Member HR Subcommittee since 6/17/2020)	–	–	**53,825**	**50**	–	–	**53,825**	**50**	–	**107,650**
Johann-Christoph Frey (Member HR Subcommittee; Vice Chair since 6/17/2020)	100,000	50	**100,000**	**50**	100,000	50	**100,000**	**50**	200,000	**200,000**
Stefan Hamelmann (until 6/17/2020) (Vice Chair Finance Subcommittee until 6/17/2020)	100,000	50	**46,175**	**50**	100,000	50	**46,175**	**50**	200,000	**92,350**
Dr. Christoph Kneip (since 6/17/2020) (Member Finance Subcommittee since 6/17/2020)	–	–	**53,825**	**50**	–	–	**53,825**	**50**	–	**107,650**
Prof. Dr. Ulrich Lehner (Member Finance Subcommittee)	100,000	50	**100,000**	**50**	100,000	50	**100,000**	**50**	200,000	**200,000**
Dr. Norbert Reithofer (Member Finance Subcommittee until 6/17/2020, Member HR Subcommittee since 6/17/2020)	100,000	50	**100,000**	**50**	100,000	50	**100,000**	**50**	200,000	**200,000**
Konstantin von Unger (Vice Chair HR Subcommittee until 6/17/2020, Vice Chair Finance Subcommittee since 6/17/2020)	100,000	50	**100,000**	**50**	100,000	50	**100,000**	**50**	200,000	**200,000**
Jean-François van Boxmeer (Member HR Subcommittee)	100,000	50	**100,000**	**50**	100,000	50	**100,000**	**50**	200,000	**200,000**
Werner Wenning (until 6/17/2020) (Member HR Subcommittee until 6/17/2020)	100,000	50	**46,175**	**50**	100,000	50	**46,175**	**50**	200,000	**92,350**
Total	**1,150,000**	**49**	**1,150,000**	**49**	**1,200,000**	**51**	**1,200,000**	**51**	**2,350,000**	**2,350,000**

Individual meeting attendance Shareholders’ Committee 2020

Member of Shareholders’ Committee	Meetings of the Shareholders’ Committee and of the Finance and Human Resources Subcommittees[1]	Atten-dance	Presence
Dr. Simone Bagel-Trah (Chair)	13	13	100%
Dr. Christoph Henkel (Vice Chair)	13	13	100%
Prof. Dr. Paul Achleitner	13	13	100%
Alexander Birken (since 6/17/2020)	8	6	75%
Johann-Christoph Frey	13	13	100%
Stefan Hamelmann (until 6/17/2020)	5	5	100%
Dr. Christoph Kneip (since 6/17/2020)	8	8	100%
Prof. Dr. Ulrich Lehner	13	13	100%
Dr. Norbert Reithofer	13	11	85%
Konstantin von Unger	13	13	100%
Jean-François van Boxmeer	13	10	77%
Werner Wenning (until 6/17/2020)	5	5	100%

[1] Number of meetings of relevance for the respective member.

3. Remuneration of Henkel Management AG for assumption of personal liability, and reimbursement of expenses for fiscal 2020

For assumption of personal liability and management responsibility, Henkel Management AG in its function as Personally Liable Partner received, as in previous years, 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.

4. Remuneration of members of the Supervisory Board of Henkel Management AG for fiscal 2020

According to Art. 14 of the Articles of Association of Henkel Management AG, members of the Supervisory Board or Shareholders’ Committee of Henkel AG & Co. KGaA do not receive remuneration for serving on the Supervisory Board of Henkel Management AG. As the Supervisory Board of Henkel Management AG is only comprised of members who also belong to the Shareholders’ Committee, as was also the case in previous years, no remuneration was paid in respect of this Supervisory Board in the year under review.

Combined management report

Fundamental principles of the Group

Operational activities

Overview

Henkel was founded in 1876. Therefore, the year under review marks the 144th in our corporate history. At the end of 2020, Henkel's workforce worldwide numbered around 52,950. We hold globally leading market positions in our consumer and industrial businesses.

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

Organization and business units

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

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

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

Adhesive Technologies offers a broad and globally leading portfolio of high-impact solutions in adhesives, sealants and functional coatings. The business unit is composed of four business areas: Automotive & Metals, Packaging & Consumer Goods, Electronics & Industrials, and Craftsmen, Construction & Professional.

In our Automotive & Metals business area, we supply our global customers in the automotive and metal processing industries with tailor-made, high-impact and future-oriented system solutions along the value chain, a comprehensive technology portfolio and specialized technical services.

Our Packaging & Consumer Goods business area serves both small and medium-sized branded goods manufacturers, as well as major international companies operating in the consumer goods, packaging and furniture industries. We lead the way in developing innovative solutions addressing global consumer trends, such as the growing demand for more sustainable products, and actively foster a circular economy.

In our Electronics & Industrials business area, we hold global leadership, offering major customers a specialized portfolio of innovative high-technology adhesives, materials for the manufacture of microchips and electronic assemblies, as well as for industrial fabrication. Building on our strong technical knowledge and extensive research expertise, we support our customers to realize innovative designs for products that are world-renowned. Our solutions are also deployed in the expansion of digital infrastructures.

In our Craftsmen, Construction & Professional business area, we distribute a comprehensive range of branded products for private consumers, DIYers, craftsmen and retailers, as well as serving maintenance and installation experts in more than 800 different industry branches. We supply our customers and

1876
Year of foundation

consumers with adhesives and sealants for home use, with adhesive, sealant and insulating systems and building materials for use in construction, and with a comprehensive portfolio of high-impact solutions for machinery assembly and maintenance.

The **Beauty Care** business unit is globally active in the Branded Consumer Goods business area – in the Hair Cosmetics, Body Care, Skin Care and Oral Care categories – as well as in the professional Hair Salon business. In both business areas, we hold top positions in numerous markets and categories. Both our Branded Consumer Goods and Hair Salon businesses offer focused brand portfolios featuring consumer-relevant innovations that create added value for our customers and consumers. We distribute our products through brick-and-mortar stores, hair salons, third-party online platforms and direct-to-consumer channels.

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

Henkel around the world: Regional Centers

The business activities of our **three business units** are supported by the central functions of Henkel AG & Co. KGaA, our Global Supply Chain organization and our Global Business Solutions organization with its Shared Service Centers, thus enabling optimum utilization of corporate network synergies.

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

Strategic framework for purposeful growth

We shape our future on the basis of a long-term strategic framework that builds on our purpose and our values.

With this strategic framework, we want to be successful in the current decade – with a clear focus on purposeful growth. This means, we aim to create superior value for customers and consumers to outgrow our markets, to strengthen our leadership in sustainability, and to enable our employees to grow both professionally and personally at Henkel.

Our mid- to long-term financial ambitions

The implementation of our growth agenda supports us in the achievement of our mid- to long-term financial ambitions:

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

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

Our strategic framework

The key elements of our strategic framework are a winning portfolio, clear competitive edge in the areas of innovation, sustainability and digitalization, and future-ready operating models – underpinned by a strong foundation of a collaborative culture and empowered people.

Rigorously shape a winning portfolio

A key element of our growth agenda is active portfolio management. With emphasis on our consumer businesses, we have identified brands and categories with a total annual sales volume of more than one billion euros for portfolio measures that include turnaround strategies, as well as the divestment or discontinuation of brands or categories. We plan to divest or discontinue around 50 percent of the identified sales volume by the end of 2021.

In addition, M&A activities remain an integral part of Henkel's strategy, supported by our strong balance sheet. Our assessment of potential acquisitions is based on whether the targets are available, fit Henkel's strategy, and are financially attractive. In the Adhesive Technologies business unit, we aim to advance our technology leadership, whereas in our Beauty Care and Laundry & Home Care business units, we are focusing on strengthening our categories in the respective countries, on "white spots" – regions or segments in which we are not active – as well as on new business models.

Accelerate impactful innovations with increased investments

We aim to accelerate impactful innovations with increased investments. This includes an enhanced innovation approach, for example by utilizing digital applications and data to gain faster and better insights into consumer behavior, and identifying key market trends. Decision-making across the organization is to take place closer to the market. We want to leverage the potential of open innovation and idea crowdsourcing, increasingly use agile methods, and continue investing in incubators and innovation centers. In doing so, we want to speed up the development of impactful innovations in all three business units. Innovations and brands in core categories and regions will be supported with consistent investments.

Hence, we announced that we would step up our investments in marketing, advertising, digitalization and IT by 350 million euros in 2020 compared to 2018 and by 200 million euros in 2020 versus 2019.

Boost sustainability as a true competitive differentiator

Commitment to sustainability is an integral part of our corporate culture. As reflected in our corporate values, we are determined to continuously expand our leadership in sustainability. As leaders, we aim to pioneer new solutions while continuing to shape our business responsibly and increasing our economic success. We want to create more value – while at the same time reducing our environmental footprint. Our sustainability strategy provides a clear framework for this aim and reflects the high expectations of our stakeholders.

We concentrate our activities along the value chain on six focal areas. They reflect the challenges and opportunities of sustainable development as they relate to our operations. Three focal areas – social progress, performance, and safety and health – describe how we want to create more value for our customers and consumers, our employees and our shareholders, and for society in general. In the other three focal areas – energy and climate, materials and waste, and water and wastewater – we want to reduce our environmental footprint, for example by using less energy and producing less waste.

Building on our strong track record and progress in implementing our sustainability strategy along the value chain, we want to boost sustainability as a competitive differentiator. Therefore, we have defined three areas which are of particular relevance for consumers, customers, business partners and society at large and in which we want to accelerate our efforts to drive sustainable development: becoming climate-positive by 2040, driving a circular economy, and contributing to social progress.

At the same time, we want to anchor sustainability even more firmly in all our activities at Henkel. Sustainability is a central pillar in the innovation strategies of our Beauty Care and Laundry & Home Care business units, both of which are advancing their product portfolios with a particular focus on sustainable packaging solutions and are driving the further roll-out of sustainable products and brands with purpose. Also in the Adhesive Technologies business unit, sustainability is a key driver of innovation in all our markets. Here, we plan to further leverage our potential with products and technologies that set industry standards.

More details and background reading can be found in our Sustainability Report: **www.henkel.com/sustainabilityreport**

Transform digitalization into a customer and consumer value creator

We aim to use digitalization to increase the value added for our customers and consumers. In our consumer businesses, we want to boost direct interaction with our consumers and to increase our digital sales. To achieve this, we are expanding existing digital consumer platforms and establishing new ones. We want to drive customer-centric digitalization in our industrial business in order to develop new businesses and further enhance the customer experience. We also plan to expand our end-to-end data integration to enable, for example, innovative and customized solutions based on artificial intelligence. Moreover, we will be investing more in digital talents – especially data specialists with extensive technological industry knowledge. Finally, we want to strengthen our digital business focus and increase efficiency. In this context, we are reorganizing our digital organization under the roof of the digital unit “Henkel dx.”

We are merging the digital and IT teams as part of Henkel dx under the Chief Digital & Information Officer (CDIO) position, which was newly created at the end of 2019. The CDIO reports directly to the Chairman of the Management Board. Henkel dx is responsible both for the continuous optimization of business processes and IT systems, and for market-oriented incubation and innovation, for which we are, for example, opening new digital innovation hubs and engaging in venture capital activities.

Reshape operating models to be lean, fast and simple

We are reshaping our operating models across the entire company to be lean, fast and simple, while continuously improving the competitiveness of our processes and structures. We want to step up customer and consumer proximity and establish faster decision-making processes. We are also further striving for continuous efficiency improvements.

Strengthen a collaborative culture with empowered people

A strong culture, shared values and a clear framework for collaborating as one team are key to Henkel’s future success. We started by introducing new Leadership Commitments for all Henkel employees around the globe in 2019. Building on this first step, we plan to accelerate this cultural change and establish a culture of collaboration and empowerment, foster the upskilling of our employees on future capabilities and enable them to constantly develop further.

Progress in fiscal 2020

In March 2020, we presented our new strategic framework and started implementing the announced measures. The further course of the year was to a large extent characterized by the COVID-19 pandemic. In spite of these challenging conditions, we adhered to our agenda and were able to achieve good progress in implementing the newly launched strategic framework.

We pushed ahead with the announced review of our **portfolio**, despite the difficult market environment. We have so far signed divestment contracts, completed the divestment or discontinued businesses representing annual sales of more than 100 million euros. At the same time, we strengthened our portfolio with the addition of two acquisitions offering promising growth opportunities. In its Beauty Care business unit, Henkel expanded its digital direct-to-consumer (D2C) activities by acquiring a majority stake in a business comprising the three premium brands HelloBody, Mermaid+Me and Banana Beauty. In its Adhesive Technologies business unit, Henkel expanded its position in adhesives and sealants for consumers and craftsmen in North America by acquiring an attractive portfolio of consumer sealants marketed under the licensed GE brand. Together, the two acquired businesses generated proforma sales for the year as a whole of 212 million euros in fiscal 2020.

We also made progress in the area of impactful **innovations**. We were able to further accelerate our innovation processes and speed up the time-to-market of new products. This enabled us, for example, to very quickly respond to the pandemic-driven increased demand for hygiene, disinfectant and cleaning products with corresponding product innovations. In our Beauty Care and Laundry & Home Care business units, we established new internal idea factories and incubator teams. The “Fritz Beauty Lab” aims to identify attractive niches with growth potential for existing and new categories or “white spots” to create new brands. The “Love Nature” team particularly focuses on sustainable solutions – starting in the field of laundry and home care products, but also embracing new technologies and business models that go beyond the core business. In the Adhesive Technologies business unit, we continued to invest in our state-of-the-art innovation center in Düsseldorf.

Acquisitions in fiscal 2020

Business	Key countries	Contract signed on	Completion on	Purchase price in million euros	For further information, see pages
Purchase of 75 percent of the shares in a business comprising the three premium direct-to-consumer brands HelloBody, Mermaid+Me and Banana Beauty	Germany, France, Italy, Austria, Switzerland	7/28/2020	9/1/2020	299	121, 123, 143, 182-183, 225
Purchase of a portfolio of consumer sealants marketed under the GE[1] brand	USA, Canada	8/1/2020	11/2/2020	153	121, 182-183

[1] GE is a trademark of General Electric Company, used under license.

We launched many innovations successfully onto the market in 2020. In our Beauty Care business unit, these included extensive relaunches of our Hair Care brands Nature Box, Gliss Kur and Syoss, and the market introduction of hair colorant innovations. In Laundry & Home Care, for example, we introduced Pril 5+ with self-degreasing power, and added further variants to our Persil 4-in-1 Discs portfolio. Innovations in Henkel's Adhesive Technologies business unit include novel solutions developed for smart phones and the 5G infrastructure, and the development and market roll-out of new solutions for electric vehicles.

To strengthen our innovations, we increased our investments in marketing, advertising, digitalization and IT in 2020, as announced, by around 350 million euros compared to 2018 and by around 200 million euros compared to 2019, despite the challenging macroeconomic environment.

In 2020, we further anchored **sustainability** in our activities, with distinct advancements in the areas of climate protection, circular economy and social progress. In September, for example, we entered into a comprehensive virtual power purchase agreement relating to a new wind farm in Bee County, Texas, USA. The contractually agreed capacity of renewable energy is equivalent to 100 percent of the annual electricity demand of Henkel's operations in the USA.

In June, Henkel became the world's first company to place a plastic waste reduction bond, marking yet another step in combining attractive financing instruments with sustainability advancements. The proceeds from this bond with a total volume of around 100 million euros are specifically allocated to Henkel's projects and activities aimed at reducing plastic waste.

We have, moreover, further expanded our collaboration with our partner Plastic Bank. We have also further increased the use of the recycled material – known as Social Plastic® – in the packaging of our consumer products. In doing so, we are helping to fight plastic waste in the environment while at the same time creating opportunities for people living in poverty.

Our progress in the area of sustainability is also manifested in our sustainable innovations for consumers and industrial customers. In Laundry & Home Care, for example, we expanded our Pro Nature range to include products of our Somat and Biff brands. In addition, we launched the cross-category brand Love Nature onto the market, which also offers an innovative refill concept. Beauty Care launched solid shampoos, body and facial care products under the brands Nature Box and N.A.E. – without plastic packaging. Adhesive Technologies introduced Loctite Liofol, a certified, recyclable thermal and cold seal coating, which enables the replacement of polyethylene with paper and is suitable for a broad range of food and non-food packaging.

We also made important progress in **digitalization**. In 2020, Henkel recorded a strong increase in digital sales, especially in the Beauty Care and Laundry & Home Care business units. We successfully implemented the integration of all digital and IT teams within our Henkel dx organization, as announced in March 2020, and have defined the unit's future strategic direction. Moreover, we opened our first Innovation Hub, located in Berlin, in November.

Henkel has implemented key changes to drive future-ready **operating models**. In our Adhesive Technologies business, a new structure comprising four business areas made up of eleven strategic business units has been established, enabling us to be even more effective in serving our sales markets and customers. Further organizational changes were also made in Laundry & Home Care and Beauty Care to strengthen regional focus and ensure closer proximity to customers and consumers. New structures were likewise established in our Group-wide purchasing function to ensure optimum alignment to our business units, customers and procurement markets.

We launched a comprehensive change program to advance our **corporate culture**. This included the introduction of specially designed training and upskilling projects with particular focus on leadership, digitalization and innovation. During the COVID-19 pandemic especially, the strength of Henkel's corporate culture and the extraordinary commitment of our people around the globe have been very much in evidence.

Management system and performance indicators

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

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

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

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

Cost of capital

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

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

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

WACC before tax by business unit

in percent	2020	2021
Adhesive Technologies	9.00	8.75
Beauty Care	7.25	6.75
Laundry & Home Care	7.25	6.75
Henkel Group	**7.25**	**6.75**

WACC after tax by business unit

in percent	2020	2021
Adhesive Technologies	6.75	6.50
Beauty Care	5.25	5.00
Laundry & Home Care	5.25	5.00
Henkel Group	**5.25**	**5.00**

Takeover-relevant information, corporate governance statement, remuneration report

With regard to the disclosures and explanations
- pursuant to Sections 289a (1) and 315a (1) German Commercial Code [HGB] – takeover-relevant information – please refer to pages 31 to 35,
- pursuant to Sections 289f and 315d HGB – corporate governance statement – please refer to pages 35 to 52, and
- pursuant to Sections 289a (2) and 315a (2) HGB as applicable to the annual financial statements 2020 – remuneration report including remuneration policy – please refer to pages 53 to 92, which duly constitute integral parts of the combined management report.

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

Separate non-financial report

With regard to the explanations pursuant to Sections 289b and 315b HGB, please refer to our Sustainability Report 2020. This constitutes the separate, combined non-financial corporate report for the Henkel Group and Henkel AG & Co. KGaA for fiscal 2020 as required in Sections 315b and 315c HGB in conjunction with Sections 289b to 289e HGB, and is made publicly available through publication on the website: **www.henkel.com/sustainabilityreport**

7.25%

Group WACC before tax in fiscal 2020

Contents

Economic report

Macroeconomic development

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

Overview: Significant economic slump due to global pandemic

Global economic development was largely dictated by the COVID-19 pandemic and the associated major impacts suffered by the general economy in 2020. In terms of gross domestic product, the global economy shrank by approximately -4 percent. The mature markets recorded a considerable decline of approximately -5 percent, whereas gross domestic product in the emerging markets decreased by approximately -2 percent year on year.

For the year as a whole, the economies in North America and Western Europe contracted by around -4 percent and around -7 percent respectively. Japan also recorded a negative development of approximately -5.5 percent. Asia (excluding Japan) posted a slight economic decline of around -1 percent, with China achieving growth of approximately 2 percent despite the impacts of the COVID-19 pandemic. Economic development was negative in the Africa/Middle East region at around -7 percent. In Eastern Europe, economic output decreased by around -4 percent, and in Latin America by approximately -7 percent.

Unemployment: Moderate increase worldwide

Global unemployment was up year on year at approximately 8 percent. In North America, the unemployment rate rose notably versus the prior year to approximately 8 percent. By contrast, unemployment in Western Europe was more or less on a par with the prior-year level at around 7 percent. The unemployment rate in Latin America rose to approximately 11 percent, and in the Africa/Middle East region to approximately 12 percent. Asia (excluding Japan) and Eastern Europe both recorded unemployment rates of around 7 percent.

Inflation: Moderate rise in global price levels

Global inflation in 2020 was approximately 2 percent and thus slightly lower year on year. The inflation rate in the mature markets was around 1 percent. Inflation in Western Europe, North America and Japan was lower compared to the prior-year increases. The inflation rate in the emerging markets was approximately 4 percent in the year under review. Inflation was lower year on year in both Latin America and Eastern Europe. In Africa/Middle East, inflation rose slightly to around 5 percent, while the inflation rate in Asia (excluding Japan) was virtually unchanged year on year.

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Direct materials: Slightly above prior-year level

Prices for direct materials (raw materials, packaging, and purchased goods and services) increased slightly in 2020 compared to the previous year. Lower prices for petrochemical and natural input materials were countervailed by – in some cases significantly – higher prices for specialty feedstocks and price rises in some emerging markets.

Currencies: Mainly negative trend in currencies

The currencies in the emerging markets of importance to Henkel devalued on average over the year. The Turkish lira lost the most ground, the devaluation of the Russian ruble and Mexican peso was also in the double-digit percentage range.

The US dollar closed at 1.23 US dollars to the euro at year-end. Averaged out over the year, the US dollar depreciated versus the euro.

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

Average rates of exchange versus the euro

	2019	2020	Appreciation (+)/ Depreciation (-)
Chinese yuan	7.74	**7.87**	-1.7%
Mexican peso	21.56	**24.52**	-12.1%
Polish zloty	4.30	**4.44**	-3.2%
Russian ruble	72.48	**82.66**	-12.3%
Turkish lira	6.36	**8.05**	-21.0%
US dollar	1.12	**1.14**	-1.9%

Source: ECB daily foreign exchange reference rates.

Development by sector

Considerable decline in global consumption

Private consumer spending declined considerably by approximately -5.5 percent. Consumer spending in mature markets decreased by approximately -6 percent year on year. Consumers in North America spent approximately -4 percent less. In Western Europe, consumer spending decreased to an even greater extent, by around -9 percent compared to the previous year. Private consumer spending in the emerging markets decreased by approximately -5 percent.

Significant slowdown in industrial production

At approximately -5 percent globally, the industrial production index (IPX) was significantly lower than in the previous year. The mature markets registered a notable decline of around -8 percent, while the emerging markets were also negative at a rate of -2 percent.

Review of overall business performance

2020 proved to be a very challenging year for Henkel. Business performance was substantially impacted by the effects of the COVID-19 pandemic. A significant decline in demand from key industries affected our industrial business. Official closures of hair salons in many countries due to the COVID-19 pandemic had an adverse effect on Hair Salon business. In some areas, the pandemic caused changes in demand and consumer behavior that had both positive and negative effects on our consumer goods businesses. In these extremely difficult economic conditions, Henkel's business performance showed itself to be robust.

Sales totaled 19,250 million euros in the year under review. Organic sales development was slightly negative at -0.7 percent. Sales growth in the emerging markets was strong at 3.0 percent. By contrast, the organic sales development of our businesses in the mature markets was negative, at -3.2 percent.

Year on year, adjusted[1] gross margin increased by 0.4 percentage points to 46.7 percent. Ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to more than offset the impact exerted by slightly higher prices for direct materials (raw materials, packaging, and purchased goods and services), negative mix effects and adverse foreign exchange influences. The profitability of the Group was affected both by the increased investments in marketing, advertising, digitalization and IT announced at the start of 2020, and by declining volumes. Our cost management and the adjustment of our structures to our markets and customers served to only partially offset these negative developments. As a result of the pandemic, we incurred additional expenditures – for hygiene protection measures, for example; however, these were offset by cost savings, in particular in the form of lower travel expenses. Adjusted[1] return on sales in the year under review decreased versus the previous year to 13.4 percent (2019: 16.0 percent).

Adjusted[1] earnings per preferred share declined to 4.26 euros, equivalent to a decrease of -21.5 percent versus 2019 (5.43 euros). At constant exchange rates, adjusted earnings per preferred share showed a development of -17.9 percent.

Net working capital expressed as a proportion of sales improved significantly to 0.7 percent, down -3.2 percentage points compared to the previous year's figure of 3.9 percent. Free cash flow totaled 2,338 million euros, putting it almost on a par with the prior-year figure. Our net financial position came in at -888 million euros (December 31, 2019: -2,047 million euros).

Results of operations of the Group

Sales

Sales in fiscal 2020 decreased nominally by -4.3 percent to 19,250 million euros. Foreign exchange developments had a negative effect on sales of -3.9 percent. Adjusted for these foreign exchange effects, sales declined by -0.4 percent. Acquisitions/divestments increased sales slightly by 0.3 percent.

Organic sales development, i.e. adjusted for foreign exchange and acquisitions/divestments, was slightly negative at -0.7 percent due to lower volumes. By contrast, we were able to hold prices firm at 0.1 percent.

Organic sales growth

-0.7%

Adjusted[1] EBIT margin

13.4%

Adjusted[1] EPS

4.26€

Development of adjusted[1] EPS at constant exchange rates

-17.9%

Dividend per preferred share[2]

1.85€

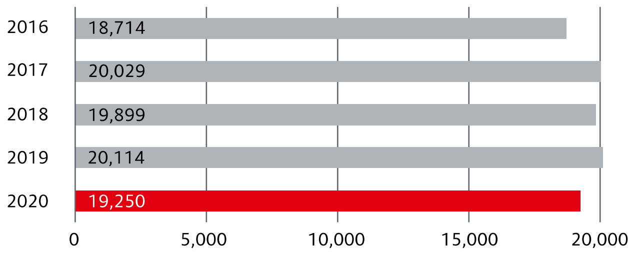
[1] Adjusted for one-time expenses and income, and for restructuring expenses.
[2] Proposal to shareholders for the Annual General Meeting on April 16, 2021.

Sales development

in percent	2020
Change versus previous year	**-4.3**
Foreign exchange	-3.9
Adjusted for foreign exchange	**-0.4**
Acquisitions/divestments	0.3
Organic	**-0.7**
of which price	0.1
of which volume	-0.8

In the wake of significantly lower demand from major industries due to the COVID-19 pandemic, organic sales development in the Adhesive Technologies business unit was -4.2 percent. In the Beauty Care business unit, organic sales development was negative at -2.8 percent, particularly due to the significant downturn experienced in the Hair Salon business as a result of the pandemic. Overall, Laundry & Home Care recorded a slightly positive pandemic-related increase in consumer demand. The business unit achieved organic sales growth of 5.6 percent.

Sales
in million euros



Price and volume effects

in percent	Organic sales development	of which price	of which volume
Adhesive Technologies	-4.2	0.6	-4.8
Beauty Care	-2.8	0.1	-2.9
Laundry & Home Care	5.6	-0.7	6.4
Henkel Group	**-0.7**	**0.1**	**-0.8**

In a persistently competitive market environment, sales in the Western Europe region decreased to 5,782 million euros. Organic sales development was negative at -4.4 percent. The share of sales from the region remained stable at 30 percent.

In the Eastern Europe region, we achieved sales of 2,919 million euros, slightly down year on year. Organically, sales grew by 7.1 percent. At 15 percent, the share of sales from the region was on a par with the prior-year level.

In the Africa/Middle East region, sales decreased to 1,208 million euros. Organically, the region posted sales growth of 7.0 percent. At 6 percent, the share of sales from the region decreased slightly year on year.

Sales in the North America region decreased slightly to 5,173 million euros. Organic sales development was negative at -2.2 percent. The share of sales from the region increased slightly to 27 percent compared to 2019.

Sales in the Latin America region were significantly lower year on year at 1,090 million euros. Organic sales development was slightly negative at -0.5 percent. At 6 percent, the share of sales from the region was on a par with the prior-year level.

Sales in the Asia-Pacific region decreased to 2,968 million euros. Organic sales development in the region was negative at -1.6 percent. The share of sales from the Asia-Pacific region was stable at 15 percent.

Sales in the emerging markets of Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan) were down versus prior year at 7,625 million euros. Organic sales growth was 3.0 percent. At 40 percent, the share of sales from emerging markets was unchanged year on year.

Key financials by region

in million euros	Western Europe	Eastern Europe	Africa/ Middle East	North America	Latin America	Asia-Pacific	Corporate	Henkel Group
Sales 2020[1]	**5,782**	**2,919**	**1,208**	**5,173**	**1,090**	**2,968**	**110**	**19,250**
Sales 2019[1]	6,017	2,999	1,302	5,276	1,295	3,105	121	20,114
Change versus previous year	-3.9%	-2.7%	-7.2%	-2.0%	-15.8%	-4.4%	–	-4.3%
Organic	-4.4%	7.1%	7.0%	-2.2%	-0.5%	-1.6%	–	-0.7%
Proportion of Group sales 2020	**30%**	**15%**	**6%**	**27%**	**6%**	**15%**	**1%**	**100%**
Proportion of Group sales 2019	30%	15%	7%	26%	6%	15%	1%	100%
Operating profit (EBIT) 2020	**1,457**	**228**	**31**	**-88**	**69**	**484**	**-162**	**2,019**
Operating profit (EBIT) 2019	1,725	278	106	337	145	431	-123	2,899
Change versus previous year	-15.5%	-18.0%	-70.2%	-126.1%	-52.5%	12.2%	–	-30.4%
Adjusted for foreign exchange	-15.6%	0.3%	-53.8%	-124.8%	-36.3%	15.2%	–	-26.6%
Return on sales (EBIT margin) 2020	**25.2%**	**7.8%**	**2.6%**	**-1.7%**	**6.3%**	**16.3%**	**–**	**10.5%**
Return on sales (EBIT margin) 2019	28.7%	9.3%	8.1%	6.4%	11.2%	13.9%	–	14.4%

[1] By location of company.

Operating profit

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

Adjusted operating profit (adjusted EBIT)

in million euros	2019	2020	+/-
EBIT (as reported)	**2,899**	**2,019**	**-30.4%**
One-time income	-7	**-5**	–
One-time expenses	34	**328**	–
Restructuring expenses	294	**237**	–
Adjusted EBIT	**3,220**	**2,579**	**-19.9%**

One-time expenses of 328 million euros were primarily attributable to a non-cash impairment expense for assets held for sale. This is related to our active portfolio management, within which we have identified brands and categories that generate total annual sales in excess of one billion euros as requiring portfolio measures. Of these we intend to divest or discontinue around 50 percent by the end of 2021.

In order to adapt our structures to our markets and customers, we spent 237 million euros on restructuring (previous year: 294 million euros). A significant portion of this amount is attributable to the optimization of our production and sales structures. Please refer to page 260 for more details on our restructuring expenses and an explanation of the one-time expenses and income.

The profitability of the Group was negatively impacted both by the increased investments in marketing, advertising, digitalization and IT announced at the start of 2020, and by declining volumes. Our cost management and the adjustment of our structures to our markets and customers served to only partially offset these negative developments. As a result of the pandemic, we incurred additional expenditure – for hygiene protection measures, for example; however, these were offset by cost savings, in particular in the form of lower travel expenses.

Adjusted operating profit (adjusted EBIT) totaled 2,579 million euros, a decrease of -19.9 percent compared to the prior-year figure of 3,220 million euros. Adjusted return on sales in the year under review decreased year on year to 13.4 percent (2019: 16.0 percent).

Adjusted return on sales for the Adhesive Technologies business unit decreased to 15.2 percent (previous year: 18.1 percent). Adjusted return on sales for the Beauty Care business unit also declined year on year to 10.0 percent (previous year: 13.4 percent). Adjusted return on sales in the Laundry & Home Care business unit was 15.0 percent (previous year: 16.5 percent).

Expense items

The following explanations relate to our operating expenses adjusted for one-time expenses and income, and for restructuring expenses. The reconciliation statement and the allocation of the restructuring expenses between the expense items of the consolidated statement of income can be found on page 260.

Cost of sales was -5.1 percent lower year on year at 10,255 million euros. Gross profit decreased by -3.3 percent to 8,995 million euros. Year on year, adjusted gross margin increased by 0.4 percentage points to 46.7 percent. Ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to more than offset the impact exerted by slightly higher prices for direct materials (raw materials, packaging and purchased goods and services), negative mix effects and adverse foreign exchange influences.

Reconciliation from sales to adjusted operating profit

in million euros	2019	%	2020	%	Change
Sales	**20,114**	**100.0**	**19,250**	**100.0**	**-4.3%**
Cost of sales	-10,811	-53.7	**-10,255**	**-53.3**	-5.1%
Gross profit	**9,303**	**46.3**	**8,995**	**46.7**	**-3.3%**
Marketing, selling and distribution expenses	-4,793	-23.9	**-5,034**	**-26.2**	5.0%
Research and development expenses	-487	-2.4	**-495**	**-2.6**	1.6%
Administrative expenses	-895	-4.4	**-906**	**-4.7**	1.2%
Other operating income/expenses	92	0.4	**18**	**0.1**	–
Adjusted operating profit (adjusted EBIT)	**3,220**	**16.0**	**2,579**	**13.4**	**-19.9%**

At 5,034 million euros, marketing, selling and distribution expenses were above the prior-year level of 4,793 million euros, primarily due to higher investments in marketing, advertising, digitalization and IT. Compared to fiscal 2019, the ratio to sales increased by 2.3 percentage points to 26.2 percent. We spent a total of 495 million euros for research and development. The ratio to sales, at 2.6 percent, was slightly above the prior-year figure of 2.4 percent. Administrative expenses totaled 906 million euros – up from 895 million euros in the previous year. At 4.7 percent, administrative expenses as a percentage of sales were slightly higher year on year.

Other operating income and expenses

At 18 million euros, the balance of adjusted other operating income and expenses was lower year on year (2019: 92 million euros).

Financial result

The financial result came in at -94 million euros in 2020 after -88 million euros in 2019. The change of -6 million euros was primarily due to the cost of financing acquisitions and to higher costs for hedging currency exposure in emerging markets.

Net income and earnings per share (EPS)

Income before tax decreased from 2,811 million euros in 2019 to 1,925 million euros. Taxes on income amounted to 501 million euros. At 26.0 percent, the tax rate was above the level of the previous year (2019: 25.2 percent). The adjusted tax rate increased slightly year on year by 0.9 percentage points to 25.2 percent. Net income declined by -32.3 percent from 2,103 million euros to 1,424 million euros. After allowing for 16 million euros attributable to non-controlling interests, net income attributable to shareholders of Henkel AG & Co. KGaA amounted to 1,408 million euros, -32.5 percent lower than the prior-year figure (2019: 2,085 million euros). Adjusted net income after deducting non-controlling interests was 1,843 million euros compared to 2,353 million euros in fiscal 2019, representing a decrease of -21.7 percent year on year. 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 146 to 148.

€ 1,424 m

Net income

Earnings per preferred share (EPS) decreased from 4.81 euros to 3.25 euros. Earnings per ordinary share decreased from 4.79 euros to 3.23 euros.

Adjusted earnings per preferred share decreased by -21.5 percent to 4.26 euros (previous year: 5.43 euros). At constant exchange rates, adjusted earnings per preferred share showed a development of -17.9 percent. In calculating adjusted earnings per preferred share, figures are adjusted for one-time expenses and income, and for restructuring expenses.

Dividend

According to our dividend policy, dividend payouts of Henkel AG & Co. KGaA shall, depending on the company's asset and profit positions and its financial requirements, be in the range of 30 to 40 percent of net income – adjusted for exceptional items – after non-controlling interests. We will propose to the Annual General Meeting the same dividend payments as in the previous year, namely 1.85 euros per preferred share and 1.83 euros per ordinary share, for the fiscal year just ended. This represents a payout ratio of 43.7 percent, which is above our target bandwidth of 30 to 40 percent, reflecting the special nature of the burdens on earnings caused by the COVID-19 pandemic. This payment is possible not least thanks to the strong financial base and low net financial debt of the Henkel Group. Going forward, our dividend policy remains unchanged.

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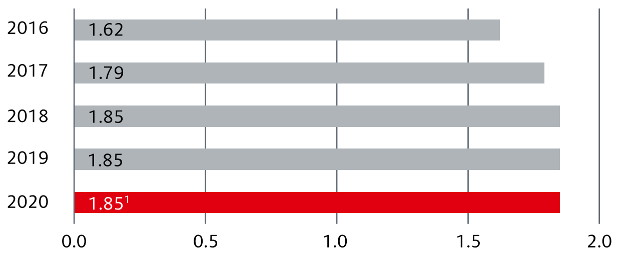
Dividend, preferred shares
in euros



[1] Proposal to shareholders for the Annual General Meeting on April 16, 2021.

Return on capital employed (ROCE)

At 9.6 percent, return on capital employed (ROCE) was below the prior-year figure of 13.5 percent, mainly as a result of the decline in operating profit.

Economic Value Added (EVA®)

Economic Value Added (EVA®) was 503 million euros, down from 1,236 million euros in 2019.

Comparison between actual business performance and guidance

On April 7, 2020 – as a result of the dynamic spread of the COVID-19 pandemic and the high level of uncertainty about the impact and development of the global economy – the Management Board of Henkel AG & Co. KGaA decided to no longer maintain the forecast for fiscal 2020 that was given in the combined management report for 2019.

Based on business development in the first nine months of 2020 and assumptions regarding the business performance in the fourth quarter, the Management Board of Henkel AG & Co. KGaA approved a new outlook for fiscal 2020 on October 9, 2020.

We expected the Henkel Group to generate organic sales development of -2.0 to -1.0 percent. For the Adhesive Technologies business unit, Henkel forecasted organic sales development of -6.5 to -5.5 percent. For the Beauty Care business unit, Henkel anticipated organic sales development in the range between -3.0 and -2.0 percent. For the Laundry & Home Care business unit, we expected growth in the range of 4.5 to 5.5 percent.

We forecasted adjusted return on sales (adjusted EBIT margin) for the Henkel Group of 13.0 to 13.5 percent in fiscal 2020. We expected adjusted return on sales (adjusted EBIT margin) of between 14.5 and 15.0 percent for the Adhesive Technologies business unit. Our expectations with regard to adjusted return on sales (adjusted EBIT margin) were between 10.0 and 10.5 percent for Beauty Care, and between 15.0 and 15.5 percent for Laundry & Home Care.

Adjusted earnings per preferred share (EPS) at constant exchange rates were expected to decline in the range between -22.0 and -18.0 percent.

At -0.7 percent, organic sales development of the Henkel Group was slightly above our guidance of -2.0 to -1.0 percent. This positive deviation was mainly due to the performance of our Adhesive Technologies business unit which was able to exceed the expected range with an organic sales development of -4.2 percent. The restrictions reintroduced due to sharply rising infection rates in many countries had less impact on our business than originally anticipated. Subsequently, we witnessed rising customer demand in all business areas in the fourth quarter. At -2.8 percent, organic sales development in the Beauty Care business unit was at the lower end of the forecast range. The Laundry & Home Care business achieved 5.6 percent, slightly better than the expected bandwidth.

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Adjusted return on sales (adjusted EBIT margin) for the Henkel Group was 13.4 percent and thus at the upper end of the forecast range. The Adhesive Technologies business unit achieved adjusted return on sales of 15.2 percent, slightly above the anticipated bandwidth, due to better volume growth in the fourth quarter than originally expected. Adjusted return on sales in the Beauty Care and Laundry & Home Care business units – at 10.0 and 15.0 percent respectively – was at the lower end of their respective forecast ranges.

Adjusted earnings per preferred share at constant exchange rates declined by -17.9 percent, thus coming in slightly above our guidance.

We expected restructuring expenses of between 250 million euros and 300 million euros in 2020. At 237 million euros, the figure was slightly below the forecast range. Cash outflows from investments in property, plant and equipment and intangible assets were expected to be between 650 million euros and 700 million euros. At 715 million euros, the figure was slightly above the forecast range.

Guidance versus performance 2020

	Original guidance for 2020[2]	Updated guidance for 2020[3]	Performance in 2020
Organic sales growth	Henkel Group: 0 to 2 percent Adhesive Technologies: -2 to 1 percent Beauty Care: 1 to 3 percent Laundry & Home Care: 2 to 4 percent	Henkel Group: -2 to -1 percent Adhesive Technologies: -6.5 to -5.5 percent Beauty Care: -3 to -2 percent Laundry & Home Care: 4.5 to 5.5 percent	Henkel Group: -0.7 percent Adhesive Technologies: -4.2 percent Beauty Care: -2.8 percent Laundry & Home Care: 5.6 percent
Adjusted[1] return on sales (adjusted EBIT margin)	Henkel Group: around 15 percent Adhesive Technologies: 17 to 18 percent Beauty Care: 12.5 to 13.5 percent Laundry & Home Care: 15 to 16 percent	Henkel Group: 13 to 13.5 percent Adhesive Technologies: 14.5 to 15 percent Beauty Care: 10 to 10.5 percent Laundry & Home Care: 15 to 15.5 percent	Henkel Group: 13.4 percent Adhesive Technologies: 15.2 percent Beauty Care: 10.0 percent Laundry & Home Care: 15.0 percent
Development of adjusted[1] earnings per preferred share at constant exchange rates	Mid- to high single-digit percentage range below prior year	-22 to -18 percent	-17.9 percent

[1] Adjusted for one-time expenses and income, and for restructuring expenses.
[2] Withdrawn on April 7, 2020.
[3] Issued on October 9, 2020.

Results of operations of the business units

Adhesive Technologies

Overview

The economic environment of the Adhesive Technologies business unit was characterized by the global COVID-19 pandemic and the associated widespread restrictions, which resulted in significantly lower demand from major customer industries. The global industrial production index (IPX) declined significantly year on year by approximately -5 percent but showed signs of sequential recovery in the second half of the year.

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

Key financials

in million euros	2019	2020	+/-
Sales	9,461	**8,684**	-8.2%
Proportion of Henkel sales	47%	**45%**	–
Operating profit (EBIT)	1,631	**1,248**	-23.5%
Adjusted operating profit (adjusted EBIT)	1,712	**1,320**	-22.9%
Return on sales (EBIT margin)	17.2%	**14.4%**	-2.9pp
Adjusted return on sales (adjusted EBIT margin)	18.1%	**15.2%**	-2.9pp
Return on capital employed (ROCE)	17.2%	**13.4%**	-3.8pp
Economic Value Added (EVA®)	685	**410**	-40.1%

Sales

Sales generated by the Adhesive Technologies business unit decreased nominally by -8.2 percent to 8,684 million euros in the year under review. Foreign exchange effects reduced sales by -3.7 percent, and acquisitions/divestments by a further -0.3 percent.

Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales decreased by -4.2 percent due to lower volumes, while price performance was slightly positive overall, gaining 0.6 percent.

The first half year particularly was strongly impacted by the COVID-19 pandemic. In the course of the second half year, however, demand recovered across all business areas and regions.

Sales development

in percent	2020
Change versus previous year	**-8.2**
Foreign exchange	**-3.7**
Adjusted for foreign exchange	**-4.5**
Acquisitions/divestments	**-0.3**
Organic	**-4.2**
of which price	**0.6**
of which volume	**-4.8**

Organic sales growth

-4.2%

Adjusted[1] EBIT

€ 1,320 m

Adjusted[1] EBIT margin

15.2%

[1] Adjusted for one-time expenses and income, and for restructuring expenses.
pp = percentage points

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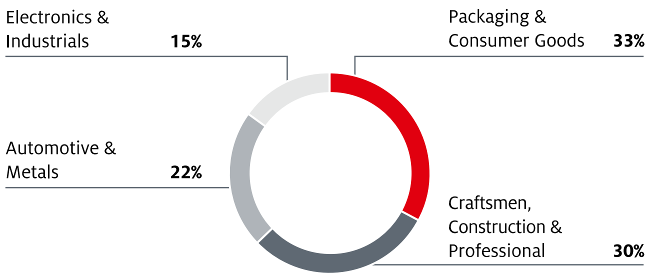
Organic sales development by business area

Performance differed among the individual business areas in the year under review. Organic sales development in the **Automotive & Metals** business area was significantly negative, mainly due to the sharp fall in global automotive production as a result of the COVID-19 pandemic. Despite a challenging market environment, we developed new solutions for electric vehicles and brought them to market to benefit from the future development in the field of e-mobility. Organic sales development was positive overall in the **Packaging & Consumer Goods** business area. The Lifestyle business was negatively affected by the COVID-19 pandemic, whereas demand increased particularly for packaging. We stimulated growth, for example, with our new generation of adhesives that replace plastics in packaging for food and hygiene products, thereby facilitating the recycling of such materials. Sales decreased overall in the **Electronics & Industrials** business area due to declining industrial production in the wake of lower demand – a trend that was particularly strong in the aerospace industry as a result of the COVID-19 pandemic. We were able to partially offset this development with significant growth in our Electronics business – with innovative solutions for smart phones and the 5G infrastructure, for example. Sales were lower year on year in the **Craftsmen, Construction & Professional** business area. Following a weaker first half year due to the pandemic, demand picked up very strongly in the course of the second half year, driven particularly by our broad range of products for consumers and craftsmen, as well as solutions for the construction industry.

For details of the activities of the individual business areas, please refer to pages 94 and 95.

Sales by business area 2020



Organic sales development by region

Sales in the **emerging markets** were slightly negative overall. Performance was flat in the Latin America region. Negative and slightly negative performance in the Asia (excluding Japan) and Africa/Middle East regions respectively was only partially offset by the very strong sales growth in Eastern Europe. Performance in the **mature markets** was negative overall. In Western Europe, North America and the mature markets of the Asia-Pacific region, sales were below the prior-year level.

In 2020, we generated more than 80 percent of all sales with our five technology-based brand clusters for industrial customers and our four strong brands for consumers. The proportion of sales from products successfully launched onto the market in the last five years was around 30 percent.

Top brands

LOCTITE

TECHNOMELT

BONDERITE

Operating profit

Adjusted operating profit was down year on year at 1,320 million euros. Adjusted return on sales was also lower at 15.2 percent. Declining volumes were the main reason for this development. Gross margin remained at the prior-year level. Thanks to slightly positive selling price performance and ongoing measures to reduce costs and enhance production and supply chain efficiency, we were able to offset the impact of declining volumes and adverse foreign exchange effects on gross margin. Changes in prices of direct materials did not have any significant impact on gross margin. At 9.2 percent, net working capital as a percentage of sales was down compared to the prior year. Return on capital employed (ROCE), at 13.4 percent, declined year on year, mainly as a result of the lower operating profit. Economic Value Added (EVA®) decreased year on year to 410 million euros.

Beauty Care

Overview

The development of the global cosmetics markets and categories of relevance to the Beauty Care business unit was largely influenced in 2020 by the COVID-19 pandemic and the resulting changes in consumer behavior.

Although having slowed, the pace of market growth in the markets of importance to the Branded Consumer Goods business remained positive overall. Growth in the North America region, particularly, was very strong. By contrast, the European market developed negatively, as did the Latin America and Asia-Pacific regions. The effect of the COVID-19 pandemic differed among the various categories of the Branded Consumer Goods business. The relevant markets in the Body Care category recorded very strong growth in the wake of higher sales of hygiene and soap products. The Hair Colorants business in the Hair Cosmetics category posted significant market growth. By contrast, the relevant markets for Hair Care, Styling and Skin Care declined.

The global Hair Salon market suffered significantly negative impacts in all regions – particularly in the first half of the year – from the measures implemented to contain the COVID-19 pandemic, including the temporary closure of hair salons. Although recovery was initially appreciable in the second half of the year, it slowed as infection rates rose and businesses were again forced to shut down toward year-end.

Notwithstanding the overall negative organic sales performance in 2020, the Beauty Care business fared relatively well in these challenging conditions compared to its competitors. Sales in the Hair Salon business decreased by a low double-digit percentage as a result of the pandemic. By contrast, we achieved good organic sales growth in the Branded Consumer Goods business, thanks among other things to increased investments in marketing, advertising, digitalization and IT. Adjusted return on sales in the Beauty Care business unit was lower year on year.

Key financials

in million euros	2019	2020	+/-
Sales	3,877	**3,752**	-3.2%
Proportion of Henkel sales	19%	**19%**	–
Operating profit (EBIT)	418	**246**	-41.2%
Adjusted operating profit (adjusted EBIT)	519	**377**	-27.5%
Return on sales (EBIT margin)	10.8%	**6.6%**	-4.2pp
Adjusted return on sales (adjusted EBIT margin)	13.4%	**10.0%**	-3.4pp
Return on capital employed (ROCE)	10.1%	**6.2%**	-3.9pp
Economic Value Added (EVA®)	88	**-47**	-154.2%

Sales

Sales generated by the Beauty Care business unit decreased nominally by -3.2 percent to 3,752 million euros in the year under review. Acquisitions/divestments increased sales by 2.4 percent. Foreign exchange effects reduced sales by -2.8 percent.

Organic sales growth

-2.8%

Adjusted[1] EBIT

€ 377 m

Adjusted[1] EBIT margin

10.0%

[1] Adjusted for one-time expenses and income, and for restructuring expenses.
pp = percentage points

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Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales declined by -2.8 percent, due to lower volumes.

Sales development

in percent	2020
Change versus previous year	**-3.2**
Foreign exchange	-2.8
Adjusted for foreign exchange	**-0.4**
Acquisitions/divestments	2.4
Organic	**-2.8**
of which price	0.1
of which volume	-2.9

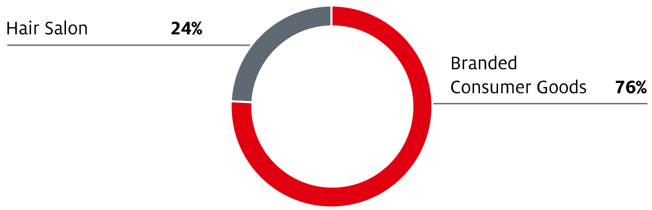
Organic sales development by business area

Organic sales development in our **Branded Consumer Goods** business area in 2020 was good overall, supported by our businesses in North America, Asia and Eastern Europe. Sales in the North America region grew by a double-digit percentage, mainly due to significantly higher demand for body care products and hair colorants. From a brands perspective, our body care brand Dial and our colorant brands Palette and Natural & Easy performed particularly well.

In the wake of the COVID-19 pandemic, sales in our **Hair Salon** business area declined in 2020, an effect that was also reflected by our performance in the individual regions. Following the strongly negative impact in the first six months particularly, the business area initially recovered considerably in the second half of the year before slowing down again as the year drew to a close. Positive impetus came from our brand Authentic Beauty Concept, as well as the Schwarzkopf Professional innovations ChromaID and Fibre Clinix.

For details of the activities of the individual business areas, please refer to page 95.

Sales by business area 2020



Organic sales development by region

From a regional perspective, overall business performance was negative in the **emerging markets**. Good organic sales growth was achieved in the Asia region (excluding Japan) – particularly driven by a significantly improved performance in China – and in the Eastern Europe region. By contrast, organic sales development was below prior year in the Latin America and Africa/Middle East regions. Sales also decreased in the **mature markets**. The Western Europe region and the mature markets in the Asia-Pacific region were down year on year, mainly due to the declining Hair Salon business as a result of the pandemic. By contrast, sales development was flat in the North America region where we were able to offset the adverse effects of the declining Hair Salon business thanks to a double-digit percentage increase in sales in our Branded Consumer Goods business.

In 2020, we generated around 85 percent of our sales with our top 10 brands. The proportion of sales from products successfully launched onto the market in the last three years was around 55 percent.

Top brands

Operating profit

Adjusted operating profit was down year on year at 377 million euros. Adjusted return on sales decreased significantly to 10.0 percent. As announced at the beginning of 2020, we increased investments in marketing, advertising, digitalization and IT. The gross margin achieved by the business unit was higher year on year. Thanks to measures to reduce costs and enhance production and supply chain efficiency, we were able to more than offset adverse mix effects arising from declining volumes in Hair Salon business, and the negative influence of higher prices for direct materials.

Net working capital as a percentage of sales improved year on year to -0.5 percent. Return on capital employed (ROCE) was lower versus prior year at 6.2 percent, mainly as a result of the decline in operating profit. Economic Value Added (EVA®) totaled -47 million euros.

Laundry & Home Care

Overview

The global market for laundry detergents and household cleaners relevant to the Laundry & Home Care business unit showed significant growth in 2020.

The mature markets recorded substantial market growth overall. Growth in the relevant market for laundry detergents and household cleaners in North America was significantly positive. Western Europe showed a very strong performance, while the mature markets in the Asia-Pacific region even recorded double-digit percentage growth.

Market development in the emerging markets was very strong, with the market in Africa/Middle East showing double-digit percentage growth. The relevant markets in Eastern Europe recorded a very strong performance, while Asia (excluding Japan) and Latin America achieved good and positive market growth respectively.

Our relevant markets were largely characterized by changes in demand and consumer behavior as a result of the COVID-19 pandemic. Positive effects – such as double-digit growth in the dishwashing products and hard surface cleaners categories – contrasted with negative developments, for example in the specialty detergents category. Price and promotional competition remained intense. Despite this market environment, the Laundry & Home Care business unit was able to continue its growth path in 2020 and achieved very strong organic sales growth. The sustained success of our strong brands and the successful introduction of our innovations together with higher investments in marketing, advertising, digitalization and IT, contributed to this performance. Adjusted return on sales declined year on year.

Key financials

in million euros	2019	2020	+/-
Sales	6,656	**6,704**	0.7%
Proportion of Henkel sales	33%	**35%**	–
Operating profit (EBIT)	973	**688**	-29.3%
Adjusted operating profit (adjusted EBIT)	1,096	**1,004**	-8.4%
Return on sales (EBIT margin)	14.6%	**10.3%**	-4.4pp
Adjusted return on sales (adjusted EBIT margin)	16.5%	**15.0%**	-1.5pp
Return on capital employed (ROCE)	12.6%	**9.3%**	-3.3pp
Economic Value Added (EVA®)	356	**150**	-57.7%

Sales

Sales generated by the Laundry & Home Care business unit increased nominally by 0.7 percent to 6,704 million euros in the year under review. Foreign exchange effects reduced sales growth by -4.9 percent. Acquisitions/divestments had no substantial impact on sales.

Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales increased by 5.6 percent. With prices declining slightly, growth was driven by volume.

Organic sales growth

+5.6%

Adjusted[1] EBIT

€ 1,004 m

Adjusted[1] EBIT margin

15.0%

[1] Adjusted for one-time expenses and income, and for restructuring expenses.
pp = percentage points

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Sales development

in percent	2020
Change versus previous year	**0.7**
Foreign exchange	-4.9
Adjusted for foreign exchange	**5.6**
Acquisitions/divestments	0.0
Organic	**5.6**
of which price	-0.7
of which volume	6.4

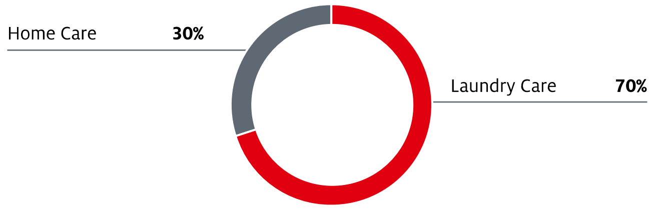
Organic sales development by business area

Our **Laundry Care** business area achieved good organic sales growth, with our core brand Persil and our heavy-duty laundry detergents category as the primary contributors. This performance was supported primarily by our Persil 4-in-1 Discs, the portfolio of which was expanded with further variants in the course of the year. Higher investments in marketing, advertising, digitalization and IT also had a positive effect.

Organic sales growth in the **Home Care** business area was in the double-digit percentage range in fiscal 2020. Dishwashing products and hard surface cleaners were the biggest contributors to growth, strongly influenced by the COVID-19 pandemic and the associated increase in demand for cleaning products. Our core brands Pril, Bref and Somat all made important contributions to growth with double-digit percentage increases, supported by a marketing campaign spotlighting the hygiene aspects of our products.

For details of the activities of the individual business areas, please refer to page 95.

Sales by business area 2020



Organic sales development by region

The **emerging markets** registered double-digit organic sales growth and were the biggest driver of organic growth in the Laundry & Home Care business unit. The Africa/Middle East, Asia (excluding Japan) and Eastern Europe regions each contributed to this performance with double-digit percentage sales growth. Organic sales development in the Latin America region was strong. Sales performance in the **mature markets** was good. Organic sales development in the Western Europe region was positive. The North America region, which had been affected by disruptions in the production network in the second quarter, contributed with good organic sales growth. The mature markets of the Asia-Pacific region achieved sales growth in the double-digit percentage range.

In 2020, 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.

Top brands

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Operating profit

Adjusted operating profit was down year on year at 1,004 million euros. Adjusted return on sales in the Laundry & Home Care business unit declined to 15.0 percent, due mainly to increased investments in marketing, advertising, digitalization and IT. Gross margin was above the prior-year level. Our ongoing measures to enhance production and supply chain efficiency enabled us to more than offset the adverse effects on gross margin exerted by higher prices for direct materials and slightly negative price trends caused, not least, by high promotional intensity.

Net working capital as a percentage of sales improved to -9.3 percent. Return on capital employed (ROCE) was lower year on year at 9.3 percent, mainly as a result of the lower operating profit. At 150 million euros, Economic Value Added (EVA®) was down year on year.

Net assets and financial position

Acquisitions and divestments

Effective September 1, 2020, Henkel acquired 75 percent of the shares in a holding company whose subsidiaries operate businesses involving the three premium direct-to-consumer brands HelloBody, Banana Beauty and Mermaid+Me. With this acquisition, the Beauty Care unit will significantly expand its direct-to-consumer activities while adding strong digital capabilities in relation to areas such as performance marketing, analytics and agile innovation.

In addition, Henkel acquired the consumer sealants business operating under the licensed GE brand on November 2, 2020. This acquisition strengthens Adhesive Technologies' North American business involving high-quality and innovative silicone-based sealants.

On April 1, 2020, we sold our Asian business involving surface cleaners used within the semi-conductor and LCD industries.

Additional disclosures relating to our acquisitions and divestments can be found on pages 182 and 183 of the notes to the consolidated financial statements.

Neither the acquisitions and divestments nor other measures undertaken in the year under review resulted in any material changes in the business and organizational structure of the Henkel Group. For detailed information on our organization and business activities, please refer to the disclosures on pages 94 and 95.

Capital expenditures

In the reporting period, capital expenditures (excluding acquisitions) amounted to 715 million euros (previous year: 662 million euros). Investments in property, plant and equipment for existing operations totaled 649 million euros, following 594 million euros in 2019.

Capital expenditures on property, plant and equipment totaled 281 million euros (previous year: 277 million euros) in the Adhesive Technologies business unit, 91 million euros (previous year: 89 million euros) in Beauty Care, and 268 million euros (previous year: 217 million euros) in Laundry & Home Care. We invested 66 million euros in intangible assets (previous year: 68 million euros).

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

The major projects of 2020 were as follows:

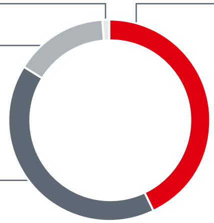
- Construction of an Innovation Center in Düsseldorf, Germany (Adhesive Technologies)
- A production facility for a new generation of detergents and automatic dishwashing products in Kruševac, Serbia (Laundry & Home Care)
- Optimization of our production structure in Bowling Green, USA (Laundry & Home Care)
- Construction of a new production site for electronic adhesives in Seoul, South Korea (Adhesive Technologies)

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

The acquisitions resulted in additions to intangible assets and property, plant and equipment (including right-of-use assets) in the amount of 505 million euros. Details of these additions can be found on pages 194 to 203 of the notes to the consolidated financial statements.

€ 715 m
Investments in property, plant and equipment and intangible assets

Capital expenditures in 2020 by business unit[1]



[1] Existing operations

Capital expenditures 2020

in million euros	Existing operations	Acquisitions	Total
Intangible assets	66	501	**567**
Property, plant and equipment	649	4	**653**
Total	**715**	**505**	**1,220**

Right-of-use assets

In the course of its business operations, Henkel enters into various lease agreements as a lessee. In 2020, the Henkel Group recognized additions to right-of-use assets in property, plant and equipment of 182 million euros in total (previous year: 139 million euros). Of these additions, acquisitions accounted for 3 million euros (previous year: 15 million euros). Additional disclosures relating to leases can be found on pages 202 and 203 of the notes to the consolidated financial statements.

Net assets

At 30.3 billion euros, total assets decreased compared to year-end 2019 (31.4 billion euros).

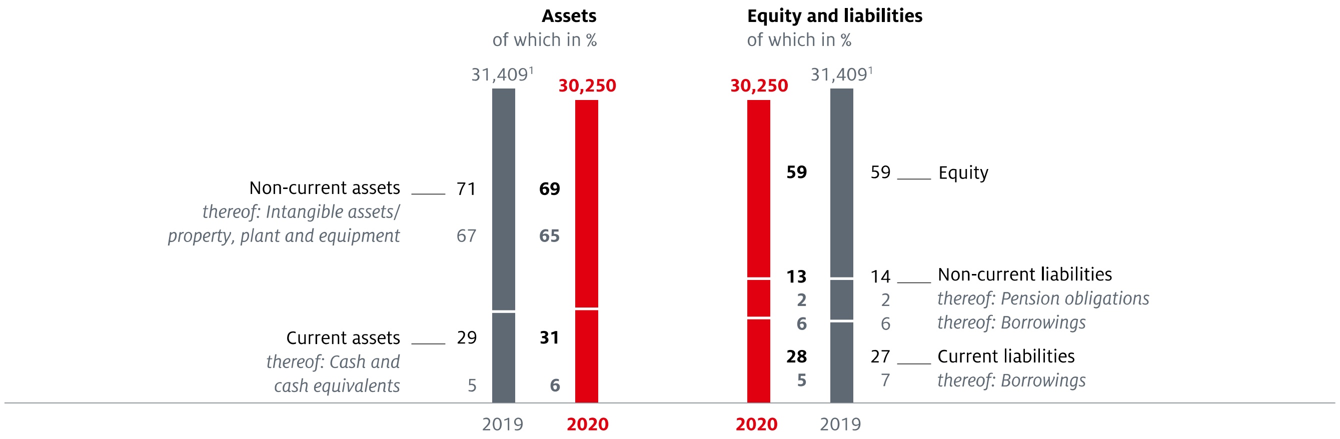
Under **non-current assets**, intangible assets decreased by -1,239 million euros in total. Additions of 567 million euros from acquisitions and capital expenditures were offset, in particular, by negative currency effects of 1,101 million euros, reclassifications of 203 million euros to assets held for sale, amortization of 155 million euros and impairment of 318 million euros. Property, plant and equipment decreased by -87 million euros, likewise mainly due to negative foreign exchange effects of 272 million euros. Investments of 649 million euros in property, plant and equipment and additions of 182 million euros to right-of-use assets (both excluding acquisitions) were offset by scheduled depreciation of 563 million euros and impairment of 56 million euros. Of the scheduled depreciation, 136 million euros was attributable to right-of-use assets.

Current assets increased from 9.1 billion euros to 9.3 billion euros, mainly as a result of higher cash and cash equivalents, which increased by 0.3 billion euros, and of higher assets held for sale, which increased by 0.2 billion euros. Trade accounts receivable, on the other hand, decreased to 3.1 billion euros after 3.4 billion euros in 2019.

Compared to year-end 2019, **equity** including non-controlling interests decreased by -0.7 billion euros to 17.9 billion euros, primarily due to negative currency translation effects of 1,278 million euros, the dividend payment of 798 million euros in June 2020, and the recognition of a liability in an amount of 191 million euros for a put option granted on non-controlling interests in relation to an acquisition. The addition of net income amounting to 1,424 million euros had the effect of increasing equity. The individual components influencing equity development are shown in the table on page 175. By year-end 2020, the equity ratio had decreased compared to year-end 2019 by -0.2 percentage points to 59.1 percent.

Financial structure

in million euros



[1] Prior-year figures amended (please refer to the notes on page 188).

Non-current liabilities were down year on year with a total of 4.0 billion euros (previous year: 4.3 billion euros). Compared to year-end 2019, non-current borrowings decreased by -266 million euros. In January 2020, Henkel added a second tranche of 100 million British pounds to its existing British pound bond. A bond with a nominal volume of 330 million Swiss francs was issued in April 2020. In addition, the Group placed a plastic waste reduction bond in July 2020 consisting of two tranches – one of 70 million US dollars and one of 25 million euros. The increase in non-current borrowings as a result of these new issuances was offset by the reclassification of a bond with a nominal volume of 700 million euros to current borrowings.

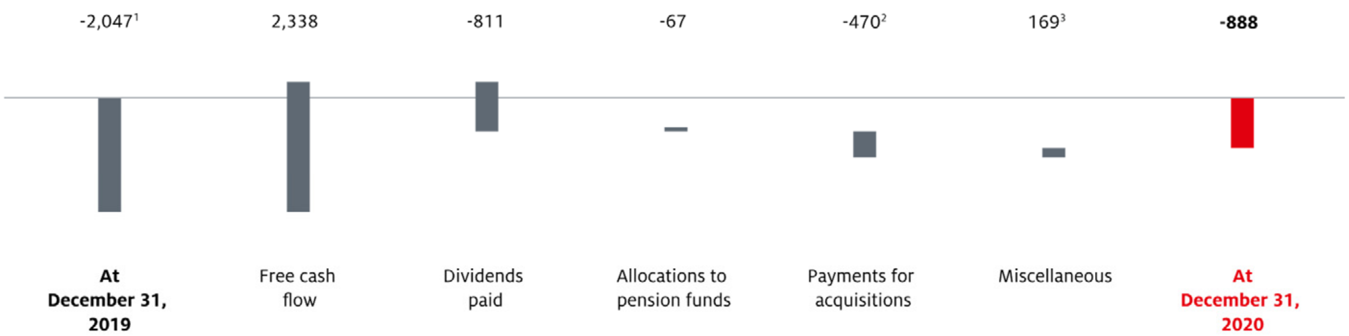
In total, all other non-current liabilities were roughly on a par with the prior year. The recognition of a liability for the put option granted to the non-controlling shareholders of Henkel Beauty & IB Holding GmbH increased the figure for other financial liabilities. Henkel Beauty & IB Holding GmbH holds the shares in the companies that operate the businesses involving the brands HelloBody, Banana Beauty and Mermaid+Me, of which the Henkel Group acquired a majority stake in fiscal 2020. This effect was offset primarily by lower deferred tax liabilities and reduced pension obligations.

Current liabilities decreased compared to year-end 2019 by -183 million euros to 8.4 billion euros as of December 31, 2020. This was mainly due to the decrease of 0.8 billion euros in respect of commercial paper liabilities. In liabilities relating to bonds, the increase due to reclassification of a bond from non-current borrowings (nominal volume: 700 million euros) was offset by the scheduled redemption of a bond with a nominal value of 600 million US dollars.

The reduction in current borrowings was partly countervailed by an increase of 262 million euros in other current provisions compared to year-end 2019 and an increase of 134 million euros in trade accounts payable.

Net financial position

in million euros



[1] Prior-year figures amended (please refer to the notes on page 188).
[2] Including purchase of non-controlling interests with no change in control.
[3] Primarily foreign exchange effects.

Effective December 31, 2020, our **net financial position**[1] amounted to -888 million euros (previous year: -2,047 million euros). The change versus the previous year was essentially attributable to the strong free cash flow despite the influence of the COVID-19 pandemic, while payments for acquisitions were lower year on year.

Net financial position 2015 to 2020

in million euros	
2015	335
2016	-2,301
2017	-3,222
2018	-2,895
2019[1]	-2,047
2020	**-888**

[1] Prior-year figures amended (please refer to the notes on page 188).

Financial position

Cash flow from operating activities in fiscal 2020 came in at 3,080 million euros, representing a decrease versus fiscal 2019 (3,241 million euros). This was attributable particularly to the increased expenditure on marketing and distribution announced at the beginning of 2020 and to lower volumes as a result of the COVID-19 pandemic. By contrast, the reduction in net working capital[2] had a positive effect on cash flow from operating activities.

Year on year, the ratio of net working capital to sales improved by 3.2 percentage points to 0.7 percent (previous year: 3.9 percent), to which negative foreign exchange effects contributed 0.8 percentage points.

The cash outflow in **cash flow from investing activities** (-1,261 million euros) was slightly below the figure for the prior-year period (-1,461 million euros). Capital expenditures on intangible assets and property, plant and equipment were higher than in 2019, whereas investments in subsidiaries and other business units and payments for other current financial assets were lower versus the prior-year figure.

At -1,475 million euros, the cash outflow in **cash flow from financing activities** was higher year on year (-1,395 million euros). In fiscal 2020, higher cash inflows received in respect of pension obligations versus the previous year were countervailed primarily by lower cash inflows from the issuance of bonds.

The prior-year figures for cash flow from investing activities and cash flow from financing activities have been amended. For details, please refer to our discussion of the consolidated statement of cash flows on pages 176 and 177.

Cash and cash equivalents increased compared to December 31, 2019, by 267 million euros to 1,727 million euros.

The decline in **free cash flow** from 2,471 million euros in the prior-year period to 2,338 million euros in 2020 was primarily due to the decrease in cash flow from operating activities.

€ -888 m
Net financial position

[1] The net financial position is defined as cash and cash equivalents plus readily monetizable securities & time deposits and financial collateral provided, less borrowings, plus positive and minus negative fair values of derivative financial instruments.
[2] Inventories plus payments on account, trade accounts receivable and receivables from suppliers, less liabilities to customers, trade accounts payable and current sales provisions.

Financing and capital management

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

Measures deployed in order to achieve these aims include optimization of our capital structure, adoption of an appropriate dividend policy, equity management and long-term 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 2020, Henkel paid the same dividends for both ordinary and preferred shares as in 2019. Cash flows not required for capital expenditures, dividends and interest payments were used to reduce our net debt and to fund acquisitions. We covered our short-term financing requirement primarily through commercial paper. Our multi-currency commercial paper program is additionally secured by a syndicated credit facility. In addition, the Henkel Group had access to credit lines of 1.6 billion euros as of December 31, 2020 (previous year: 1.6 billion euros) that remain unutilized.

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

Credit ratings

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

At December 31, 2020

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.

As of December 31, 2020, our borrowings totaled 3,084 million euros (previous year: 3,958 million euros) and mainly comprised bonds issued and commercial paper.

Henkel's financial risk management activities are explained in the risks and opportunities report on pages 151 to 165. Further detailed information on our financial instruments can be found in the financial instruments report on pages 227 to 252 of the notes to the consolidated financial statements.

Key financial ratios

Operating debt coverage in 2020 increased compared to year-end 2019, and was thus well above the minimum level of 50 percent, mainly due to the improvement in our net financial position. As was also the case at year-end 2019, the interest coverage ratio in the year under review – at 33.1 – was also well above the minimum level of 9.

Key financial ratios

	2019	2020
Operating debt coverage ratio (net income + amortization and depreciation, impairment and write-ups + interest element of pension obligations)/net borrowings and pension and lease obligations	88.6%	**126.4%**
Interest coverage ratio (EBITDA/interest result)	41.5	**33.1**
Equity ratio (equity/total assets)	59.3%	**59.1%**

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Employees

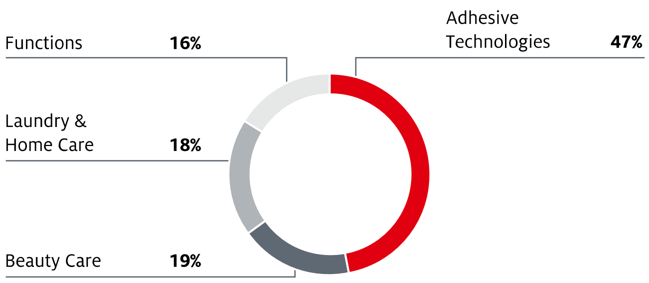
Our employees shape our company through their commitment, knowledge and skills. They are instrumental in driving our long-term success. Therefore, strengthening a corporate culture characterized by close collaboration and empowered people is also an integral element of our strategic framework for purposeful growth. Building on shared values and a clear understanding of collaborating as one team, we want to accelerate our cultural transformation, drive the upskilling of our employees regarding future capabilities, and enable our people to continuously develop. The importance of a strong corporate culture has become particularly clear during the COVID-19 pandemic. We made good progress over the past year and have together successfully driven forward the cultural journey.

The basis for an inspiring and modern working environment where team spirit plays a key role is an open and appreciative leadership culture. To reinforce the importance of this leadership culture, we introduced our new Leadership Commitments at the beginning of 2019, which apply to all Henkel employees, regardless of whether or not they lead a team. The Leadership Commitments form the basis for collaboration both within teams and at the level of each individual. In this way, we place high expectations on our employees in terms of leadership behavior, agility and collaboration. By the end of 2020, we had involved more than 50,000 employees in an active dialog about our new approach to leadership in specific Leadership Activation Sessions.

Payroll cost and average employee numbers

	2019	2020
Payroll cost in million euros	3,195	**3,307**
Average employee numbers	52,650	**52,600**

Employees by organizational unit



At December 31, 2020

Moreover, we consistently integrate the Leadership Commitments into all our HR processes and systems so as to anchor them further in our corporate culture. We firmly believe that cultural change requires the commitment of all employees, which is why we have introduced special formats to improve collaboration and leadership skills at all levels – such as special Leadership Commitments workshops for our colleagues in production.

At the same time, cultural change offers the opportunity to challenge and improve the status quo. Given that transparency is a key element that transcends all hierarchical layers, we conducted the Organizational Health Index survey among around 10,000 employees worldwide in 2020. Based on the findings, which show a good total score for organizational health at Henkel overall, we defined clear areas for action and further activities for 2021.

What makes Henkel special

Everyone who works at Henkel acts in an environment characterized by its international nature and diversity. We are represented by around 52,950 employees (as at year-end 2020) with 125 different nationalities operating in 79 different countries. At December 31, 2020, the number of employees had increased compared to around 52,450 as of year-end 2019. The slight increase is also due to acquisitions.

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

We value diversity in our workforce. Diversity and inclusion (D&I) are an integral part of our HR strategy. Therefore, we continuously strive to promote and embed D&I in our organization. Women account for 36.9 percent of managers at Henkel. The key to diversity is to create the necessary framework conditions to enable our employees, male and female, to reconcile their careers with their personal lives. For years, the age structure of our employees has remained constant and well balanced. We equally promote all generations at Henkel and take into consideration different life phases. For example, we actively help families to achieve a balance between career and home life by offering childcare facilities and social services. We want to actively shape demographic change at Henkel through the implementation of various partial retirement models. At the same time, we encourage the targeted, cross-generational training of qualified newcomers by having their experienced colleagues coach them in direct preparation for a specific role. This ensures that we keep many years of knowledge within Henkel and enhances the company's future viability. We also offer events focusing on social law and psychosocial topics for all Henkel employees regardless of age. The formats differ, with Lunch & Learn sessions, informative events, seminars and workshops being all part of the mix. Furthermore, to promote an inclusive corporate culture, we have launched training programs focusing specifically on diversity and how to deal with unconscious biases. And we have established a network of employees from various parts of the company who liaise between the individual business units and functions in driving our D&I initiatives. We want the diversity in our workforce to reflect the diversity in our customer structure.

Women in management

in percent	2016	2017	2018	2019	2020
Henkel	33.1	34.3	34.4	35.5	**36.1**
Managers	34.3	34.5	34.7	35.7	**36.9**
Top managers[1]	22.5	23.2	22.9	24.3	**25.2**

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

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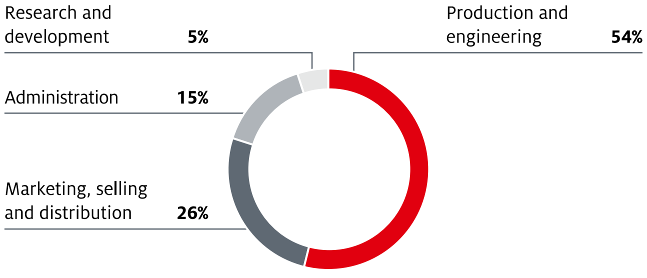
Employees by activity



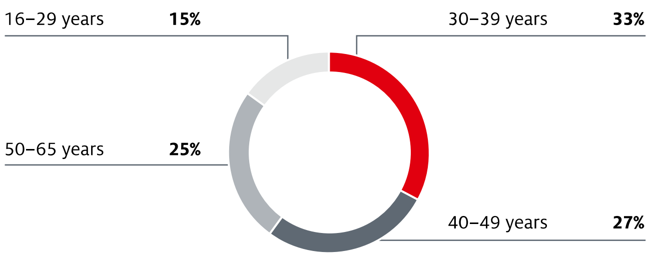
At December 31, 2020

Energized and empowered teams

We hold regular assessment meetings, provide open feedback and prepare individual career plans to specifically promote individual development among our people. This approach enables us to systematically identify and develop talent within the company, thereby ensuring in-house succession planning throughout the Group. Our globally standardized assessment process includes an annual evaluation of the potential of our employees and, independently of this, an appraisal of their performance against pre-agreed role expectations. We are convinced that identifying potential specifically supports the long-term career plans of our employees while allowing us to build a workforce that is fit for the future and able to actively embrace challenges and changes going forward. Individual training programs and potential career moves are also discussed. We support our line managers in these activities by providing digital HR management systems that are also being increasingly enabled for mobile use.

Our employees also embrace the opportunities offered by digitalization. As a means of highlighting and demystifying the changes and opportunities likely to be encountered, we launched our Digital Upskilling initiative for all employees around the globe in 2019, offering personalized digital training sessions. By the end of 2020, more than 15,000 employees had made use of these offerings to extend their digital competences. As such, the Digital Upskilling initiative is making a key contribution to digital transformation at Henkel. The digital transformation is also reflected in the fact that the number of digital learning hours by our employees more than doubled in 2020 compared to the previous year, not least during the COVID-19 pandemic. Digitalization is also increasingly enabling flexible work models and simplifying daily work processes. Although digital and virtual collaboration was already commonplace at Henkel before, the COVID-19 pandemic – which brings with it particular challenges for our employees – accelerated progress in the field “future of work.”

Employees by age group



At December 31, 2020

Recruiting, developing and retaining talents

As an attractive employer for both existing and potential employees, we strive to recruit talent for Henkel that best fits our culture, our convictions, and our objectives. Also in 2020, we persisted with our recruiting efforts. In addition to the individual support provided by our local recruitment partners, we significantly expanded the digitalization of our processes. Our new recruitment platform simplifies, improves and accelerates the workflows for everyone involved – offering a simple, multi-media job application procedure combined with enhanced process transparency for the departments involved in the recruitment process. We also increased our presence at (virtual) industry trade fairs and on social media. Using the latter, our employees post insights into their day-to-day work and development at Henkel under #MyStory@Henkel and #JobOfTheMonth.

Our #AskMeAnything format offers the opportunity of addressing career-related questions directly to top managers and experts at Henkel. The response to these formats and the high level of transparency are reflected not least by increasing numbers of followers on social media and in positive ranking and rating results.

We place great importance on the in-house training and professional development of our people, giving due consideration to locally different training paths. Henkel provides 21 apprenticeship and four dual-track study programs in Germany – in 2020, despite the COVID-19 pandemic, we welcomed 138 new apprentices and students embarking on the road toward a professional qualification. In selected emerging markets, we also offer a range of trainee programs tailored specifically to the needs of the relevant country.

Employees

(at December 31)	2016	%	2017	%	2018	%	2019	%	**2020**	**%**
Western Europe	14,450	28.1	14,750	27.5	14,750	27.8	14,750	28.1	**14,900**	**28.1**
Eastern Europe	9,500	18.5	9,950	18.5	9,800	18.5	9,800	18.7	**10,150**	**19.2**
Africa/Middle East	5,250	10.2	4,750	8.8	4,200	7.9	3,900	7.4	**3,850**	**7.3**
North America	8,300	16.2	9,050	16.9	9,000	17.0	8,950	17.1	**8,850**	**16.7**
Latin America	3,550	6.9	5,500	10.2	5,800	11.0	5,900	11.3	**6,150**	**11.6**
Asia-Pacific	10,300	20.1	9,700	18.1	9,450	17.8	9,150	17.4	**9,050**	**17.1**
Total	51,350	100.0	53,700	100.0	53,000	100.0	52,450	100.0	**52,950**	**100.0**

Basis: permanent employees excluding apprentices; figures rounded.

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Procurement

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

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

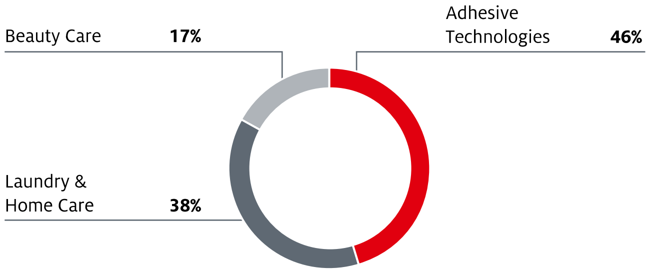
Fiscal 2020 was characterized by the impacts of the COVID-19 pandemic, the resulting significant economic downturn and weaker demand on the global procurement markets. Prices, especially for crude oil and petrochemicals, corrugated paper and cardboard, were below prior-year levels on average. By contrast, prices for specialty raw materials, such as for fragrances and cosmetics, and price levels in some emerging markets, experienced an – in some cases significant – increase. With these trends prevailing, prices in 2020 for direct materials rose slightly overall versus the previous year.

Direct material expenditures were down year on year at 8.0 billion euros (2019: 8.4 billion euros). Savings from our global procurement strategy and cost reduction measures coupled with improvements in production and supply chain efficiency, as well as effects deriving from lower sales volumes, compensated for both the higher material prices and the negative effects of foreign exchange.

The five most important categories of direct materials are washing-active substances (surfactants), raw materials for use in hotmelt adhesives, fragrance and cosmetic raw materials, inorganic raw materials, and raw materials for water- and acrylic-based adhesives. These account for 40 percent of all direct material expenditures. Our five largest suppliers represent 13 percent of purchasing volume in direct materials.

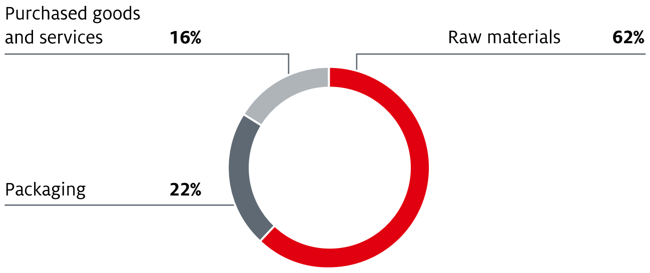
Within the category of **indirect materials and services**, we procure items and inputs that are not directly used in the production of our finished products. Examples include maintenance materials, or logistics, marketing and IT services. At 5.6 billion euros, expenditure on indirect materials and services in 2020 was slightly above the level of the previous year (2019: 5.4 billion euros).

Direct material expenditures by business unit



Fiscal 2020

Direct material expenditures by type of material



Fiscal 2020

In order to improve efficiency and secure material supplies, we continuously optimize our value chain while ensuring that we maintain or improve our level of quality. In addition to negotiating new, competitive contract terms, our ongoing initiative to lower total procurement expenses is a major factor in the success of our global purchasing strategy. We enter into long-term business relationships with selected suppliers to foster the development of innovations, and to optimize manufacturing costs and logistics processes. At the same time, we ensure the risk of supply shortages is reduced. We also agree and implement individual targets with our strategic suppliers aimed at optimizing the supply of direct and indirect materials. We place great importance on sustainability. Since 2011, we have been involved as co-founders of "Together for Sustainability – Chemical Supply Chains for a Better World (TfS)," an initiative spawned by the chemical industry with the goal of harmonizing the ever more complex supplier management in the field of sustainability, and optimizing dialog with global contract partners. As part of this initiative, we regularly perform sustainability assessments and audits of our strategic suppliers.

We were able to once again increase the efficiency of our purchasing activities by further standardizing, automating and centralizing our procurement processes. In addition to making use of e-sourcing tools to support our purchasing operations, we have pooled and are increasingly automating large portions of our purchasing administration activities – such as activities relating to supplier negotiation, order and invoice processing, price data maintenance and reporting activities – within our Global Business Solutions organization.

The stronger alignment of our purchasing organization to the business units, customers and procurement markets that we put in place in 2020 enables us to be more agile and innovation-focused.

We are also constantly progressing the digitalization of our purchasing activities. Through our communication platforms, we continuously optimize cooperation with our strategic suppliers and are increasing transparency along the value chain by means of new digital applications. In addition, we are deploying a growing number of next-generation technologies such as robotics and artificial intelligence in order to further improve our processes. And we have continued consolidating our production, logistics and purchasing activities across all business units into a Global Supply Chain organization. This organization is managed from Amsterdam and a branch office in Singapore.

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

Production

In 2020, Henkel manufactured products at 179 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 where volumes are still small. We purchase around 10 percent in additional production tonnage from toll manufacturers each year.

In the year under review, the COVID-19 pandemic posed particular challenges for the production and logistics structures. Thanks to a very robust supply chain structure, our global production network did not suffer any major long-lasting adverse effects.

Number of production sites

	2019	2020
Adhesive Technologies	138	**133**
Beauty Care	13	**13**
Laundry & Home Care	33	**33**
Total	**184**	**179**

The **Adhesive Technologies** business unit continued to optimize its global production network in 2020, with manufacturing shared between 133 production sites around the world. In both emerging and mature markets, we invest in the continuous optimization of production and in facilities that are tailored to the requirements of our customers. We are dedicated to cutting-edge production technologies and the leveraging of additional cost and quality advantages in the manufacture of our products, as we are to the further development of our production and warehousing network in line with requirements.

Recently, we successfully implemented a multi-technology structure in our plants in China, Turkey, Hungary and India. Technologies are being successively added – both in these new multi-technology plants and in other sites that have been part of the network for some time – in order to generate further cost synergies. These include in particular technologies for which demand is either growing strongly with our customer industries or which are following structural change, such as the transition to e-mobility, as innovative solutions to problems.

In addition to cutting-edge manufacturing technologies, we also focus on the use of digital applications and holistic sustainability concepts at our production sites. We are continuing to drive the digitalization of our production to further improve service quality and raise efficiency. At various production sites, we have expanded the recording of operating parameters, enabling us to link important data for better control of the entire logistics and production process from supplier through to the customer. Also our new plant for electronics solutions currently nearing completion in Songdo, South Korea, is being strictly aligned to the needs of smart, networked production technologies in a design concept that complies with high standards of sustainability.

The number of production sites in our **Beauty Care** business unit remained constant overall at 13. To ensure long-term growth, we are investing in capacities and technologies – especially in emerging markets – based on our supply chain strategy. We opened a new site for Hair Care products in Turkey and further expanded certain existing sites, particularly in Latin and North America, Russia and the Middle East. In doing so, we are increasing production capacity in all three key technologies – hair colorants, liquid products and aerosols. In North America, particularly, we are currently specifically expanding our liquid hand soap capacities in response to the sharp increase in demand resulting from the COVID-19 pandemic.

The business unit continues to focus on continuously improving its customer supply service in a volatile and innovative market environment. By integrating our planning processes along the entire supply chain – from suppliers through production to the interface with our customers – we can improve our ability to predict customer needs. The implementation of various Industry 4.0 initiatives has also further increased process transparency. Our ability to rapidly analyze big data has enabled us to both speed up the decision-making process and make it more efficient. Further focus has been placed on enhancing the agility of the supply chain in response to the requirements of new e-commerce sales channels and the demand for greater individualization. We also further developed our supply chain sustainability strategy reflecting the specific requirements and measures relating to the Beauty Care business unit.

The production network in our **Laundry & Home Care** business unit encompassed 33 sites in 2020, with the number unchanged to the previous year.

We continued the integration of the production networks acquired in North America in previous years and also began the process of merging warehousing and logistics sites in various regions.

Enhancing efficiency was a continued key focus, supported by the real-time production parameter reporting system that we implemented worldwide in 2018 and have been continuously improving ever since. Targeted investments, particularly in production capacities for our pre-dosed detergents and dishwashing products (caps) and WC cleaners, are supporting further growth in these important product categories. In addition, all processes and structures along the entire supply chain are permanently monitored to ensure they are efficient and to achieve – through pro-active management – high levels of quality, agility and utilization of our production and warehouse capacities.

As part of the implementation and further expansion of the Industry 4.0 concept, we have specifically developed and launched further programs aimed at the digitalization of production and distribution processes in anticipation of growing customer and consumer requirements. For example, we opened a new state-of-the-art logistics center in Spain that sets high standards in respect of digitalization, robotics and latest logistics solutions. In 2020, Henkel's production facility for laundry detergents and household cleaners in Düsseldorf was awarded the renowned "Factory of the Year" prize in the "Excellent Production Network" category.

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

For all business units, we have the environmental management systems at numerous sites externally certified. By the end of 2020, around 80 percent of our production volume was from sites certified to ISO 14001, the internationally recognized standard for environmental management systems.

Contents

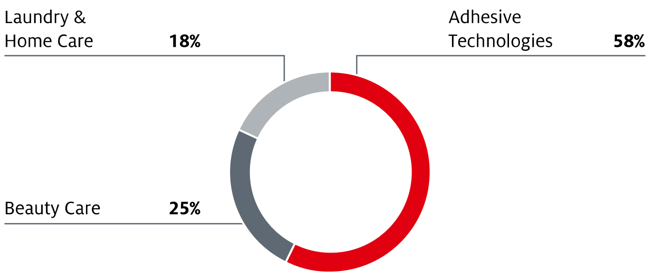
Research and development

Expenditures by the Henkel Group for research and development (R&D) in fiscal 2020, at 501 million euros, were around the prior-year figure of 499 million euros. The ratio of R&D expenses to sales amounted to 2.6 percent (previous year: 2.5 percent). Adjusted R&D expenditures totaled 495 million euros, following 487 million euros the year before. The ratio of adjusted expenses to sales was 2.6 percent (previous year: 2.4 percent).

In 2020, internal personnel expenses accounted for most of the R&D spend. 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 2,600 employees worked in research and development (previous year: around 2,650). This corresponds to approximately 5 percent of the total workforce. Our teams are composed of natural scientists – predominantly chemists – as well as material scientists, engineers and technicians.

R&D expenditures by business unit



Fiscal 2020

The capabilities of our employees and our investments form the foundation on which the success of our R&D activities is built. We continue to focus on highly efficient innovations and steadily reducing our resource consumption while maintaining or improving performance. Our open innovation approach ensures the successful integration of external partners in our project delivery. We are also further expanding our corporate venture capital activities. And we are committed to increasing the use of digitalization in research and development.

Key R&D figures

	2016	2017	2018	2019	2020
R&D expenditures (in million euros)	463	476	484	499	**501**
R&D expenditures (in percent of sales)	2.5	2.4	2.4	2.5	**2.6**
Adjusted[1] R&D expenditures (in million euros)	460	469	471	487	**495**
Adjusted[1] R&D expenditures (in percent of sales)	2.5	2.3	2.4	2.4	**2.6**
Employees[2] (annual average)	2,700	2,700	2,750	2,650	**2,600**

[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 innovations, evaluation of partners for innovation, and on sustainability. The Research and Development Committee is responsible for Group-wide coordination.

The business units continually exchange on innovations in common areas of knowledge. Activities in 2020 focused on sustainability and digitalization, as was also the case in the previous year. On the digitalization side, the key areas were digital methods for faster, more efficient and optimized product development, and digital product and service innovations for consumers. Advancement in sustainability took the form of various market launches of particularly sustainable products.

Open innovation

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

Corporate venture capital

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

In 2020, we further expanded our venture capital activities and strengthened our expertise base by investing in startup companies.

Henkel expanded its technology portfolio by investing in Actnano, a startup based in Boston, USA. This company has developed an innovative coating technology that protects entire printed circuit boards, providing benefits in a variety of automotive electronics and consumer electronics applications.

Our investment in LoveLocal, a startup based in Mumbai, India, further expands our involvement in emerging markets. LoveLocal enables the kiranas – small local retailers – to digitize their businesses and thus to offer their customers a convenient and personalized online shopping experience.

Henkel also invested in Fero Labs, a software startup based in the USA that aims to use machine learning to optimize industrial processes, such as planning, procurement and production.

We also invested in two startups in the UK: Nourished is a company that uses 3D-printing technology to offer personalized food supplements through a direct-to-consumer model. Streetbees is a real-time platform based on artificial intelligence where users capture with their smartphones moments of their everyday lives which are then analyzed in terms of identified authentic habits, shopping preferences or opinions for market research purposes.

Research and development worldwide

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

The **Adhesive Technologies** business unit supports its customers around the globe with customized solutions based on a comprehensive portfolio of products, applications and services. The success of Adhesive Technologies is founded in particular on its broad technology portfolio, the outstanding expertise of its global innovation team, and its proximity to its customers as the reward from years of working in close collaboration with them.

Again in 2020, the business unit aligned its innovation activities and resources to technology development and expanding its partnerships with companies engaging with the three megatrends mobility, connectivity and sustainability.

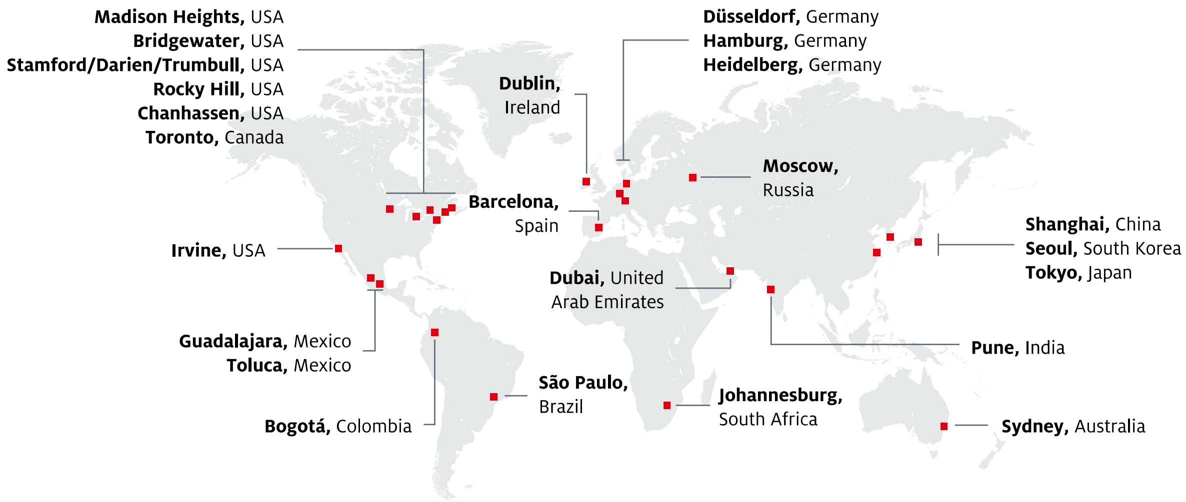
In the field of mobility, Adhesive Technologies has developed silicone-free, thermally conductive gap fillers, for example, that enable the manufacture of high-performance and safe battery systems for electric vehicles.

In the field of connectivity, we offer solutions for printed electronics, including a wide range of inks and coating materials for the manufacture of smart, networked surfaces. They are used, for example, to equip homes with smart infrastructures, to improve our lives through smart preventive healthcare, or to provide solutions for smart mobility.

Sustainability continues to be a key driver of innovation in all our markets. Additions to the Adhesive Technologies portfolio of recyclable adhesives include, for example, hot and cold sealable coatings for paper that can be used instead of plastic to make sustainable packaging.

By rolling out a new global, harmonized data platform, Adhesive Technologies can trawl the data for valuable information that enables it to formulate innovative products and materials. The data are collected along the entire product development chain. Thus we support our scientists in their efforts to work more efficiently and accelerate and improve their product innovation processes. Our researchers use artificial intelligence and machine learning to plan and conduct experiments, which can shorten – in some cases significantly – the time to market of a new product.

Selected research and development sites



At its Competence Centers in the various regions, the **Beauty Care** business unit develops base technologies for product innovations in both its Hair Salon and Branded Consumer Goods businesses. The teams develop both global product formulas and localized products to meet very specific customer needs in a particular region.

Products have been developed especially for sensitive scalps, for example, with the launch taking place in 2020 under the Gliss Kur and Syoss brands. These innovative products maintain the natural balance of the scalp microbiome.

We distribute reconstructed human tissue models and associated tests under our Phenion brand. We were able to expand our test offerings this year with the development of epiCS® technology, a method for testing skin irritation and corrosion that is recognized by the OECD, and which marks an important step toward providing suitable in-vitro systems to test the safety of cosmetic products and their ingredients.

We also expanded our portfolio of sustainable products. The proportion of recycled material used in our packaging again increased. One of the materials used is Social Plastic® – recycled plastic that, in countries without a functioning recycling infrastructure, is collected by people of otherwise very low incomes and then returned to the value chain rather than passing into oceans or lakes. We have been collaborating since 2017 with our partner Plastic Bank, which developed this recycling concept. Henkel also introduced a technology for black packaging in its Beauty Care business unit that uses an alternative dye to ensure error-free machine identification of the material in recycling plants, thus enabling the full recycling of this waste.

In addition, the launch of solid shampoos in cardboard boxes has served to reduce the use of plastic packaging.

In the formulation of our products, we are increasingly turning to natural raw materials. Their predominance in our Nature Box brand has led to the line being awarded COSMOS certification for natural cosmetics.

In 2020, research and development activities in the global network of our **Laundry & Home Care** business unit continued to focus on sustainable innovations in the fields of raw materials, formulations, packaging concepts and production methods.

One example is the launch of our new Love Nature series. This sustainable innovation underpins our ambition to overcome environmental challenges in product development while still accommodating economic and social imperatives. The product portfolio includes detergents, bathroom and general cleaners, and dishwashing products. The new product range offers high-performance plant-based products in fully recyclable packaging that can be refilled at designated stations and thus help to reduce plastic waste. The environmental compatibility of the line has been recognized with award of the EU Ecolabel seal of approval.

In addition, two further products – new Somat All-in-1 Pro Nature automatic dishwashing tabs and Biff Pro Nature toilet cleaner – have been added to the Pro Nature range in our Home Care business, thus extending our portfolio of particularly sustainable products. Somat All-in-1 Pro Nature consists of 94 percent natural raw materials and is fragrance-free. Biff Pro Nature WC cleaner consists of more than 90 percent natural raw materials. The bottle is made of 50 percent recycled polyethylene, and the printed film cover can be removed to make the packaging fully recyclable. Like the existing product range, the new products have also been awarded the Blue Angel certification.

The packaging development team has added new functions to its Easy D4R software tool to support the development of sustainable recyclable packaging solutions and facilitate improved circular economy. The latest release from 2020 now enables packaging developers to also analyze paper/cardboard, glass, aluminum and tinplate packaging. This version was also tested independently by the Fraunhofer Institute, which confirmed the tool's reliability for assessing recyclability.

To boost the innovation process, we have launched a program to prepare our employees for the skills they are going to need in the future. With an increased regional focus, we are striving for more synergies and strengthened processes, leveraging the assistance available from within our regions in order to make use of all insights and to promote proximity to the consumer.

Contributing to sustainability

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

Life cycle analyses, profiles of potential raw materials and packaging materials, and our many years of experience in sustainable development help us to identify and evaluate improvement opportunities right from the start of the product development process. A key tool in this respect is our Henkel Sustainability#Master®. At the center of this evaluation system is 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 a good 10,200 patents to protect our technologies around the world. Approximately 5,300 patents are currently pending. And we have registered more than 1,300 design patents to protect our intellectual property.

Further information on our research and development activities can be found on our website:
www.henkel.com/brands-and-businesses

Marketing and distribution

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

Adhesive Technologies offers a broad and globally leading portfolio of high-impact solutions in adhesives, sealants and functional coatings. Ground-breaking innovations, tailor-made products and strong brands are the basis for the success of our business. Working in close partnership with our customers, we combine our innovation and technology leadership to create high-impact solutions that are essential components in innumerable industrial and consumer goods around the world.

We develop global and regional marketing strategies for our brands and technologies. The measures derived from our planning are then implemented locally. Our branding strategy focuses consistently on our five technology-based brand clusters for industrial customers and our four strong brands for consumers.

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

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

To further expand our innovation leadership, we are currently building a new global innovation center on the site of our corporate headquarters in Düsseldorf where, starting in 2021, we will be showcasing our entire range of technologies to customers and partners from around the globe. Around 500 of our research and development experts will work with our customers in the new innovation center to develop future-oriented solutions and applications. We also focus our corporate venture activities on new and scalable technologies to enhance our portfolio and strengthen the innovative power of our material science and digital business areas.

New digital solutions are integral to our effort to further improve personal interaction with our customers. For our global sales teams, we successfully completed the roll-out of an innovative cloud-based customer relationship management (CRM) platform, making plans, data and communication materials available at any time. This enables us to respond even faster and more efficiently to our customers' needs and to leverage synergies between our business areas.

During the COVID-19 pandemic and associated travel and contact restrictions, we provided our customers with increased online support in the year under review. We expanded digital technologies that our technical customer services use to perform virtual remote analysis and offer solutions to customers around the world. We also broadened our range of online training courses and seminars and added new interactive formats.

Not only in personal exchange but also in digital interaction, we aim to ensure positive customer experiences at all contact points around the globe. Our website **www.henkel-adhesives.com** is tailored to the needs of our customers in a wide range of industries, and is available in numerous languages. We are continuously expanding our digital ordering platform, the Henkel Adhesives eShop, which is now used by customers in more than 60 countries.

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

The vision that drives the development of the products, services and brands in our **Beauty Care** business unit is "Reveal the World's True Beauty." We want to help our consumers look better, feel better and reach out to one another. Consequently, we are focusing specifically on further developing those markets, categories and brands in which we have strong expertise and where we see clear growth opportunities. Our focused portfolio of brands with unique, distinct brand equities forms the basis for leading, consumer-relevant innovations offering clear product benefits.

Staying true to our commitment to sustainability, we develop innovations that not only add value for our consumers and customers but also help us to meet our sustainability targets. Nature Box, for example, is the world's first cosmetics brand to be sold in bottles consisting of 98 percent Social Plastic®, while we package our Syoss hair care products in fully recyclable black plastic bottles.

In 2020, moreover, we further improved our operating models to ensure our competitiveness over the long term and to reflect current circumstances, recent developments and major trends in our business. We develop our innovations and market launch strategies in the regions for the regions, thus bringing us closer to consumers and customers. Digital consumer research tools, our Consumer Insight Center and joint developments with consumers and customers enable us to identify global and regional trends early on and to respond quickly and individually to them with innovative products. Corporate venture capital investments and partnerships support our efforts in the innovation process to identify and develop new business models, marketing strategies and digital skills. In addition, our newly established incubator – Fritz Beauty Lab – allows us to test products quickly in the marketplace, to optimize them and subsequently to rapidly scale them on the back of our global business and brand management.

By making use of technologies of the future, such as the internet of things or augmented reality, we are also driving the further development of our brands and products in the digital environment. The COVID-19 pandemic and the resulting change in consumer behavior have further underscored the high importance of digital technologies and media, which is why we have continued to roll out our digital hair colorant consultant tool Choicify across regions and retail partners. As a recent development, we are specifically targeting first-time users of at-home hair colorants with our Schwarzkopf Color Lounge, which offers tutorials, tips and live consultation sessions from a central digital platform. SalonLab is our data-based networked hair analysis tool that hair salon professionals can use together with their stylists for personalized in-salon services and individualized product recommendations for home use.

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

We not only specifically choose which consumers to communicate with and by what means, but also which sales channels are of strategic relevance for us. We leverage our category leadership positions both in brick-and-mortar retail and e-commerce, also adding tangible value for our online customers through our shopper expertise. We further strengthened our direct-to-consumer business by acquiring 75 percent of the shares in a business comprising the three premium brands HelloBody, Banana Beauty and Mermaid+Me. The brands offer premium beauty care products in the Hair Care, Body Care and Skin Care categories and reflect the strongly growing importance of sustainability and clean beauty trends. One-on-one interaction with consumers also gives us valuable insights that help us to create promising innovations for the entire retail business.

Having hosted more than 450 visits so far in our Beauty Care Lighthouse – opened in Düsseldorf in 2012 and modernized in 2020 – we have been able to consistently intensify our customer proximity. The Lighthouse offers our trade partners from around the world an interactive experience of all our competences in the field of Beauty Care, with a stronger focus on digitalization and sustainability. We are also committed to close cooperation with our customers in our Hair Salon business. In our globally established Schwarzkopf Academies, we offer hairdressers value-adding services in the form of customer-focused seminars and continuous professional upskilling programs. Every year, more than half a million hairdressers around the globe avail themselves of these offerings. Thanks to this regular and in-depth exchange with our salon customers, we can stay relevant at all times. During the COVID-19 pandemic, we also launched the international HelpYourSalon initiative to help hairdressers retain their customers in the short- and long-term.

In the **Laundry & Home Care** business unit, we develop global marketing strategies and product innovations for our strong laundry detergent and household cleaner brands. We then adapt these strategies and innovations to regional consumer needs and market conditions, and implement them at the local level. We thus ensure central, efficient management of our brands aimed at strengthening their core equities and responding to our consumers' desire for both functional benefits and emotional added value. We focus on an innovation process that enables us to systematically identify global consumer trends early on, especially through digital data analytics, and to translate them quickly into new products. In the field of consumer research, for example, we analyze both e-commerce data and social media signals as means of early identification of consumer needs and thus a basis for developing new products and services.

This year, one focus area was that of expanding the information content and the product portfolio of our hygiene and disinfectant cleaners to meet the needs of our consumers during the COVID-19 pandemic. For example, we updated the cleaning instructions on our digital communication channels, specified in more detail the effectiveness of existing products, and quickly launched new cleaning products onto the market.

Digitalization is also of key importance in our other marketing processes, as reflected in the ongoing implementation of digital transformation measures in the business unit. One example of this is the growing use of modern technologies such as the internet of things, or the integration of digital services – such as our Persil Service – in the brand ecosystem. Further points of digital contact with our consumers are provided by the virtual assistants of our Persil brand, which provide users with extensive advice on stain removal in digital channels such as social media, websites or speech platforms, and our new consumer platform – Ask Team Clean – in Germany, other European countries and the USA. With these new technologies, we plan to drive the further development of our brands in the digital world and thus increase the benefits for our consumers. We also use corporate venture capital investments and partnerships to help us identify and develop new business models and to further drive our digitalization process.

We are convinced that the best way to solve the challenges of the future is to work together with our customers, industrial partners and other key stakeholders – which is also reflected in the vision of the Laundry & Home Care business unit: "Together Creating Clean Living." Strategic partnerships with key accounts, startups, industrial partners and influencers in the areas of innovation, shopper marketing, digitalization including smart home, e-commerce, sustainability, supply chain and new technologies drive long-term profitable growth to the benefit of everyone involved.

Surveys to examine digital shopping behaviors, for example, are one way of gaining a better understanding of the various shopping channels and their interaction, and of helping our retail partners to create seamless shopping experiences. This then serves as the basis for developing customized solutions for the specific requirements of our partners, for identifying shared value-adding potential, and for advising our partners on the development of strategies across all the various sales channels.

The Global Experience Centers – our customer centers – in Düsseldorf and Stamford, USA, help us to further deepen our relationships with customers both in brick-and-mortar retail and in the field of e-commerce. More than 340 customers have so far visited the centers, using all their senses to explore the latest trends, products and sustainability concepts in the field of Laundry & Home Care.

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

Henkel AG & Co. KGaA (condensed version according to the German Commercial Code [HGB])[1]

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 2020, some 8,400 people were employed at Henkel AG & Co. KGaA.

The operating business of Henkel AG & Co. KGaA represents only a portion of the business activity of the entire Henkel Group, which is managed across the Group by the business units, particularly on the basis of the financial performance indicators: organic sales growth, adjusted return on sales (adjusted EBIT margin), and growth in adjusted earnings per preferred share at constant exchange rates. Only the Group approach can provide complete insight into these key financials (see the discussion of the management system and performance indicators applicable to the Henkel Group on page 101).

Unappropriated profit, the metric that determines a corporation's ability to pay dividends, is a financial performance indicator specifically of Henkel AG & Co. KGaA with its declared aim to ensure the reasonable participation of its shareholders in the net income of the Henkel Group.

The profit generated by Henkel AG & Co. KGaA is dictated by its own operations, which are reflected in the sales figures, among other metrics. Profit levels are also influenced to a large degree by the operations of its subsidiaries. Income from subsidiaries is a substantial contributor to the financial result of Henkel AG & Co. KGaA.

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 105.

[1] 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.

Results of operations

Sales and operating profit

At 3,576 million euros, sales of Henkel AG & Co. KGaA in 2020 declined compared to the previous year. Due to the difficult general business environment caused by the COVID-19 pandemic, sales came in lower than the forecast of matching the prior-year level. Thanks to an improved financial result, in particular, Henkel AG & Co. KGaA was nevertheless able to generate a significantly higher profit. The result was better than the forecasted flat profit. The improved financial result was mainly attributable to higher income from profit and loss transfer agreements.

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

in million euros	2019	2020
Sales	3,625	**3,576**
Cost of goods and services sold	-2,682	**-2,622**
Gross profit	**943**	**954**
Selling and general administrative expenses	-894	**-970**
Research and development expenses	-339	**-349**
Other operating income/expenses	246	**341**
Operating profit	**-44**	**-24**
Financial result	**991**	**1,153**
Income before tax	**947**	**1,129**
Taxes on income	-26	**-36**
Income after tax/ Net income	**921**	**1,093**
Profit brought forward	791	**914**
Unappropriated profit	**1,712**	**2,007**

The Adhesive Technologies business unit achieved sales of 995 million euros in 2020 (previous year: 1,045 million euros). The decrease year on year was due in particular to the significant decline in industrial and automotive production in 2020.

The Beauty Care business unit achieved sales of 480 million euros in 2020 (previous year: 498 million euros). Sales were lower in particular due to declining consumer demand in Germany during the COVID-19 pandemic and to the official closure of hair salons.

The Laundry & Home Care business unit generated sales of 973 million euros in 2020, which – despite the difficult market conditions prevailing – was on a par with the figure for 2019 (previous year: 972 million euros).

Sales in the Corporate segment increased from 1,110 million euros in 2019 to 1,128 million euros in 2020, due primarily to higher income from services to affiliated companies.

The operating profit of Henkel AG & Co. KGaA improved year on year by 20 million euros to -24 million euros, mainly due to an improved balance of other operating income and expenses, which was the result, particularly, of income from affiliates that related to prior periods.

Expense items

Compared to 2019, cost of goods and services sold decreased by 60 million euros to 2,622 million euros, due particularly to lower expenses from intra-Group purchases of products and services. Gross margin increased by 0.7 percentage points to 26.7 percent.

At 690 million euros, selling and distribution expenses were above the prior-year figure of 616 million euros. The proportion of sales was 19.3 percent, up 2.3 percentage points compared to the level of 2019. The increase was mainly the result of higher investments in advertising.

Compared to 2019, general administrative expenses increased by 2 million euros to 280 million euros. Their ratio to sales increased by 0.1 percentage points to 7.8 percent.

Expenditures for research and development in the reporting period increased by 10 million euros to 349 million euros. The proportion of sales increased accordingly compared to 2019, by 0.4 percentage points to 9.8 percent. The higher costs were partly related to increased capital expenditures on digitalization.

On average, approximately 1,150 employees worked in research and development at Henkel AG & Co. KGaA in 2020, supporting the development of innovative solutions for global application. The activities are managed globally by the business units. For an overview of the research and development activities, please refer to the information relating to the Henkel Group on pages 136 to 141.

Restructuring expenses of 80 million euros, included in the expense items mentioned above, came in higher versus 2019 (53 million euros).

Other operating income/expenses

In 2020, the balance of other operating income and expenses (other operating result), at 341 million euros, was higher compared to the prior-year period (246 million euros).

Other operating income increased in 2020 versus the previous year by 72 million euros to 420 million euros, mainly due to cost reimbursements from foreign subsidiaries that relate to prior periods.

At 79 million euros, other operating expenses in 2020 were below the prior-year figure (2019: 102 million euros). The higher prior-year figure was due primarily to a credit note to a foreign subsidiary that related to a prior period.

Financial result

The financial result increased from 991 million euros in 2019 to 1,153 million euros in 2020, mainly as a result of higher income from profit and loss transfer agreements and lower impairments of financial assets.

Taxes on income

Taxes on income amounted to -36 million euros in 2020, compared to -26 million euros in 2019.

Net income and unappropriated profit

Net income amounted to 1,093 million euros and was therefore above the prior-year result of 921 million euros. The increase was mainly attributable to the higher financial result.

Unappropriated profit increased year on year by 295 million euros to 2,007 million euros.

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

in million euros	Dec. 31, 2019	Dec. 31, 2020
Intangible assets and property, plant and equipment	1,397	**1,393**
Financial assets	11,405	**12,632**
Non-current assets	**12,802**	**14,024**
Inventories	15	**15**
Receivables and miscellaneous assets	3,037	**2,014**
Marketable securities	4	**4**
Liquid funds	500	**883**
Current assets	**3,556**	**2,917**
Prepaid expenses	44	**28**
Assets arising from the overfunding of pension obligations	**303**	**333**
Total assets	**16,705**	**17,301**
Equity	**7,084**	**7,386**
Special accounts with reserve element	75	**70**
Provisions	542	**719**
Liabilities/deferred income	9,004	**9,125**
Total equity and liabilities	**16,705**	**17,301**

Net assets and financial position

As of December 31, 2020, the total assets of Henkel AG & Co. KGaA increased compared to year-end 2019 by 596 million euros to 17,301 million euros.

Non-current assets increased to 14,024 million euros, a rise of 1,222 million euros compared to 2019 attributable to changes in financial assets. These were higher as a result, particularly, of a financial receivable being used as a contribution in kind at a German subsidiary.

Fiscal 2020 also saw substantial capital expenditures on non-current assets relating to the further expansion of the central research center of the Adhesive Technologies business unit at the Düsseldorf site, as well as to numerous replacement and expansion investments.

Current assets declined in 2020 from 3,556 million euros to 2,917 million euros, due to lower receivables from affiliated companies. The decrease was partially offset by the increase in liquid funds.

At 333 million euros, the surplus on the assets side arising primarily from the overfunding of pension obligations was higher year on year. The increase was mainly due to the positive performance of the pension plan assets.

Equity increased from 7,084 million euros to 7,386 million euros. The equity ratio increased by 0.3 percentage points to 42.7 percent.

Provisions rose by 177 million euros to 719 million euros, due particularly to higher sales and personnel provisions. The balance of pension obligations and plan assets is reported in assets due to overfunding.

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

Year on year, liabilities and deferred income increased overall by 121 million euros to 9,125 million euros in 2020, due particularly to an increase in commercial paper borrowings. The effect was partially offset by lower financial liabilities to affiliated companies. As the parent company, Henkel AG & Co. KGaA manages the Group's cash pool. The use of cash pools allows largely centralized management of the Group's liquidity, thus facilitating a high degree of financial flexibility.

On the reporting date, Henkel AG & Co. KGaA had eight bonds on its books with a total volume of 2,423 million euros. They include a euro bond with a nominal volume of 700 million euros, four British pound bonds with a total nominal volume of 1,150 British pounds, one Swiss franc bond with a nominal volume of 330 million Swiss francs, and two waste reduction bonds with nominal volumes of 70 million US dollars and 25 million euros respectively. A 600 million US dollar bond was redeemed in 2020.

For an overview of the financing and capital management of Henkel AG & Co. KGaA, please refer to the information relating to the Henkel Group on pages 126 and 127.

Risks and opportunities

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

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

Additional information regarding risks and opportunities and the internal control and risk management system can be found on the following pages 151 to 153.

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 2021 to be on a par with, or slightly above, the figure for 2020. The performance reported for the Group also impacts Henkel AG & Co. KGaA through dividend payments from subsidiaries. Assuming steady development of the financial result, we expect the unappropriated profit generated in 2021 by Henkel AG & Co. KGaA to be flat or slightly higher year on year. 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 166 to 168.

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. Furthermore, within the corporate governance framework, our internal control and compliance management systems support our risk management capability. The risk reporting system encompasses the systematic identification, evaluation, documentation and communication of risks. We have defined the principles, processes and responsibilities relating to risk management in a corporate standard that is binding on the Henkel Group. With the continuous development of our corporate standards and systems, we take into account updated findings.

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

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

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

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

The risk reporting process is supported by internet-based software which ensures transparent communication throughout the entire Group. Our Internal Audit function regularly reviews the quality and efficiency of our risk management system. Within the framework of the 2020 audit of our annual financial statements, our external auditor examined the structure and function of our risk early warning system in accordance with Section 317 (4) German Commercial Code [HGB], and confirmed its compliance.

The following describes the main features of the internal control and risk management system in relation to our accounting processes, in accordance with Section 315 (4) 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 systems, we ensure segregation of duties in our accounting systems between transaction entry on the one hand, and checking and approval on the other. Documentation relating to the operational accounting and closing processes ensures that important tasks – such as the reconciliation of receivables and payables on the basis of account balance confirmations – are clearly assigned. Additionally, binding authorization regulations exist governing the approval of contracts, credit notes and the like, with strict adherence to the principle of dual control as a mandatory requirement. This is also stipulated in our Group-wide corporate standards.

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

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

Major risk categories

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

Overview of major risk categories

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

Classification of risks in ascending order

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

Operating risks

Procurement market risks

Description of risk: We expect year-on-year price increases for direct materials in our procurement markets to be in the low to medium single-digit range in 2021. Due to geopolitical, global economic, and climatic uncertainties, we expect prices to fluctuate in the course of the year. This uncertainty is being exacerbated in particular by the COVID-19 pandemic and the associated impacts on the global economy. This may lead to raw material price trends that are unfavorable for Henkel but cannot always be passed on in full. We therefore see risks arising beyond the forecasted increase in the low to medium single-digit range in relation to important raw materials, packaging materials and purchased goods.

The segments in the industrial goods sector are affected to a greater extent by price risks inherent in the performance of the global raw materials markets than the individual segments in the consumer goods sector. Additional price and supply risks exist due to possible demand- or production-related shortages in the procurement markets.

Furthermore, the COVID-19 pandemic and persisting risks surrounding the world economy, geopolitics and the climate can be expected to cause considerable volatility and uncertainty, and might result in 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 132 and 133. The basis for our risk management approach is provided by a comprehensive procurement information system aimed at ensuring permanent transparency with respect to our purchasing volumes.

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

Production risks

Description of risk: Henkel faces production risks in the event of low capacity utilization due to volume decreases and unplanned operational interruptions, especially at our single-source sites. In light of the COVID-19 pandemic, risks also might occur from disruptions to our supply chains, regional and national restrictions on production workflows or reduced workforce availability.

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 and hygiene 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. Extensive risk exists, in particular, due to the COVID-19 pandemic and the associated impacts on the world economy. This could mean risks for our business, especially in connection with any long-term adverse effect on economic development. A slowdown in production of our industrial customers could lead to less demand for our solutions. In our consumer businesses, lower volumes due to reduced demand could pose risks for our sales, as could changes in purchasing behavior. We also see geopolitical risk arising, especially in connection with a further increase in the number of conflict zones. The departure of the United Kingdom from the European Union (Brexit) poses risks to our business, for example through a potential weakening of the economy.

The impacts of the global trade conflicts are also jeopardizing the global economic climate. A decline in the macroeconomic environment poses a risk to the industrial sector in particular. A downturn in consumer spending is relevant for the consumer goods segments. A further significant risk is posed by an increasingly competitive environment, as this could result in stronger price and promotional pressures in the consumer goods sector. As consolidation in the retail sector continues and private labels occupy a growing share of the market, crowding-out competition in the consumer goods sector could further intensify. The risk of product substitution inherent in this could, in principle, affect all business units. Technological change associated with digitalization may involve risks for the success of our products and processes.

Measures: Our focus is on continuously monitoring the market environment to enable flexible adjustment of our portfolio and our cost structures to dynamic trends. In addition, we concentrate on strengthening our brands (see separate risk description on page 162) and on consistently driving the development of further innovations. We consider innovative products and processes to be a significant success factor for our company, enabling us to differentiate ourselves from the competition. We also pursue specific marketing and sales initiatives, for example advertising and promotional activities. Another central aspect is the advancement of digitalization, for example through the targeted marketing of our products via a dedicated eCommerce platform for our industrial customers. In our consumer businesses, we are also striving to strengthen and expand our share of eCommerce and direct-to-consumer business (for further details, please refer to “Marketing and distribution” on pages 141 to 145). 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

Credit risks

Description of risk: Credit risk is the risk of a debtor failing to meet interest and redemption payment obligations in full and on time. Henkel Group is exposed in particular to the risk of default by customers in the course of its operating activities and to the risk of non-performance by a contracting party in the context of financial investments. With general economic conditions deteriorating as a result of the COVID-19 pandemic, the risk of defaults – particularly with regard to trade accounts receivable – is increasing.

Measures: In order to reduce the credit risk resulting from the operating activities of the Henkel Group, the default risks that our customers might represent are permanently monitored by our credit risk management, which operates on the basis of a globally valid Credit Policy. In addition to minimizing losses on receivables through the application of fixed credit limits, use of customer-specific creditworthiness analyses, risk classifications, and continuous monitoring of risks associated with the receivables concerned, we also implement hedging measures both globally and also selectively on a country- and customer-specific basis. Risk mitigating instruments include credit insurance cover such as global excess-of-loss policies, letters of credit for the export business, plus for example sureties, guarantees and cover notes.

Default risks from financial investments are mitigated by selecting counterparties with good credit ratings and by capping investment amounts. Credit ratings and investment limits are continuously monitored so as to enable intervention in the event that fixed thresholds for ratings and credit default swaps (CDS) are exceeded. Our financial investments are broadly diversified across various counterparties and various financial assets. In addition, netting arrangements are in place to offset bilateral receivables and obligations, and collateral agreements are entered into with key banking partners.

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

Liquidity risks

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

Measures: We mitigate this risk through our long-term management strategy of using financing instruments by issuing bonds with variously staggered terms up to six years, and in different currencies. Supported by our existing debt issuance program, this is also possible on a short-term and flexible basis. Our credit rating is regularly assessed by the rating agencies Standard & Poor’s and Moody’s. We intend to maintain our ratings within a “single A” target corridor. 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 receive liquid funds or to manage liquidity in the short term. We also use our US dollar and euro commercial paper program for short-term liquidity management. In order to ensure the financial flexibility of Henkel at any time, the liquidity within the Group is largely centralized and managed through the use of cash pools. In addition, the Henkel Group has at its disposal confirmed credit lines.

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

Currency risks

Description of risk: Because of the internationality of our business, we are exposed to two types of currency risk. Transaction risks arise from possible exchange rate fluctuations causing changes in the value of future foreign currency cash flows. Translation risks arise 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.

Measures: Transaction risks arising from our operating business are partially avoided by the fact that we 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 currency hedging is to fix prices based on hedging rates so that we are protected from future adverse fluctuations in exchange rates. Because we limit our potential losses, any negative impact on profits is restricted. The transaction risk arising from major financial payables and receivables is extensively hedged. In order to manage these risks, we primarily utilize forward exchange contracts and cross-currency interest rate swaps. The 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.

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

Interest rate risks

Description of 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. The cash funding and cash investment activities of the Henkel Group mainly take place on international money and capital markets. The resulting financial liabilities and our cash deposits are exposed to the risk of changing interest rates.

Measures: The aim of our centralized interest rate management is to reduce the risk by choosing fixed or floating interest rate contracts and by using interest rate derivatives. Henkel's interest management strategy is essentially aligned to optimizing the net interest result for the Group. The decisions made in interest management relate to the bonds, liabilities to banks and commercial paper put in place to secure Group liquidity, the securities and time deposits used for cash investments, and other interest-bearing financial instruments. 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.

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

Risks from pension obligations

Description of risk: Our pension obligations are exposed to various market risks. The risks relate primarily to changes in market interest rates, inflation, and life expectancy. The risks to which the plan assets are exposed are general market price risks.

Measures: We counteract these risks by managing the funding level and the structure of pension commitments. 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 are mainly targeted at funding levels, portfolio structure and actuarial assumptions. The funds earmarked for covering pension obligations are invested in line with an asset-liability study based on the respective expected cash flows of the country-specific pension obligations. 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.

Impact: Moderate probability rating, possible minor impact on our earnings guidance; high probability rating, possible major impact on our equity.

Political environment risks

Description of risk: As a globally operating Group, Henkel is exposed to the risk of major political incidents in certain countries resulting in a loss of assets. They could include the nationalization or dispossession of assets, bans on transfers of capital, state institutions defaulting on accounts receivable, war, terrorist attacks or other forms of upheaval.

Measures: We closely monitor the countries concerned, taking external ratings into account, and ensure risk-optimized funding and the repatriation of excess liquidity. Planned investments are also analyzed with regard to potential political risks, and appropriate requirements specified for the return on investment. If a major political incident occurs, early and targeted risk analysis is performed and mitigation measures are put in place.

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

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 precepts have also been incorporated into our management systems and are regularly reviewed. This includes the early monitoring and evaluation of relevant statutory and regulatory requirements and changes.

Ensuring compliance with laws and regulations is an integral component of our business processes. This includes the early monitoring and evaluation of relevant statutory and regulatory requirements and changes. Henkel has further established a Group-wide compliance organization with locally and regionally responsible compliance officers led by a globally responsible General Counsel & Chief Compliance Officer (details can be found in the corporate governance section on pages 31 to 52). 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 reputational damage is not covered by insurance nor is there any guarantee that Henkel will acquire adequate insurance cover at reasonable terms and conditions in future.

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

IT and cyber risks

Description of risk: Information technology (IT) has strategic significance for Henkel. Our business processes rely to a great extent on internal and external IT services, applications, networks, and infrastructure systems. The failure or disruption of key IT services and the manipulation or loss of data – as a result of unauthorized access, for example – constitute material risks for Henkel. We analyze different potential in-house and external perpetrators and types of threat, such as intent, error or natural phenomena. The failure or disruption of important IT services can impair critical business processes. The loss of confidential data, for example formulations, customer information or price lists, could put us at a disadvantage with our competitors or give rise to legal consequences. Henkel's reputation could also be damaged by such loss.

Measures: The technical and organizational safeguards for assuring information and cyber security at Henkel are based on the international standards ISO 27001 and 27002. Major components include the classification of information and IT applications with respect to confidentiality, availability, integrity and data protection requirements, as well as commensurate measures for mitigating risk. In addition, Henkel has put technical and organizational measures in place to prevent, discover and defeat cyber attacks. Henkel maintains regular contact with other major corporations, associations and specialized service providers to enable the early detection of threats and implementation of effective countermeasures.

Our critical business processes operate through redundantly configured systems designed for high availability. Our data backup procedures reflect best engineering practice. We regularly review our restore and disaster recovery processes.

Access to buildings and areas containing IT systems, as well as user authorizations for our information systems, are limited to the minimum level necessary. For critical business processes, the required segregation of duties is enforced by technological means.

Our IT services are protected against unauthorized external access and are consistently kept up to date. We develop our systems using proven project management and program modification procedures.

We instruct and train our employees in the proper and secure use and operation of information systems as part of their regular duties. We require our IT service providers to maintain a comparable level of IT and cyber security.

The implementation of our security measures is continually reviewed by our Internal Audit function, other internal departments, and independent third parties.

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

Personnel risks

Description of risk: The motivation and the qualification of our employees are key drivers of Henkel's business success. Therefore, it is strategically important to attract highly qualified professionals and executives and ensure they stay with the company. When it comes to selecting and recruiting talent, we are facing increased global competition for the best candidates and we are noticing the effects of demographic change in many of our markets. 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. The Leadership Commitments form the focal point of our efforts to advance our leadership culture and to drive our cultural change. 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 reputation initiatives and through targeted cooperation with colleges and universities in all regions where we conduct business. In addition, talent is targeted through social media with authentic posts relating to the day-to-day activities and experiences of our employees. 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 128 to 131.

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

Risks in connection with the company's reputation and its brands

Description of risk: As a globally active corporation, Henkel is exposed to potential damage to the reputation of its corporate brand – Henkel – or of our product brands, particularly in the consumer goods sector, in the event of negative reports in the media, including social media. These could lead to a negative impact on sales.

Measures: We minimize these risks through the measures described under legal and regulatory risks (see pages 159 and 160). These are designed to ensure that our production facilities and products are safe. We also pursue a policy of pro-active public relations management that serves to reinforce the reputation of our corporate brand and individual product brands. These measures are supported by a global communication network and international and local crisis management systems with regular training sessions.

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

Environmental, safety and health 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.

We assign the highest priority to the health and safety of our employees. Nevertheless, employees may be exposed to health risks as a result of the COVID-19 pandemic, which may result in workforce shortages.

Measures: We minimize these risks through the measures described under legal and regulatory risks (see pages 159 and 160), 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. We have introduced strict hygiene rules and protection strategies at all our sites to counter the COVID-19 pandemic. We provide our employees around the globe with personal protective equipment, make it possible for them to work from home, and have optimized communal areas to comply with strict social distancing rules.

Impact: Moderate 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.

Major opportunity categories

Entrepreneurial opportunities are identified and evaluated at Group level and in the individual business units, and duly incorporated into the strategy and planning processes. We understand the opportunities presented in the following as potential future developments or events that could lead to a positive deviation from our guidance. We also assess the probabilities of price-related procurement market and financial opportunities.

Procurement market opportunities

Description of opportunities: Countervailing the procurement market risks listed on page 155, 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 – in connection with the COVID-19 pandemic, for example.

Impact: The opportunities described could have a major impact on our sales and earnings guidance.

Financial opportunities

Description of opportunities: Countervailing the currency and interest rate risks indicated under financial risks, and the risks arising from pension obligations as described on pages 158 and 159, opportunities may also arise in which the influencing factors described in this section develop in a direction that is advantageous to Henkel.

Impact: We classify financial opportunities as follows:
- Currency opportunities with a moderate probability of a major impact on our earnings guidance
- Interest rate opportunities with a moderate probability of a minor impact on our earnings guidance
- Opportunities arising from our pension obligations with a low probability of a minor impact on our earnings guidance, and with a high 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.

The COVID-19 pandemic has caused a substantial deterioration in global economic conditions compared to the situation prevailing in the previous year, and has also exerted significant influence on the markets. We have established crisis teams in all countries and regions to carefully monitor the COVID-19 pandemic and in order to limit the associated impact through appropriate countermeasures. At Group level, a global crisis team has control of our overarching activities and coordinates communication within the corporation. Our actions are focused on protecting the health and safety of our employees, our customers and our business partners, and on ensuring business continuity.

Compared to the presentation of the major risk categories in the Annual Report 2019, the COVID-19 pandemic has particularly increased the probability of occurrence and/or the potential financial impact of procurement, macroeconomic and sector-specific risks, production, credit and currency risks, and environmental, health and safety risks. Within the classification categories, we have raised procurement, personnel, and environmental, safety and health risks from a low to a moderate probability of occurrence, compared to the presentation in our Annual Report 2019. The likelihood of currency and pension obligation risks occurring (influence on equity) has been raised from moderate to high. We have presented risks in the political environment as a further risk area. Apart from the aforementioned, the overall 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:
Notable recovery and growth of gross domestic product of approximately 4.5 percent
Following the substantial economic slump in 2020 in the wake of the COVID-19 pandemic, world economic growth is expected to recover significantly in 2021. IHS expects gross domestic product to rise notably by approximately 4.5 percent. The further progress of the pandemic and its impacts on the global economy are, however, subject to high uncertainty. Economic development will depend on several critical factors including the duration and intensity of the pandemic and specific health policy countermeasures.

The mature markets should grow by approximately 3.5 percent. The North American economy is expected to grow by approximately 4 percent, Western Europe by around 3 percent, and Japan's economy by around 2 percent.

The emerging markets are forecasted to achieve notable economic growth of approximately 6 percent in 2021, 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. Growth of approximately 3 percent is forecasted for the Eastern Europe region, while the Africa/Middle East region is expected to grow by approximately 5 percent, and the Latin America region by approximately 4 percent.

Inflation:
Global inflation rate at prior-year level
Global inflation in 2021 is expected to be around 2 percent, thus remaining more or less at the level of the previous year. For the mature markets, IHS anticipates inflation of around 1 percent. A slight decline in inflation to approximately 3 percent on average is forecasted for the emerging markets.

Direct materials:
Increase in price levels
We expect price increases for direct materials (raw materials, packaging and purchased goods and services) to be in the low to mid-single-digit percentage range compared to the previous year.

Currencies:
Continued high volatility
We anticipate continued high volatility in the currency markets. Some major currencies in the emerging markets could weaken on average in 2021 compared to 2020. We expect the US dollar to weaken versus the euro.

Development by sector

Consumption and retail:
Recovery and growth of approximately 4.5 percent
IHS expects global private consumption to increase by approximately 4.5 percent in 2021. For the mature markets, IHS anticipates growth of approximately 4 percent. Private spending in the emerging markets is forecasted to rise by around 5 percent.

Industrial production index: Growth of approximately 5.5 percent

IHS expects the industrial production index (IPX) to grow by approximately 5.5 percent worldwide. Industrial production is expected to increase by approximately 5 percent in the mature markets and by approximately 6.5 percent in the emerging markets.

Outlook for the Henkel Group in 2021

Following the sharp decline in global economic growth in 2020 resulting from the COVID-19 pandemic, it is assumed based on current estimates that industrial demand will revive in 2021 and that demand for consumer goods will return to normal as the year progresses. At present, however, demand in some of the areas and regions of importance to Henkel is not expected to regain pre-crisis levels in 2021. In addition, there is a high level of uncertainty about the further course of infection rates as well as the progress of vaccination activities, and thus the development of pandemic-related restrictions.

Given these circumstances, our guidance is based on the assumption that industrial demand and areas of the consumer goods business of relevance to Henkel – the Hair Salon business in particular – will recover, in some cases significantly. In those consumer goods categories that were able to record increased demand in 2020 as a result of the pandemic, we expect consumer demand to return to normal levels. We assume that the restrictions currently in place to contain the pandemic in our core regions will be lifted as the first quarter progresses and that – unlike the second quarter of 2020 in particular – there will be no widespread closures of retail and industrial businesses and production facilities as the year progresses.

Taking these factors into account, we expect the Henkel Group to generate organic sales growth of between 2.0 and 5.0 percent in fiscal 2021.

For the Adhesive Technologies business unit, the performance of which will, to a large extent, depend on the recovery in industrial demand, we expect organic sales growth to range between 2.0 and 6.0 percent. For the Beauty Care business unit, we currently anticipate organic sales growth in the range between 2.0 and 6.0 percent. On a full-year basis, a significant increase in demand in the Hair Salon business should take effect, while continued growth is expected in our Branded Consumer Goods business. We expect the Laundry & Home Care business unit to achieve organic sales growth of between 1.0 and 3.0 percent. Here, the higher customer demand witnessed in some categories in the previous year as a result of the pandemic is expected to return to normal levels over the course of the year with the effect of slowing organic growth.

We expect the contribution to nominal sales growth of the Henkel Group from our acquisitions in 2020 to be in the low single-digit percentage range. Our guidance does not reflect the effects of the intended divestment and discontinuation of business activities, brands and categories as part of our active portfolio management in 2021, since it is not possible to reliably predict if and when such activities will actually occur. The translation of sales in foreign currencies is expected to have a negative effect in the mid-single-digit percentage range.

The anticipated recovery in demand, particularly in our industrial and Hair Salon businesses, is expected to have a positive effect on Henkel's earnings performance in 2021. This is likely to be offset to some degree by countervailing effects arising from increased prices for direct materials, which we assume will rise by a low to mid-single digit percentage, and from adverse changes in foreign currency exchange rates. At the same time, we intend to maintain our strict cost discipline.

We expect the Henkel Group to generate an adjusted return on sales (EBIT margin) of between 13.5 and 14.5 percent. Our expectations with respect to adjusted return on sales in our individual business units are between 15.5 and 16.5 percent for Adhesive Technologies, between 10.5 and 12.0 percent for Beauty Care, and between 15.0 and 16.0 percent for Laundry & Home Care.

Adjusted earnings per preferred share (EPS) at constant exchange rates are expected to increase in the range between 5.0 and 15.0 percent.

Furthermore, we have the following expectations for 2021:

- Restructuring expenses of 250 to 300 million euros
- Cash outflows from investments in property, plant and equipment and intangible assets of between 600 and 700 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 for fiscal 2021 in the range of 30 to 40 percent of net income after non-controlling interests, and adjusted for exceptional items.

Capital expenditures

In fiscal 2021, we plan cash outflows for investments in property, plant and equipment and intangible assets in a range between 600 and 700 million euros. We plan to invest considerable amounts in strengthening our innovation capabilities and in expanding and streamlining our production and logistics. We also intend to drive the digitalization of Henkel through targeted IT investments.

Consolidated financial statements

Consolidated statement of financial position

Assets

in million euros	Note	Dec. 31, 2019[1]	%	Dec. 31, 2020	%
Goodwill	1	12,972	41.3	**12,359**	**40.9**
Other intangible assets	1	4,278	13.6	**3,652**	**12.1**
Property, plant and equipment	2	3,775	12.0	**3,688**	**12.2**
Other financial assets	3	125	0.4	**99**	**0.3**
Income tax refund claims		23	0.1	**5**	**0.0**
Other assets	4	231	0.7	**240**	**0.8**
Deferred tax assets	5	875	2.8	**887**	**2.9**
Non-current assets		**22,279**	**70.9**	**20,930**	**69.2**
Inventories	6	2,187	7.0	**2,189**	**7.2**
Trade accounts receivable	7	3,415	10.9	**3,106**	**10.3**
Other financial assets	3	1,335	4.3	**1,372**	**4.5**
Income tax refund claims		222	0.7	**204**	**0.7**
Other assets	4	472	1.5	**495**	**1.6**
Cash and cash equivalents	8	1,460	4.6	**1,727**	**5.7**
Assets held for sale	9	39	0.1	**228**	**0.8**
Current assets		**9,130**	**29.1**	**9,321**	**30.8**
Total assets		**31,409**	**100.0**	**30,250**	**100.0**

[1] Prior-year figures amended (please refer to the notes on page 188).

Consolidated statement of financial position

Equity and liabilities

in million euros	Note	Dec. 31, 2019[1]	%	Dec. 31, 2020	%
Issued capital	10	438	1.4	**438**	**1.4**
Capital reserve	11	652	2.1	**652**	**2.2**
Treasury shares	12	-91	-0.3	**-91**	**-0.3**
Retained earnings	13	18,659	59.4	**19,152**	**63.3**
Other components of equity	14	-1,135	-3.6	**-2,373**	**-7.8**
Equity attributable to shareholders of Henkel AG & Co. KGaA		**18,523**	**59.0**	**17,778**	**58.8**
Non-controlling interests	15	88	0.3	**101**	**0.3**
Equity		**18,611**	**59.3**	**17,879**	**59.1**
Provisions for pensions and similar obligations	16	635	2.0	**551**	**1.8**
Other provisions	17	307	1.0	**329**	**1.1**
Borrowings	18	1,932	6.2	**1,666**	**5.5**
Other financial liabilities	19	568	1.8	**804**	**2.7**
Other liabilities	20	14	0.0	**27**	**0.1**
Deferred tax liabilities	5	802	2.6	**636**	**2.1**
Non-current liabilities		**4,258**	**13.6**	**4,015**	**13.3**
Other provisions	17	1,653	5.3	**1,915**	**6.3**
Borrowings	18	2,026	6.5	**1,418**	**4.7**
Trade accounts payable	21	3,819	12.2	**3,953**	**13.1**
Other financial liabilities	19	292	0.9	**264**	**0.9**
Other liabilities	20	333	1.1	**352**	**1.2**
Income tax liabilities		417	1.3	**454**	**1.5**
Current liabilities		**8,540**	**27.2**	**8,357**	**27.6**
Total equity and liabilities		**31,409**	**100.0**	**30,250**	**100.0**

[1] Prior-year figures amended (please refer to the notes on page 188).

Contents

Consolidated statement of income

in million euros		Note	2019	%	2020	%	+/-
Sales		24	**20,114**	**100.0**	**19,250**	**100.0**	**-4.3%**
Cost of sales		25	-10,883	-54.1	**-10,378**	**-53.9**	-4.6%
Gross profit			**9,231**	**45.9**	**8,871**	**46.1**	**-3.9%**
Marketing, selling and distribution expenses		26	-4,942	-24.6	**-5,377**	**-27.9**	8.8%
Research and development expenses		27	-499	-2.5	**-501**	**-2.6**	0.5%
Administrative expenses		28	-969	-4.8	**-950**	**-4.9**	-2.0%
Other operating income		29	162	0.8	**115**	**0.6**	-28.9%
Other operating expenses		30	-84	-0.4	**-139**	**-0.7**	65.9%
Operating profit (EBIT)			**2,899**	**14.4**	**2,019**	**10.5**	**-30.4%**
Interest income			13	0.1	**12**	**0.1**	-9.7%
Interest expense			-88	-0.4	**-55**	**-0.3**	-37.2%
Other financial result			-13	-0.1	**-51**	**-0.3**	289.8%
Investment result			–		**–**		
Financial result		31	**-88**	**-0.4**	**-94**	**-0.5**	**6.8%**
Income before tax			**2,811**	**14.0**	**1,925**	**10.0**	**-31.5%**
Taxes on income		32	-708	-3.5	**-501**	**-2.6**	-29.2%
Tax rate	in %		25.2		**26.0**		
Net income			**2,103**	**10.5**	**1,424**	**7.4**	**-32.3%**
Attributable to non-controlling interests		33	18	0.1	**16**	**0.1**	-11.3%
Attributable to shareholders of Henkel AG & Co. KGaA			2,085	10.4	**1,408**	**7.3**	-32.5%
Earnings per ordinary share – basic and diluted	in euros		4.79		**3.23**		-32.6%
Earnings per preferred share – basic and diluted	in euros		4.81		**3.25**		-32.4%

Consolidated statement of comprehensive income

See Notes 16 and 23 for further explanatory information

in million euros	2019[1]	2020
Net income	**2,103**	**1,424**
Results subject to possible future reclassification:		
Exchange differences on translation of foreign operations	245	**-1,290**
Gains/losses from derivative financial instruments (Hedge reserve)	-5	**50**
Gains/losses from debt instruments	1	**-3**
Income taxes on these items	–	**-9**
Results not subject to future reclassification:		
Remeasurement of net liability from defined benefit pension plans	210	**76**
Gains/losses from equity instruments	-7	**2**
Income taxes on these items	-7	**1**
Other comprehensive income (net of taxes)	**437**	**-1,173**
Total comprehensive income for the period	**2,540**	**251**
Attributable to non-controlling interests	15	**4**
Attributable to shareholders of Henkel AG & Co. KGaA	2,525	**247**

[1] Prior-year figures amended due to separate disclosure of income taxes starting in fiscal 2020.

Consolidated statement of changes in equity

See Notes 10 to 15 for further explanatory information

	Issued capital					Other components of equity					
in million euros	Ordinary shares	Preferred shares	Capital reserve	Treasury shares	Retained earnings	Currency translation	Hedge reserve	Reserve for equity and debt instruments	Shareholders of Henkel AG & Co. KGaA	Non-controlling interests	Total
At January 1, 2019	**260**	**178**	**652**	**-91**	**17,254**	**-1,176**	**-199**	**3**	**16,881**	**84**	**16,965**
Net income	–	–	–	–	2,085	–	–	–	2,085	18	**2,103**
Other comprehensive income	–	–	–	–	203	248	-5	-6	440	-3	**437**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**2,288**	**248**	**-5**	**-6**	**2,525**	**15**	**2,540**
Dividends	–	–	–	–	-798	–	–	–	-798	-19	**-817**
Share-based payments	–	–	–	–	11	–	–	–	11	–	**11**
Changes in ownership interest with no change in control	–	–	–	–	8	–	–	–	8	-8	**–**
Capital increase of a subsidiary with non-controlling interests	–	–	–	–	–	–	–	–	–	8	**8**
Acquisition of a subsidiary with non-controlling interests	–	–	–	–	–	–	–	–	–	12	**12**
Other changes in equity	–	–	–	–	-104	–	–	–	-104	-4	**-108**
Equity transactions with shareholders	**–**	**–**	**–**	**–**	**-883**	**–**	**–**	**–**	**-883**	**-11**	**-894**
At Dec. 31, 2019/Jan. 1, 2020	**260**	**178**	**652**	**-91**	**18,659**	**-928**	**-204**	**-3**	**18,523**	**88**	**18,611**
Net income	–	–	–	–	1,408	–	–	–	1,408	16	**1,424**
Other comprehensive income	–	–	–	–	77	-1,278	40	0	-1,161	-12	**-1,173**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**1,485**	**-1,278**	**40**	**0**	**247**	**4**	**251**
Dividends	–	–	–	–	-798	–	–	–	-798	-13	**-811**
Share-based payments	–	–	–	–	14	–	–	–	14	–	**14**
Acquisition of a subsidiary with non-controlling interests	–	–	–	–	–	–	–	–	–	22	**22**
Other changes in equity	–	–	–	–	-208	–	–	–	-208	–	**-208**
Equity transactions with shareholders	**–**	**–**	**–**	**–**	**-992**	**–**	**–**	**–**	**-992**	**9**	**-983**
At December 31, 2020	**260**	**178**	**652**	**-91**	**19,152**	**-2,206**	**-164**	**-3**	**17,778**	**101**	**17,879**

Consolidated statement of cash flows

See Note 39 for further explanatory information

in million euros	2019[1]	2020
Operating profit (EBIT)	**2,899**	**2,019**
Income taxes paid	-607	**-618**
Amortization/depreciation/impairment/write-ups of intangible assets, property, plant and equipment, and assets held for sale	757	**1,096**
Net gains/losses on disposal of intangible assets and property, plant and equipment, and from divestments	-11	**-15**
Change in inventories	–	**-141**
Change in trade accounts receivable	241	**102**
Change in other assets	43	**-90**
Change in trade accounts payable	63	**295**
Change in other liabilities, provisions and equity	-144	**431**
Cash flow from operating activities	**3,241**	**3,080**
Purchase of intangible assets and property, plant and equipment including payments on account	-677	**-715**
Acquisition of subsidiaries and other business units	-564	**-452**
Acquisition of associates and other investments	-18	**-18**
Proceeds on disposal of subsidiaries, other business units and investments	8	**53**
Proceeds on disposal of intangible assets and property, plant and equipment	78	**20**
Financial receivables issued to third parties	-18	**–**
Change in other current financial assets[2]	-270	**-149**
Cash flow from investing activities	**-1,461**	**-1,261**
Dividends paid to shareholders of Henkel AG & Co. KGaA	-798	**-798**
Dividends paid to non-controlling shareholders	-19	**-13**
Interest received	28	**16**
Interest paid[3]	-98	**-79**
Dividends and interest paid and received	*-887*	***-874***
Issuance of bonds	847	**518**
Repayment of bonds	-666	**-534**
Repayment of non-current bank liabilities	–	**–**
Other changes in borrowings	-519	**-541**
Redemption of lease obligations	-125	**-139**

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in million euros	2019[1]	2020
Allocations to pension funds	-50	**-67**
Other changes in pension obligations	24	**155**
Payments for the acquisition of treasury shares	–	**–**
Payments for the acquisition of non-controlling interests with no change in control	-21	**–**
Other financing transactions[2]	2	**7**
Cash flow from financing activities	**-1,395**	**-1,475**
Net change in cash and cash equivalents	385	**344**
Effect of exchange rates on cash and cash equivalents	12	**-77**
Change in cash and cash equivalents	**397**	**267**
Cash and cash equivalents at January 1	1,063	**1,460**
Cash and cash equivalents at December 31	**1,460**	**1,727**

Additional voluntary information: Reconciliation to free cash flow

in million euros	2019[1]	2020
Cash flow from operating activities	3,241	**3,080**
Purchase of intangible assets and property, plant and equipment including payments on account	-677	**-715**
Redemption of lease obligations	-125	**-139**
Proceeds on disposal of intangible assets and property, plant and equipment	78	**20**
Net interest paid	-70	**-63**
Other changes in pension obligations	24	**155**
Free cash flow	**2,471**	**2,338**

[1] Prior-year figures amended (please refer to the notes on page 188).
[2] Effective from fiscal 2020, payments for and proceeds from the purchase and sale of current financial assets are allocated to cash flow from investing activities and no longer to cash flow from financing activities. Prior-year figures have been amended accordingly.
[3] Including interest paid in connection with lease liabilities.

Group segment report by business unit

in million euros	Adhesive Technologies	Beauty Care	Laundry & Home Care	Operating business units total	Corporate	Henkel Group
Sales 2020	**8,684**	**3,752**	**6,704**	**19,140**	**110**	**19,250**
Proportion of Henkel sales	45%	19%	35%	**99%**	1%	**100%**
Sales 2019	9,461	3,877	6,656	**19,994**	121	**20,114**
Change versus previous year	-8.2%	-3.2%	0.7%	**-4.3%**	-9.1%	**-4.3%**
Adjusted for foreign exchange	-4.5%	-0.4%	5.6%	**-0.3%**	–	**-0.4%**
Organic	-4.2%	-2.8%	5.6%	**-0.7%**	–	**-0.7%**
Operating profit (EBIT) 2020	**1,248**	**246**	**688**	**2,181**	**-162**	**2,019**
Operating profit (EBIT) 2019	1,631	418	973	**3,022**	-123	**2,899**
Change versus previous year	-23.5%	-41.2%	-29.3%	**-27.8%**	–	**-30.4%**
Return on sales (EBIT margin) 2020	**14.4%**	**6.6%**	**10.3%**	**11.4%**	**–**	**10.5%**
Return on sales (EBIT margin) 2019	17.2%	10.8%	14.6%	**15.1%**	–	**14.4%**
Adjusted operating profit (adjusted EBIT) 2020	**1,320**	**377**	**1,004**	**2,701**	**-122**	**2,579**
Adjusted operating profit (adjusted EBIT) 2019	1,712	519	1,096	**3,328**	-108	**3,220**
Change versus previous year	-22.9%	-27.5%	-8.4%	**-18.8%**	–	**-19.9%**
Adjusted return on sales (adjusted EBIT margin) 2020	**15.2%**	**10.0%**	**15.0%**	**14.1%**	**–**	**13.4%**
Adjusted return on sales (adjusted EBIT margin) 2019	18.1%	13.4%	16.5%	**16.6%**	–	**16.0%**
Capital employed 2020[1]	**9,304**	**4,405**	**7,473**	**21,182**	**142**	**21,325**
Capital employed 2019[1]	9,464	4,131	7,722	**21,316**	144	**21,460**
Change versus previous year	-1.7%	6.6%	-3.2%	**-0.6%**	–	**-0.6%**
Return on capital employed (ROCE) 2020	**13.4%**	**6.2%**	**9.3%**	**10.4%**	**–**	**9.6%**
Return on capital employed (ROCE) 2019	17.2%	10.1%	12.6%	**14.2%**	–	**13.5%**

TABLE CONTINUED ON NEXT PAGE

in million euros	Adhesive Technologies	Beauty Care	Laundry & Home Care	Operating business units total	Corporate	Henkel Group
Amortization/depreciation/impairment/write-ups of intangible assets and property, plant and equipment 2020[2]	**346**	**206**	**502**	**1,053**	**43**	**1,096**
Of which: impairment 2020	**16**	**90**	**251**	**357**	**22**	**378**
Of which: write-ups 2020	**–**	**–**	**–**	**–**	**–**	**–**
Amortization/depreciation/impairment/write-ups of intangible assets and property, plant and equipment 2019[2]	358	106	268	**732**	25	**757**
Of which: impairment 2019	23	6	14	**43**	–	**43**
Of which: write-ups 2019	-3	–	–	**-3**	–	**-3**
Additions to non-current assets 2020	**561**	**473**	**356**	**1,390**	**12**	**1,402**
Additions to non-current assets 2019	385	712	287	**1,384**	17	**1,401**
Operating assets 2020[3]	**11,693**	**5,803**	**10,627**	**28,123**	**576**	**28,699**
Operating liabilities 2020	**3,118**	**1,840**	**3,048**	**8,005**	**434**	**8,439**
Net operating assets 2020[3]	**8,575**	**3,963**	**7,579**	**20,117**	**142**	**20,260**
Operating assets 2019[3]	11,985	5,679	10,820	**28,484**	586	**29,070**
Operating liabilities 2019	3,086	1,738	2,913	**7,737**	442	**8,179**
Net operating assets 2019[3]	8,899	3,941	7,907	**20,747**	144	**20,891**

[1] Including goodwill at cost prior to any accumulated impairment in accordance with IFRS 3.79(b).

[2] Including depreciation, impairment and write-ups of right-of-use assets.

[3] Including goodwill at net carrying amounts.

Key financials by region

Key financials by region

in million euros	Western Europe	Eastern Europe	Africa/ Middle East	North America	Latin America	Asia-Pacific	Corporate	Henkel Group
Sales 2020[1]	**5,782**	**2,919**	**1,208**	**5,173**	**1,090**	**2,968**	**110**	**19,250**
Sales 2019[1]	6,017	2,999	1,302	5,276	1,295	3,105	121	20,114
Change versus previous year	-3.9%	-2.7%	-7.2%	-2.0%	-15.8%	-4.4%	–	-4.3%
Organic	-4.4%	7.1%	7.0%	-2.2%	-0.5%	-1.6%	–	-0.7%
Proportion of Group sales 2020	**30%**	**15%**	**6%**	**27%**	**6%**	**15%**	**1%**	**100%**
Proportion of Group sales 2019	30%	15%	7%	26%	6%	15%	1%	100%
Operating profit (EBIT) 2020	**1,457**	**228**	**31**	**-88**	**69**	**484**	**-162**	**2,019**
Operating profit (EBIT) 2019	1,725	278	106	337	145	431	-123	2,899
Change versus previous year	-15.5%	-18.0%	-70.2%	-126.1%	-52.5%	12.2%	–	-30.4%
Adjusted for foreign exchange	-15.6%	0.3%	-53.8%	-124.8%	-36.3%	15.2%	–	-26.6%
Return on sales (EBIT margin) 2020	**25.2%**	**7.8%**	**2.6%**	**-1.7%**	**6.3%**	**16.3%**	**–**	**10.5%**
Return on sales (EBIT margin) 2019	28.7%	9.3%	8.1%	6.4%	11.2%	13.9%	–	14.4%

[1] By location of company.

In 2020, the subsidiaries domiciled in Germany, including Henkel AG & Co. KGaA, generated sales of 2,281 million euros (previous year: 2,382 million euros). Sales realized by the subsidiaries domiciled in the USA amounted to 4,819 million euros in 2020 (previous year: 4,899 million euros). Subsidiaries domiciled in China achieved sales of 1,368 million euros in 2020 (previous year: 1,390 million euros). In fiscal 2019 and 2020, 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, 2020 (excluding financial instruments and deferred tax assets) amounting to 19,944 million euros (previous year: 21,275 million euros), 2,751 million euros (previous year: 2,497 million euros) was attributable to the subsidiaries domiciled in Germany, including Henkel AG & Co. KGaA. The non-current assets (excluding financial instruments and deferred tax assets) recognized in respect of the subsidiaries domiciled in the USA amounted to 10,450 million euros at December 31, 2020 (previous year: 11,723 million euros).

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, 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs), 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 315e German Commercial Code [HGB]. The financial statements are based on the going concern principle. The consolidated financial statements are published in the Federal Gazette.

The individual financial statements of the companies included in the consolidation are prepared on the same accounting date, December 31, 2020, as that of Henkel AG & Co. KGaA.

Members of the PwC 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, 2021 and approved them for forwarding to the Supervisory Board and for publication.

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. All individual figures have been rounded. Addition may result in deviations from the totals indicated. 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, 2020 include 22 German and 193 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 controls a company when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Companies in which the stake held represents less than half of the voting rights are fully consolidated if Henkel AG & Co. KGaA controls them, as defined in IFRS 10 Consolidated Financial Statements, through contractual agreements or the right to appoint corporate bodies.

Henkel AG & Co. KGaA prepares the consolidated financial statements for the largest and the smallest groups of companies to which Henkel AG & Co. KGaA and its subsidiaries belong.

The following table shows the changes to the scope of consolidation in fiscal 2020:

Scope of consolidation

At January 1, 2020	**215**
Additions	11
Mergers	-7
Disposals	-3
At December 31, 2020	**216**

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. For simplification purposes, investments in these subsidiaries are recognized at cost less impairment. 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 September 1, 2020, Henkel acquired 75 percent of the shares in a holding company whose subsidiaries operate businesses involving the three premium direct-to-consumer brands HelloBody, Banana Beauty and Mermaid+Me. The provisional purchase price was 299 million euros, settled in cash. With regard to the remaining 25 percent of shares, put and call options have been agreed between Henkel and the sellers. Since the economic benefits of the non-controlling interests do not yet accrue to the Henkel Group, the present access method is used to recognize the put options granted to non-controlling shareholders. The non-controlling interests continue to be recognized in the statement of financial position and the statement of comprehensive income. In recognition of the commitment in connection with the put option granted to the non-controlling shareholders, a financial liability was recognized upon first-time consolidation in an amount equal to the discounted expected purchase price and subsequently measured through equity. As of December 31, 2020, the liability amounted to 191 million euros. Provisional goodwill was capitalized in an amount of 238 million euros. With this acquisition, the Beauty Care unit will significantly expand its direct-to-consumer activities while adding strong digital capabilities in relation to areas such as performance marketing, analytics and agile innovation.

In addition, Henkel acquired the consumer sealants business operating under the licensed GE brand on November 2, 2020. The final purchase price was 153 million euros, settled in cash. Provisional goodwill was capitalized in an amount of 133 million euros.

The provisional goodwill acquired through the aforementioned acquisitions represents the growth potential of the acquired businesses, as well as both offensive and defensive synergies resulting from the acquisitions.

We also raised the stake in our subsidiary Persil Service GmbH, Düsseldorf, from 45 percent to 75 percent. The acquisition of the additional shares cost 4 million euros.

Because some of the information that is crucial for valuation is not yet available, the allocation of the purchase price to the acquired assets and liabilities in accordance with IFRS 3 Business Combinations is provisional both in respect of the shares in Henkel Beauty & IB Holding GmbH, the subsidiaries of which operate the businesses involving the HelloBody, Banana Beauty and Mermaid+Me brands acquired effective September 1, 2020, and in respect of the business with sealants for consumers under the licensed GE brand acquired effective November 2, 2020. Also and above all, determination of the fair value of the other intangible assets, provisions and deferred taxes and the resulting goodwill from the acquisition has not yet been finalized.

The fair values of the acquired assets and liabilities were determined by the contracts and available opening balances on each respective acquisition date. The recognition and measurement principles adopted by the Henkel Group were applied.

Acquisitions 2020

in million euros	Fair value
Goodwill	375
Other intangible assets	126
Property, plant and equipment	4
Other non-current assets	4
Non-current assets	**509**
Inventories	10
Trade accounts receivable	3
Liquid funds	8
Other current assets	13
Current assets	**33**
Total assets	**542**
Net assets	**478**
Non-current liabilities	**39**
Other current provisions/liabilities	15
Trade accounts payable	11
Current liabilities	**25**
Total equity and liabilities	**542**

Reconciliation of the purchase price to provisional goodwill

in million euros	2020
Acquisitions 2020	
Purchase price	456
Non-controlling interests based on shares of recognized assets and liabilities	22
Fair value of the acquired assets and liabilities (provisional)	103
Provisional goodwill	**375**

If the aforementioned acquisitions had been completed – and thus their business activities included – effective January 1, 2020, sales of the Henkel Group for the reporting period January 1 to December 31, 2020 would have been higher by 212 million euros and income after tax would have been higher by 11 million euros after deduction of acquisition-related incidental costs.

The business activities actually contributed 42 million euros to sales and 0.3 million euros to income after tax. Acquisition-related incidental costs amounted to 2 million euros.

Divestments

On April 1, 2020, we sold our Asian business involving surface cleaners used within the semi-conductor and LCD industries. The sale price was around 51 million euros.

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 attributable to subsidiaries is measured in the functional currency of the subsidiary.

Entities acquired are included in the consolidation for the first time as subsidiaries by offsetting the carrying amount of the respective parent company's investment in them against their assets and liabilities. Contingent consideration is recognized at fair value as of the date of first-time consolidation. Subsequent changes in value do not result in an adjustment to the valuation at the time of acquisition. (Incidental) costs relating to the acquisition of participating interests in entities are not included in the purchase price. Instead, they are recognized through profit or loss in the period in which they occur.

In the recognition of acquisitions of less than 100 percent of the shares in a company, non-controlling interests are measured at the fair value of the proportion of net assets that they represent. The Henkel Group uses the present access method to recognize put options granted on non-controlling interests, unless the acquisition of the outstanding non-controlling interests has already been realized from an accounting standpoint. This method requires the recognition of a financial liability, remeasured through equity, for the commitment associated with the put options granted. The non-controlling interests continue to be recognized in the statement of financial position and the statement of comprehensive income.

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 equity transactions between shareholders.

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.

Associates

An associate is a company over which the Group can exercise significant influence on the financial and operating policies without controlling it. Significant influence is generally assumed when the Group holds 20 percent or more of the voting rights. Where a Group company conducts transactions with an associate, the resulting profits or losses are eliminated in accordance with the share of the Group in that company.

Shares in associates are generally recognized using the equity method. For simplification purposes, investments in associates that are less relevant for the Group and for the presentation of a fair view of its net assets, financial position and results of operations, are recognized at cost less impairment.

The carrying amount of the companies recognized by the Group using the equity method as of December 31, 2020 was 0 million euros (previous year: 0 million euros).

Currency translation

The annual financial statements, including the hidden reserves and hidden charges of Group companies recognized by the purchase method, goodwill arising on capital consolidation, and the statement of cash flows, are translated into euros using the functional currency method outlined in IAS 21 The Effects of Changes in Foreign Exchange Rates. The functional currency is the currency in which a foreign company predominantly generates funds and makes payments. As the functional currency for all the companies included in the consolidation is generally the local currency of the company concerned, assets and liabilities are translated at closing rates, while income and expenses are translated at the average rates for the year as an approximation of the actual rates at the date of the transaction. Equity items are recognized at historical exchange rates. The differences arising from using average rather than closing rates are taken to equity and shown as other components of equity, or as non-controlling interests, and remain neutral in respect of net income until the shares in the Group company 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

		Average exchange rate		Exchange rate on December 31	
	ISO code	2019	2020	2019	2020
Chinese yuan	CNY	7.74	**7.87**	7.82	**8.02**
Mexican peso	MXN	21.56	**24.52**	21.22	**24.42**
Polish zloty	PLN	4.30	**4.44**	4.26	**4.56**
Russian ruble	RUB	72.48	**82.66**	69.96	**91.47**
Turkish lira	TRY	6.36	**8.05**	6.68	**9.11**
US dollar	USD	1.12	**1.14**	1.12	**1.23**

Recognition and measurement methods

Summary of selected measurement methods

Financial statement items	Measurement method
Assets	
Goodwill	Lower of initially recognized value of acquisitions as per IFRS 3 and comparative figure following impairment testing at the level of the cash-generating units (“impairment only” method)
Other intangible assets	
With indefinite useful lives	Lower of cost and recoverable amount (“impairment only” method)
With definite useful lives	Amortized cost less any impairment losses
Property, plant and equipment	Depreciated cost less any impairment losses
Financial assets (categories per IFRS 9)	
Amortized cost	Amortized cost using the effective interest method
Fair value through profit or loss	Fair value with gains or losses recognized in the income statement
Fair value through other comprehensive income	Fair value with gains or losses recognized in other comprehensive income[1]
Other assets	(Amortized) cost
Inventories	Lower of cost and fair value less costs to sell
Assets held for sale	Lower of carrying amount and fair value less costs to sell

[1] Apart from impairment equivalent to the expected credit losses, and from effects arising from measurement in a foreign currency.

Equity and liabilities	
Provisions for pensions and similar obligations	Present value of future obligations (projected unit credit method)
Other provisions	Settlement amount
Financial liabilities (categories per IFRS 9)	
Amortized cost	Amortized cost using the effective interest method
Fair value through profit or loss	Fair value with gains or losses recognized in the income statement
Other liabilities	Settlement amount

The methods of recognition and measurement, which are basically unchanged from the previous year, are described in detail in the notes relating to the individual items of the statement of financial position. Also provided as part of the financial instruments report (Note 23 on pages 227 to 252) are the disclosures relevant for the Henkel Group with regard to IFRS 7 Financial Instruments: Disclosures, showing the breakdown of our financial instruments by class, our methods for fair value measurement, and the derivative financial instruments that we use. Changes to International Financial Reporting Standards (IFRSs) that were applied for the first time in the year under review are discussed in the section entitled "New international accounting regulations according to International Financial Reporting Standards (IFRSs)" on pages 189 to 192. Changes in the methods of recognition and measurement arising from revised and new standards are applied retrospectively, provided that the effect is material and there are no alternative regulations. The consolidated statement of income from the previous year and the opening balance for this comparative period are amended as if the new methods of recognition and measurement had always been applied.

Accounting estimates, assumptions and discretionary judgments

Preparation of the consolidated financial statements is based on a number of accounting estimates and assumptions. These have an impact on the reported amounts of assets, liabilities and contingent liabilities at the reporting date and the disclosure of income and expenses for the reporting period. The actual amounts may differ from these estimates.

The accounting estimates and their underlying assumptions are based on past experience and are continually reviewed. Changes in accounting estimates are recognized in the period in which the change takes place where such change exclusively affects that period. A change is recognized in the period in which it occurs and in later periods where such change affects both the reporting period and subsequent periods. The judgments of the Management Board regarding the application of those IFRSs which have a significant impact on the consolidated financial statements are presented, in particular, in the explanatory notes on goodwill and other intangible assets (Note 1 on pages 194 to 199), right-of-use assets recognized in property, plant and equipment (Note 2 on pages 200 to 203), provisions for pensions and similar obligations (Note 16 on pages 210 to 221), other provisions (Note 17 on pages 222 and 223), financial instruments (Note 23 on pages 227 to 252), sales (Note 24 on pages 253 and 254), income taxes (Note 22 on page 226 and Note 32 on pages 256 to 258), and share-based payment plans (Note 36 on pages 261 to 264).

In light of the global COVID-19 pandemic, estimates required when preparing the consolidated financial statements are subject to greater uncertainty in some areas. This is especially true of estimates of any possible impairment of non-financial assets, such as goodwill and other intangible assets. Particular attention has therefore been paid to the heightened uncertainty surrounding future cash flows in the sensitivity analyses conducted as part of impairment testing (see Note 1 on pages 194 to 199).

Details of the impacts of the COVID-19 pandemic on the valuation of financial instruments can be found in Note 23 on pages 227 to 252.

Material discretionary judgments are made in respect of the demarcation of the cash-generating units as explained in Note 1 on pages 194 to 199 and the segment reporting as explained in Note 37 on pages 264 to 266. Put options granted on non-controlling interests require estimation as to whether the Henkel Group is already the beneficiary of these shares or not, and hence, whether the present access method must be applied.

Amendment of prior-year figures

The allocation of the purchase price for all shares in Deva Parent Holdings, Inc., New York City, USA, and the majority shareholding in eSalon.com LLC, Los Angeles, USA, was finalized in fiscal 2020. The prior-year figures were subsequently amended accordingly. The adjustment included an increase of 4 million euros in intangible assets and of 12 million euros for deferred tax assets. The prior-year figure for current assets was reduced by 10 million euros in total. Conversely, deferred tax liabilities decreased by 13 million euros while other current provisions increased by 19 million euros.

Amendments to the consolidated statement of financial position

in million euros	Dec. 31, 2019 reported	Amendments	Dec. 31, 2019 amended
Goodwill	12,922	51	**12,972**
Other intangible assets	4,324	-46	**4,278**
Property, plant and equipment	3,775	–	**3,775**
Deferred tax assets	863	12	**875**
Non-current assets	**22,263**	**16**	**22,279**
Inventories	2,193	-6	**2,187**
Trade accounts receivable	3,413	2	**3,415**
Income tax refund claims	225	-3	**222**
Other assets	473	-1	**472**
Cash and cash equivalents	1,462	-2	**1,460**
Current assets	**9,140**	**-10**	**9,130**
Total assets	**31,403**	**6**	**31,409**
Equity	**18,611**	**–**	**18,611**
Deferred tax liabilities	815	-13	**802**
Non-current liabilities	**4,271**	**-13**	**4,258**
Other provisions	1,634	19	**1,653**
Current liabilities	**8,521**	**19**	**8,540**
Total equity and liabilities	**31,403**	**6**	**31,409**

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

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

	Mandatory for fiscal years beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
IAS 1 and IAS 8 (Amendment) Definition of Material	January 1, 2020
IFRS 3 (Amendment) Definition of a Business	January 1, 2020
IFRS 9, IAS 39 and IFRS 7 (Amendment) Interest Rate Benchmark Reform	January 1, 2020
IFRS 16 (Amendment) Covid 19-Related Rent Concessions	January 1, 2020

Amendments to references to the conceptual framework in IFRSs

Following revision of the conceptual framework of the IFRSs, corresponding references to same were updated in various standards. These – primarily editorial – changes do not directly influence the consolidated financial statements.

IAS 1 and IAS 8 (Amendment)

Following the amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the term "materiality" has been defined more narrowly. Whereas the former interpretation meant that the omission or misrepresentation of the information could serve to influence users of the financial statements, information is now likewise classed as material if obscuring it with immaterial information can have an influencing effect. This also applies if such an effect can reasonably be expected. According to the new definition, however, this must be seen in relation to the primary users of the financial statements only. While the amendments to IAS 1 and IAS 8 have produced a more precise definition of the term "material," they do not currently exert any tangible influences on the consolidated financial statements.

IFRS 3 (Amendment)

In its amendments to IFRS 3, the standard-setter has included a more precise definition of a "business" such that it requires an input and a substantive process that together significantly contribute to the ability to create outputs. The requirement to assess whether market participants are capable of replacing any missing elements has been removed. It is also stated that if an entity is acquired before it starts generating sales, the organized workforce must also be taken on before a business acquisition can be assumed. If a business acquisition cannot be assumed, IFRS 3 is not applicable and therefore, for example, goodwill cannot be recognized. Now that the definition of a business has been narrowed, some acquisitions by the Henkel Group may in future be classified as the purchase of a group of assets, rather than qualifying as a business per IFRS 3.

IFRS 9, IAS 39 and IFRS 7 (Amendment)

Following the replacement of interest rate benchmarks as part of the IBOR reform, the standard-setter amended those standards that govern the accounting policies and presentation of financial statements – IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7 – as part of Phase 1 of the respective project of the International Accounting Standards Board (IASB). These amendments allow for a continuous application of hedge accounting for hedging transactions directly affected by the IBOR reform. They enable the simplified demonstration of the highly probable occurrence of cash flows under designated cash flow hedges that are dependent on an IBOR. The same applies to the effectiveness of hedges. Since there were no occurrences requiring application of the simplification rules within the Henkel Group in fiscal 2020, the amendments to IFRS 9, IAS 39 and IFRS 7 do not have any impact on the consolidated financial statements.

IFRS 16 (Amendment)
The amendments to IFRS 16 Leases provide lessees with an exemption from assessing whether a COVID-19-related rent concession – such as waiving or deferring payments – is a lease modification. Instead, the changes in cash flows can, as a rule, be treated as variable lease payments. The exemption from the general rules governing modification is only applicable to rent concessions received prior to June 30, 2021. Since the Henkel Group did not receive any such rent concessions in fiscal 2020, the amendment does not affect the consolidated financial statements of Henkel.

Accounting regulations not yet applied
The following accounting regulations have already been adopted into EU law (endorsed) but were not yet applicable in fiscal 2020 or were not voluntarily applied by the Henkel Group in advance of their effective date:

Accounting regulations not yet applied

	Mandatory for fiscal years beginning on or after
IFRS 4 (Amendment) Deferral of IFRS 9	January 1, 2021
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendment) Interest Rate Benchmark Reform – Phase 2	January 1, 2021

The accounting standards and amendments to existing standards that have not yet been applied are not generally expected to have any significant impact on the consolidated financial statements.

IFRS 4 (Amendment)
Following amendment of IFRS 4 Insurance Contracts, insurance companies are temporarily allowed to continue using IAS 39 for financial instrument accounting instead of IFRS 9, until IFRS 17 Insurance Contracts becomes applicable.

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendment)
As part of Phase 2 of the IASB's IBOR reform project, further practical expedients have been defined with regard to interest-bearing original financial instruments and to hedge accounting. Unlike Phase 1 of the project, these amendments to existing standards IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relate to the effects of actually replacing interest rate benchmarks. For example, as a practical expedient when accounting for financial instruments measured at amortized cost, the replacement of the interest rate benchmark can be represented through amendment to the effective interest rate. In addition, for hedge accounting purposes, for example, designated hedged items and hedging transactions may be adjusted to reflect the changed interest rate benchmark.

Accounting regulations not yet adopted into EU law

In fiscal 2020, the IASB issued the following standards and amendments to existing standards of relevance to Henkel, which still have to be adopted into EU law before they become applicable:

Accounting regulations not yet adopted into EU law

	Mandatory for fiscal years beginning on or after
Improvements to IFRSs 2018–2020	January 1, 2022
IFRS 3 (Amendment) Reference to the Conceptual Framework	January 1, 2022
IAS 16 (Amendment) Proceeds before Intended Use	January 1, 2022
IAS 37 (Amendment) Onerous Contracts – Cost of Fulfilling a Contract	January 1, 2022
IAS 1 (Amendment) Classification of Liabilities as Current or Non-current and Deferral of Effective Date	January 1, 2023
IFRS 17 Insurance Contracts (including Amendments)	January 1, 2023

The accounting standards and amendments to existing standards not yet adopted into EU law are not generally expected to have any significant impact on the consolidated financial statements.

Improvements to IFRSs 2018–2020

Four standards were amended in the 2018–2020 cycle of annual improvements to IFRSs. The amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards permit a subsidiary to measure not only assets and liabilities but also cumulative translation differences using the amounts reported by its parent if it does not apply the IFRSs to its individual financial statements until after the parent's transition. These amounts must, however, be amended for consolidation adjustments and any other adjustments performed by the parent under IFRS 3 in connection with the acquisition of the subsidiary.

The amendments to IFRS 9 clarify which fees are to be included in the 10-percent test to ascertain whether a change in cash flows from a financial liability represents a substantial modification requiring derecognition of the liability. The fees to be included are, accordingly, only fees and costs that are payable by the debtor to the creditor or vice versa or that are paid on behalf of both parties.

As part of the annual improvements, one of the Illustrative Examples in IFRS 16 was amended that had formerly caused a deal of confusion with regard to classifying payments by the lessor to the lessee in connection with tenant fixtures. Following the removal of references to payment made by the lessor from the example, according to the general regulations of the standard such payments only constitute lease incentives if the tenant fixtures in question represent assets belonging to the lessee.

Amendments were also made to IAS 41 Agriculture relating to the inclusion of tax effects in the initial and subsequent measurement of agricultural products.

IFRS 3 (Amendment)

Following the revision of the IFRS conceptual framework published in 2018, corresponding references to the conceptual framework in IFRS 3 were amended, with clarification requiring that contingent assets acquired through a business combination should not be recognized. The amendments are mostly of an editorial nature.

IAS 16 (Amendment)

The IASB has amended IAS 16 Property, Plant and Equipment to clarify that proceeds from selling items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management may not be deducted from the cost of said asset. Instead they must be recognized in profit.

IAS 37 (Amendment)

The planned amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets specify which costs comprise the costs of contract fulfillment when determining whether a contract is onerous. Accordingly, these costs include both incremental costs of fulfilling the contract, such as direct labor or material costs, and also allocated overhead costs that relate directly to the fulfillment of the contract, such as depreciation of certain property, plant and equipment.

IAS 1 (Amendment)

In its amendments to IAS 1, the IASB clarifies that the classification of liabilities as current or non-current is determined by the rights and obligations in place at the reporting date. Any expectations of management or events after the reporting date that could affect the classification are to be ignored. Due to the COVID-19 pandemic, the IASB has deferred the effective date of this amendment from January 1, 2022 to January 1, 2023.

IFRS 17 Insurance Contracts (including Amendments)

IFRS 17 represents a comprehensive new approach for insurers when accounting for insurance contracts. The standard will replace the formerly applicable IFRS 4.

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 at the higher of fair value less costs of disposal and value in use. Impairment losses are recognized if the recoverable amounts of the assets are lower than their carrying amounts. Impairment is allocated to the functions in the statement of income.

The same standardized useful lives were applied in the fiscal year as in the previous year, as follows:

Useful life

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 10
Factory and research equipment	2 to 5

The intangible assets with indefinite useful lives essentially comprise trademarks and other rights with no obvious time limitation on the generation of cash inflows. Given the consistency and strength of the brands, indefinite useful lives are assumed, and these intangible assets are not subject to scheduled amortization. However, an impairment test is instead performed annually and whenever there are indications of impairment.

1 Goodwill and other intangible assets

Cost

	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 Jan. 1, 2019	**3,181**	**1,918**	**499**	**291**	**12,335**	**18,224**
Acquisitions	82	16	–	–	482	**580**
Divestments	–	–	–	–	-20	**-20**
Additions	–	8	6	54	–	**68**
Disposals	–	-22	-1	–	–	**-23**
Reclassifications to assets held for sale	-16	-4	–	–	-9	**-29**
Reclassifications	–	5	54	-59	–	**–**
Translation differences	49	43	9	1	196	**298**
At Dec. 31, 2019/Jan. 1, 2020[1]	**3,296**	**1,964**	**567**	**287**	**12,984**	**19,098**
Acquisitions	98	28	–	–	375	**501**
Divestments	–	–	–	–	-29	**-29**
Additions	–	7	7	52	–	**66**
Disposals	–	-62	-6	–	–	**-68**
Reclassifications to assets held for sale	-372	-21	–	–	-65	**-458**
Reclassifications	–	4	38	-41	–	**–**
Translation differences	-190	-94	-8	–	-893	**-1,185**
At Dec. 31, 2020	**2,833**	**1,827**	**597**	**298**	**12,371**	**17,926**

[1] Prior-year figures amended (please refer to the notes on page 188).

Accumulated amortization/impairment

in million euros	Trademarks and other rights: Assets with indefinite useful lives	Trademarks and other rights: Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Intangible assets in development	Goodwill	Total
At Jan. 1, 2019	**8**	**1,371**	**280**	**–**	**29**	**1,688**
Divestments	–	–	–	–	-17	**-17**
Write-ups	–	–	–	–	–	**–**
Scheduled amortization	–	109	51	–	–	**160**
Impairment	5	–	–	–	9	**14**
Disposals	–	-21	-1	–	–	**-22**
Reclassifications to assets held for sale	-5	-2	–	–	-9	**-16**
Reclassifications	–	–	–	–	–	**–**
Translation differences	3	37	1	–	–	**41**
At Dec. 31, 2019/Jan. 1, 2020	**11**	**1,494**	**331**	**–**	**12**	**1,848**
Divestments	–	–	–	–	–	**–**
Write-ups	–	–	–	–	–	**–**
Scheduled amortization	–	100	55	–	–	**155**
Impairment	268	1	19	–	31	**318**
Disposals	–	-60	-6	–	–	**-66**
Reclassifications to assets held for sale	-217	-7	–	–	-31	**-255**
Reclassifications	–	–	–	–	–	**–**
Translation differences	–	-79	-6	–	–	**-84**
At Dec. 31, 2020	**62**	**1,449**	**393**	**–**	**12**	**1,915**

Net carrying amounts

	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 December 31, 2020	**2,771**	**378**	**204**	**298**	**12,359**	**16,011**
At December 31, 2019[1]	3,284	471	236	287	12,972	17,250

[1] Prior-year figures amended (please refer to the notes on page 188).

Goodwill represents the future economic benefit of assets that are acquired through business combinations and are not individually identifiable and separately recognized, together with expected synergies. Goodwill upon first-time consolidation constitutes a positive difference between the cost of acquiring the entity and the amount of acquired identified assets and assumed liabilities existing at the time of acquisition and measured as specified in IFRS 3. Subsequent measurement is based on the lower of initially recognized value at acquisition and a comparative figure following impairment testing at the level of the cash-generating units. Trademarks and other rights acquired for valuable consideration are stated at purchase cost, while internally generated software is stated at development cost.

Additions to internally generated intangible assets mostly reflect investments in consolidating and optimizing our IT system architecture for managing business processes.

The change in goodwill resulting from acquisitions and divestments made in the fiscal year is presented in the section “Acquisitions and divestments” on pages 182 and 183.

Amortization and impairment of trademarks and other rights are recognized as selling and distribution expenses. Write-downs and impairment losses on other intangible assets are allocated to the same expense items in the consolidated statement of income as the scheduled amortization of the assets.

Goodwill as well as trademarks and other rights with indefinite useful lives are subjected to an impairment test once a year and also where there are indications of impairment (“impairment only” approach). In light of the economic impacts of the COVID-19 pandemic, impairment tests were conducted as indicated during the year at the level of the individually affected cash-generating units for goodwill and for trademarks and other rights with indefinite useful lives. The tests did not reveal any need for impairment.

We duly tested goodwill and trademarks and other rights with indefinite useful lives for impairment in the course of our annual analysis. The following table shows the cash-generating units together with the associated goodwill at the carrying amounts applicable as of the reporting date. The description of the cash-generating units can be found in Note 37 on pages 264 to 266 and in the combined management report on pages 112 to 120.

Contents

Goodwill carrying amounts

Cash-generating units in million euros	December 31, 2019[1] Goodwill	Terminal growth rate	Weighted average cost of capital (after tax)	December 31, 2020 Goodwill	Terminal growth rate	Weighted average cost of capital (after tax)
Automotive & Metals	956	1.50%	6.75%	**887**	**1.50%**	**6.50%**
Electronics & Industrials	1,852	1.40%	6.75%	**1,708**	**1.40%**	**6.50%**
Craftsmen, Construction & Professional	788	1.00%	6.75%	**877**	**1.00%**	**6.50%**
Packaging & Consumer Goods	2,007	1.50%	6.75%	**1,908**	**1.50%**	**6.50%**
Total Adhesive Technologies	**5,603**			**5,380**		
Branded Consumer Goods	1,259	1.00%	5.25%	**1,426**	**1.00%**	**5.00%**
Hair Salon business	1,360	1.00%	5.25%	**1,168**	**1.00%**	**5.00%**
Total Beauty Care	**2,619**			**2,594**		
Laundry Care	3,616	1.00%	5.25%	**3,314**	**1.00%**	**5.00%**
Home Care	1,134	1.00%	5.25%	**1,071**	**1.00%**	**5.00%**
Total Laundry & Home Care	**4,750**			**4,385**		

[1] Prior-year figures amended (please refer to the notes on page 188 and to the notes on the segment report on pages 264 to 266).

Goodwill impairment is assessed at the level of the global cash-generating units, and is predominantly based on fair value less costs of disposal. During reorganization of the Adhesive Technologies business unit, the cash-generating units that form the basis for testing goodwill impairment were redefined. In order to ensure the best possible reflection of the goodwill associated with the new structure, allocation was based on the relative fair values of the new cash-generating units in accordance with the requirements of IAS 36 Impairment of Assets. The impairment test performed as part of this procedure did not reveal any need for impairment.

Impairment of trademarks and other rights with indefinite useful lives is assessed at the level of either global cash-generating units (Adhesive Technologies) or regional cash-generating units (Beauty Care and Laundry & Home Care). Testing is also based on fair value less costs of disposal.

A discounted cash flow method is used to determine fair value (before deduction of costs of disposal), which is allocated to level 3 of the fair value hierarchy (see Note 23 on pages 227 to 252). The estimated future cash flows are derived from the budget approved by the relevant corporate management bodies, which is the basis for the impairment test. The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. Budgets are prepared on the basis of a planning horizon of four years. During the budgeting process, the anticipated adverse effects of the COVID-19 pandemic on the Group's business were considered despite their being surrounded by great uncertainty. Overall, we do not expect our sales in fiscal 2021 to match the level prior to the outbreak of the COVID-19 pandemic. In the years that follow, however, we expect sales in the cash-generating units to return to the level witnessed before the COVID-19 pandemic and the markets of relevance for our business activities to return to normal, albeit within differing time frames.

The expected average annual growth in sales in the cash-generating units of Adhesive Technologies during the four-year detailed planning period is between 2 and 6 percent (previous year: 1 to 4 percent). The average annual sales growth of the cash-generating units in the Beauty Care business unit over the four-year forecasting horizon is budgeted at between 4 and 7 percent (previous year: 4 to 5 percent), accompanied by a slight increase in market share. We expect an average annual growth in sales in the cash-generating units in the Laundry & Home Care business unit during the four-year detailed planning period of 3 percent (previous year: 4 percent). Here, too, we expect a slight increase in market share.

For the period after that, a growth rate in cash flows of between 1 and 2 percent (previous year: 1 to 2 percent) is assumed for the purpose of goodwill impairment testing. This assumption considers, in particular, the passing-on of expected inflation rises to our customers. The euro to US dollar exchange rate applied is 1.17 (previous year: 1.16). Taking into account specific tax effects, the cash flows of the various cash-generating units are discounted at different rates reflecting the weighted average cost of capital (WACC) in each business unit: 6.5 percent (previous year: 6.75 percent) after tax for Adhesive Technologies and 5.0 percent (previous year: 5.25 percent) after tax for both Beauty Care and Laundry & Home Care.

Most of the trademarks and other rights with indefinite useful lives are attributable to two cash-generating units. The carrying amount of the trademarks and other rights allocated to the regional cash-generating unit Laundry Care North America in the Laundry & Home Care business unit was 1.1 billion euros as of December 31, 2020 (previous year: 1.3 billion euros). For impairment testing purposes, a cost of capital of 5.0 percent and a terminal growth rate of 1.0 percent were applied. The average annual increase in sales in the cash-generating unit during the four-year detailed planning period is 3 percent. As of December 31, 2020, the carrying amount of the trademarks and other rights allocated to the cash-generating unit Branded Consumer Goods North America in the Beauty Care business unit was 366 million euros (previous year: 400 million euros). For impairment testing purposes, a cost of capital of 5.0 percent and a terminal growth rate of 1.0 percent were applied. The average annual increase in sales during the four-year detailed planning period is 3 percent.

Given our continued active portfolio management, we anticipate achieving at least stable gross margins in all our business units.

Of the impairment totaling 299 million euros recognized on goodwill and trademarks and other rights in fiscal 2020, 238 million euros is attributable to assets classified as held for sale as of the reporting date (please refer to the notes on pages 207 and 208). The remaining impairment of 61 million euros is attributable to trademarks and other rights with indefinite useful lives that were not held for sale, and relates essentially to the write-off of discontinued trademarks in the Laundry & Home Care business.

As was also the case in the previous year, there was no need for impairment of, nor to write up, any goodwill not classified as held for sale.

Apart from the discontinued trademark rights, the trademarks and other rights with indefinite useful lives with a total net carrying amount of 2,771 million euros (previous year: 3,334 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 the usage of our brand names.

A sensitivity analysis conducted in response to the COVID-19 pandemic assumed an increase of 1 percent in the weighted cost of capital, a reduction of 0.5 percent in the terminal growth rate, and a reduction of 10 percent in free cash flow within the context of impairment testing. The analysis did not reveal any need for impairment.

The company also intends to continue using the trademarks and other rights disclosed as having definite useful lives. No further impairment losses were recognized with respect to trademarks and other rights with definite useful lives in 2020.

2 Property, plant and equipment

Cost

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At Jan. 1, 2019	**2,692**	**3,747**	**1,211**	**402**	**8,052**
Acquisitions	19	1	1	3	**24**
Divestments	-2	–	–	–	**-2**
Additions to existing operations	46	138	69	341	**594**
Additions of right-of-use assets	110	5	24	–	**139**
Disposals	-15	-106	-135	–	**-256**
Reclassifications to assets held for sale	-18	-22	-1	–	**-41**
Reclassifications	55	200	39	-294	**–**
Translation differences	34	41	7	-1	**81**
At Dec. 31, 2019/Jan. 1, 2020	**2,921**	**4,004**	**1,215**	**451**	**8,591**
Acquisitions	3	1	–	–	**4**
Divestments	–	–	–	–	**–**
Additions to existing operations	50	156	70	374	**649**
Additions of right-of-use assets	139	17	26	–	**182**
Disposals	-51	-116	-71	-2	**-241**
Reclassifications to assets held for sale	-18	-34	-9	–	**-61**
Reclassifications	68	190	45	-304	**–**
Translation differences	-168	-231	-61	-21	**-481**
At Dec. 31, 2020	**2,944**	**3,986**	**1,216**	**499**	**8,644**

Contents

Accumulated depreciation/impairment

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At Jan. 1, 2019	**1,145**	**2,463**	**866**	**–**	**4,474**
Divestments	–	–	–	–	**–**
Write-ups	-2	-1	–	–	**-3**
Scheduled depreciation	164	252	141	–	**557**
Impairment	2	16	–	–	**18**
Disposals	-13	-100	-133	–	**-246**
Reclassifications to assets held for sale	-7	-16	–	–	**-23**
Reclassifications	–	–	–	–	**–**
Translation differences	1	-5	43	–	**39**
At Dec. 31, 2019/Jan. 1, 2020	**1,290**	**2,609**	**917**	**–**	**4,816**
Divestments	–	–	–	–	**–**
Write-ups	–	–	–	–	**–**
Scheduled depreciation	167	260	136	–	**563**
Impairment	9	44	2	–	**56**
Disposals	-46	-105	-69	–	**-221**
Reclassifications to assets held for sale	-10	-28	-9	–	**-47**
Reclassifications	–	–	–	–	**–**
Translation differences	-49	-123	-38	–	**-209**
At Dec. 31, 2020	**1,360**	**2,658**	**938**	**–**	**4,956**

Net carrying amounts

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At Dec. 31, 2020	**1,584**	**1,328**	**278**	**499**	**3,688**
Of which: right-of-use assets	437	23	40	–	**500**
At Dec. 31, 2019	1,631	1,395	298	451	**3,775**
Of which: right-of-use assets	419	20	46	–	**485**

Property, plant and equipment includes land, land rights and buildings, plant and machinery, factory and office equipment, rights of use to corresponding leased assets, and assets in the course of construction. Special considerations relating to the recognition of right-of-use assets and separate disclosures regarding leases are discussed in the following section "Additional disclosures regarding leases."

Additions are stated at purchase or manufacturing cost. The latter includes direct costs and appropriate proportions of necessary overheads. Borrowing costs for qualified assets per IAS 23 Borrowing Costs are currently not capitalized due to their lack of materiality. Cost figures are shown net of investment grants and allowances. As of December 31, 2020, investment grants of 21 million euros (previous year: 19 million euros) were deducted from purchase and manufacturing costs. Some of the grants are contingent upon certain terms and conditions being met, such as location guarantees. The company is sufficiently confident that these terms and conditions can be satisfied. Acquisition-related incidental costs incurred in order to make the asset ready for the intended use are capitalized. An overview of the primary investment projects undertaken during the fiscal year can be found on pages 121 and 122 in the combined management report.

At December 31, 2020, 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 193. The depreciation and impairment losses included in the cost of sales, selling and distribution expenses, administrative expenses and research and development expenses in a ratio equivalent to the use of the asset. Write-ups are recognized in other operating income.

Of the property, plant and equipment impairments recognized in fiscal 2020, a total of 5 million euros is attributable to assets classified as held for sale as of the reporting date (please refer to the notes on pages 207 and 208).

Additional disclosures regarding leases

In the course of its business operations, Henkel enters into various lease agreements as a lessee. The underlying assets primarily include office buildings and fixtures, production facilities and warehouses – all of which are recognized under land, land rights and buildings – as well as plant and machinery, and the vehicles and IT inventory classified as factory and office equipment.

Right-of-use assets are recognized initially at the value of the lease liability plus any lease payments made at or prior to provision of the leased asset, less any lease incentives received. Furthermore, additions include all initial direct costs incurred by the lessee together with the estimated cost of dismantling or returning the leased asset to the condition, and similar, required by the lease agreement at the end of the lease term. In the case of short-term leases and leases involving assets of low value, the Henkel Group exercises the option not to recognize a right-of-use asset or a lease liability.

In fiscal 2020, the Henkel Group recognized additions to right-of-use assets in property, plant and equipment of 182 million euros in total (previous year: 139 million euros), attributable mainly to land, land rights and buildings. Acquisitions accounted for additions of 3 million euros (previous year: 15 million euros), attributable to land, land rights and buildings. The additions were offset by scheduled depreciation of 136 million euros (previous year: 133 million euros). As of December 31, 2020, right-of-use assets amounted to 500 million euros (previous year: 485 million euros).

The depreciation recognized separately for the various categories of assets in the consolidated statement of income for the fiscal year is listed in the following table, together with further disclosures of lease-related expenses and income affecting Henkel as a lessee:

Effects on the consolidated statement of income of leases with Henkel as lessee

in million euros	2019	2020
Depreciation in the year under review	133	**136**
Of which: right-of-use land, land rights and buildings	92	**95**
Of which: right-of-use plant and machinery	11	**12**
Of which: right-of-use factory and office equipment	30	**29**
Interest expenses on lease liabilities	16	**16**
Expenses relating to short-term leases	38	**20**
Expenses relating to leases of low-value assets	3	**4**

Henkel paid 180 million euros in total for leases in fiscal 2020 (previous year: 184 million euros).

The Henkel Group uses the incremental borrowing rate to discount lease payments when measuring its lease liabilities. This rate is based on country-specific interest rates that are observable in the market and which are adjusted with regard to duration and credit risk. If no interest rates are observable for the relevant durations, they are derived from linear interpolation.

An analysis of the maturities of the lease liabilities of the Henkel Group is included with the disclosures on financial instruments in Note 23 on pages 227 to 252. In addition to the future payments from leases discussed in the section, payment commitments of 6 million euros (previous year: 122 million euros) also exist with regard to leases of material relevance to Henkel that have already been agreed but have not yet commenced and have therefore not yet been capitalized.

Some of Henkel’s leases for land, land rights and buildings include optional lease periods. Contractually agreed payments in these optional lease periods are in the mid-triple-digit million euros range, as was also the case in the previous year. They are not included in the measurement of the lease liability because there is insufficient certainty that the option on the lease periods will be exercised.

3 Other financial assets

Analysis

in million euros	December 31, 2019 Non-current	December 31, 2019 Current	December 31, 2019 Total	December 31, 2020 Non-current	December 31, 2020 Current	December 31, 2020 Total
Receivables from non-consolidated subsidiaries and associates	–	–	–	**–**	**0**	**0**
Financial receivables from third parties	26	112	138	**15**	**208**	**223**
Derivative financial instruments	38	76	114	**7**	**99**	**106**
Investments in non-consolidated subsidiaries	9	–	9	**6**	**–**	**6**
Investments in associates	–	–	–	**0**	**–**	**0**
Other investments	36	–	36	**57**	**–**	**57**
Receivable from Henkel Trust e.V.	–	621	621	**–**	**497**	**497**
Securities and time deposits	–	425	425	**0**	**422**	**422**
Of which: readily monetizable	–	412	412	**0**	**408**	**408**
Financial collateral provided	–	26	26	**–**	**74**	**74**
Sundry financial assets	16	75	91	**14**	**72**	**86**
Total	**125**	**1,335**	**1,460**	**99**	**1,372**	**1,471**

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

Of the receivables from non-consolidated subsidiaries and associates, 0 million euros (previous year: 0 million euros) is attributable to non-consolidated subsidiaries.

Of the current financial receivables from third parties, 200 million euros is attributable to receivables from third parties in connection with EU emission rights swaps contracted by Henkel for the purpose of liquidity management.

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

The securities and time deposits essentially comprise time deposits and shares in investment funds and are generally readily monetizable under our financial management arrangements, with the exception of those securities and time deposits that are mandatory to cover our pension liabilities and can therefore not be monetized at short notice.

Sundry non-current financial assets include, among others, receivables from insurance companies.

Examples of sundry current financial assets include:

- Receivables from sureties and guarantee deposits amounting to 21 million euros (previous year: 21 million euros)
- Receivables from suppliers amounting to 18 million euros (previous year: 22 million euros)
- Receivables from employees amounting to 6 million euros (previous year: 9 million euros).

4 Other assets

Analysis

	December 31, 2019[1]			December 31, 2020		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Tax receivables	10	262	273	**8**	**307**	**316**
Payments on account	–	71	71	**–**	**71**	**71**
Overfunding of pension obligations	83	–	83	**114**	**–**	**114**
Reimbursement rights related to employee benefits	113	8	121	**105**	**13**	**118**
Deferred charges	24	84	108	**13**	**78**	**91**
Sundry other assets	1	47	48	**0**	**26**	**26**
Total	**231**	**472**	**703**	**240**	**495**	**735**

[1] Prior-year figures amended (please refer to the notes on page 188).

5 Deferred taxes

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

Deferred tax liabilities on taxable temporary differences related to shares in subsidiaries are recognized to the extent that a reversal of this difference is expected in the foreseeable future or cannot be controlled.

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

The valuation, recognition and disaggregation of deferred taxes in respect of the various items in the statement of financial position are discussed in the disclosures on income taxes in Note 32 on pages 256 to 258.

6 Inventories

In accordance with IAS 2 Inventories, reported under inventories are those assets that are intended to be sold in the ordinary course of business (finished products and merchandise), those in the process of production for such sale (work in progress) and those to be utilized or consumed in the course of manufacture or the provision of services (raw materials and supplies). Payments on account made for the purpose of purchasing inventories are likewise disclosed under the inventories heading.

When accounting for cash flow hedges under IFRS 9, the measurement effects from hedging transactions for acquiring non-financial assets are initially recognized in equity in the hedge reserve, and included as part of the cost upon acquisition of the asset. The IFRS 9 basis adjustment shown under inventories relates to the results of currency hedges for the procurement of inventories in a foreign currency and of hedging certain commodity purchases against market price risks. Further information can be found in the financial instruments report in Note 23 on pages 227 to 252.

Inventories are measured at the lower of cost and net realizable value. Inventories are measured using either the "first in, first out" (FIFO) or the average cost method. Manufacturing cost includes not only the direct costs but also appropriate portions of necessary overheads (for example goods inward department, raw material storage, filling, costs incurred through to the finished goods warehouse), production-related administrative expenses, the costs of the pensions of people who are employed in the production process, and production-related amortization/depreciation. The overhead add-ons are calculated on the basis of average capacity utilization. Not included, however, are interest expenses incurred during the manufacturing period.

The net realizable value is determined as an estimated selling price less costs yet to be incurred through to completion, and less necessary selling and distribution costs. Write-downs to the net realizable value are made if, at year-end, the carrying amounts of the inventories are above their realizable market values. The resultant valuation allowance as of December 31, 2020 amounted to 167 million euros (previous year: 179 million euros). The carrying amount of inventories recognized at net realizable value amounted to 447 million euros (previous year: 471 million euros). The carrying amount of inventories pledged as security for liabilities was unchanged year on year at 0 million euros.

Analysis of inventories

in million euros	Dec. 31, 2019[1]	Dec. 31, 2020
Raw materials and supplies	546	**544**
Work in progress	118	**114**
Finished products and merchandise	1,493	**1,504**
Payments on account for merchandise	29	**27**
IFRS 9 basis adjustment	1	**1**
Total	**2,187**	**2,189**

[1] Prior-year figures amended (please refer to the notes on page 188).

7 Trade accounts receivable

Trade accounts receivable amounted to 3,106 million euros (previous year: 3,415 million euros). They are due within one year. Valuation allowances have been recognized in respect of specific risks as appropriate. Expenses for valuation allowances are reported under selling and distribution costs. Due to the COVID-19 pandemic, valuation allowances increased in the year under review from 91 million euros to 123 million euros, despite an overall decrease in trade accounts receivable. For an explanation of these valuation allowances and our risk management, please consult pages 241 to 245.

Trade accounts receivable

in million euros	Dec. 31, 2019[1]	Dec. 31, 2020
Trade accounts receivable, gross	3,506	**3,229**
Less: cumulative valuation allowances on trade accounts receivable	91	**123**
Trade accounts receivable, net	**3,415**	**3,106**

[1] Prior-year figures amended (please refer to the notes on page 188).

Development of valuation allowances on trade accounts receivable

in million euros	2019	2020
Valuation allowances at January 1	**94**	**91**
Additions/Releases	9	**47**
Derecognition of receivables	-17	**-9**
Currency translation effects	1	**-8**
Other changes	4	**1**
Valuation allowances at December 31	**91**	**123**

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 Statement of Cash Flows, also recognized under cash equivalents are shares in money market funds which, due to their first-class credit rating and investment in extremely short-term money market securities, undergo only minor value fluctuations and can be readily converted within one day into known amounts of cash. Utilized bank overdrafts are recognized in the statement of financial position as liabilities to banks.

The volume of cash and cash equivalents increased compared to the previous year from 1,460 million euros to 1,727 million euros. Of this figure, 1,504 million euros (previous year: 1,305 million euros) relates to cash and 223 million euros (previous year: 155 million euros) to cash equivalents. The change is shown in the consolidated statement of cash flows. Prior-year figures were amended (please refer to the notes on page 188).

9 Assets and liabilities held for sale

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

Active portfolio management is an essential element in determining the future strategic direction of the Henkel Group. Year on year, assets held for sale increased by 189 million euros to 228 million euros. The plans to sell businesses focusing on consumer goods areas in all three operating segments as part of these efforts resulted in the reclassification of assets to the held-for-sale category as of December 31, 2020. The businesses earmarked for sale essentially comprise trademark rights and proportionate goodwill. Once they were classified as held for sale, the assets were measured at the lower of carrying amount and fair value less costs of disposal. An impairment expense of 238 million euros was recognized in fiscal 2020; this is allocated to the respective expense items in the consolidated statement of income where the scheduled depreciation or amortization of these assets is also recognized. The proportionate goodwill impairment is recognized in other operating expenses.

In fiscal 2019, an activity carved out of the Adhesive Technologies portfolio was reclassified to assets held for sale. Although the sale contract had already been signed by December 31, 2020, completion of the sale within a year was unexpectedly not possible due to pending official permits. At the end of fiscal 2020, these assets were stated in the amount of 15 million euros (previous year: 19 million euros).

No liabilities were held for sale (previous year: 0 million euros).

Assets and liabilities held for sale

in million euros	Dec. 31, 2019	Dec. 31, 2020
Intangible assets and property, plant and equipment	34	**222**
Inventories and trade accounts receivable	5	**6**
Cash and cash equivalents	–	**–**
Other assets	–	**–**
Provisions	–	**–**
Borrowings	–	**–**
Other liabilities	–	**–**
Net assets	**39**	**228**

10 Issued capital

Issued capital

in million euros	Dec. 31, 2019	Dec. 31, 2020
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 of December 31, 2020.

The resolution adopted by the Annual General Meeting on April 13, 2015 authorizing the Personally Liable Partner, with the approval of the Shareholders’ Committee and of the Supervisory Board, to increase the capital of the corporation through to 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 expired on April 12, 2020.

New authorized capital was created by resolution of the Annual General Meeting on June 17, 2020 (Art. 6 (5) of our Articles of Association). Under the new resolution, 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 through to June 16, 2025, by up to a nominal amount of 43,795,875 euros in total from the issuance of up to 43,795,875 new non-voting preferred shares for cash consideration (Authorized Capital 2020). The new shares have exactly the same rights as the preferred shares already in circulation in respect of eligibility for distribution of profits or corporation assets. Shareholders must be granted pre-emptive rights. Pursuant to Section 186 (5) sentence 1 AktG, the new shares can be acquired by one or more banks or companies to be nominated by the Personally Liable Partner on condition that they offer them for purchase to the shareholders.

The authorization may be utilized to the full extent allowed or once or several times in installments. The new non-voting preferred shares participate in profit distributions from the beginning of the fiscal year in which they are issued. To the extent permitted by law, the Personally Liable Partner may, with the approval of the Shareholders' Committee and of the Supervisory Board and in derogation from Section 60 (2) AktG, determine that the new shares shall participate in profits from the beginning of a fiscal year that has already elapsed and for which, at the time of their issuance, no resolution has yet been passed by the Annual General Meeting on the appropriation of retained earnings.

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

This authorization to purchase treasury shares can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may, in particular, be transferred to third parties for the purpose of acquiring entities or participating interests in entities. Treasury shares may also be sold to third parties against payment in cash, provided that the selling price is not significantly below the quoted market price at the time of share disposal. Treasury shares may also be offered for purchase or transferred to members of the corporation's staff or managers of affiliated companies, particularly in connection with share-based payment plans, including the Long Term Incentive Plan 2020+. The shares may likewise be used to satisfy warrants or conversion rights granted by the corporation. The Personally Liable Partner is also authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to cancel treasury shares without the need for further resolution by the General Meeting.

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

11 Capital reserve

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

12 Treasury shares

Treasury shares held by the corporation at December 31, 2020 were unchanged at 3,680,552 preferred shares (previous year: 3,680,552). This represents 0.84 percent of the capital stock and a proportional nominal value of 3.7 million euros.

Details of the Global LTI Plan 2020+ are explained on pages 261 and 262.

13 Retained earnings

Recognized in retained earnings are the following:

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

14 Other components of equity

Reported under this heading are differences recognized in equity arising from the currency translation of annual financial statements of foreign subsidiaries, and also the effects arising from the valuation in comprehensive income of financial assets in the "fair value through other comprehensive income" category and of derivative financial instruments included in designated cash flow hedges and hedges of a net investment in a foreign operation. As of December 31, 2020, the difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation had decreased by a further 1,278 million euros, from -928 million to -2,206 million euros.

15 Non-controlling interests

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

16 Provisions for pensions and similar obligations

Description of the pension plans

Employees in companies included in the consolidated financial statements have entitlements under company pension plans which are either defined contribution or defined benefit plans. These take different forms depending on the legal, financial and tax regimes of each country. The level of benefits provided is based, as a rule, on the length of service and on the income of the person entitled. Details of pension benefits for members of the Management Board are provided in the explanation of the remuneration policy and in the remuneration report on pages 53 to 92.

In defined benefit plans, the liability for pensions and other post-employment benefits is calculated at the present value of the future obligations (projected unit credit method). This actuarial method of calculation takes future trends in wages, salaries and retirement benefits into account.

The majority of the beneficiaries of these pension plans are located in Germany and the USA. The pension obligations are primarily financed via various external trust assets that are legally independent of Henkel.

Active employees of Henkel in Germany participate in a defined contribution system, “Altersversorgung 2004 (AV 2004),” which was newly formed in 2004. AV 2004 is an employer-financed pension plan that reflects the personal income development of employees during their career at Henkel and thus provides a performance-related pension. Henkel guarantees a minimum return on the company’s contributions. The benefit essentially consists of an annuity payable upon attainment of statutory retirement age plus a lump-sum payment if the annuity threshold is exceeded in the employee’s service period. In addition to retirement and disability pensions, the plan benefits include surviving spouse and surviving child benefits.

Employees who started at Henkel after April 1, 2011, participate in the pension plan “Altersversorgung 2011 (AV 2011).” AV 2011 is an employer-financed, fund-linked retirement plan funded by contributions based on the income development of the employee. Henkel assures its employees that a lump-sum amount is available upon retirement which is at least equivalent to the level of principal contributions made by Henkel. Henkel pays the pension contribution into an investment fund established for the purpose of the company pension plan. Upon attaining statutory retirement age, the employee can choose between an annuity through transfer of the superannuation lump-sum to a pension fund, or a one-time payment.

To provide protection under civil law of the pension entitlements of future and current pensioners of Henkel AG & Co. KGaA against insolvency, we have transferred the proceeds of the bond issued in 2005 and certain other assets to Henkel Trust e.V. The trustee invests the cash with which it has been entrusted in the capital market in accordance with investment policies laid down in the trust agreement. In addition, we also subsidize medical benefits for active and retired employees resident mainly in the USA. Under these programs, retirees are reimbursed for a certain percentage of their refundable medical expenses. We recognize provisions during the employees’ service period and pay out the promised benefits when they are claimed. The subsidies paid to active employees for medical services are recognized as a current expense and are therefore not included in the provisions for pensions and similar obligations.

The defined contribution plans are structured in such a way that the corporation pays contributions to 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 114 million euros (previous year: 106 million euros).

Multi-employer plans

Henkel provides defined pension benefits that are financed by more than one employer. The multi-employer plans are treated as defined contribution plans because, due to the limited share of the contribution volume in the plans, the information available for each of the financing companies is insufficient for defined benefit accounting. Within the Henkel Group, benefits from multi-employer plans are provided for employees in the USA. Withdrawal from our multi-employer plans at the present time would incur a one-time expense of around 18 million euros (previous year: around 19 million euros). Payments into multi-employer plans in fiscal 2020 amounted to 1 million euros (previous year: 1 million euros). We expect contributions of around 1 million euros in fiscal 2021. Henkel's share in the overall plan is less than 1 percent.

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 in both the fiscal year and the previous year were based on the "Heubeck 2018G" mortality table. In the USA, the assumptions in each case were based on the modified "Pri-2012" mortality table. The valuation of pension obligations in Germany was based essentially on the assumption of a 1.7-percent increase in retirement benefits (previous year: 1.7 percent).

The discount rate is based on yields in the market for high-ranking corporate bonds on the respective date. The currency and term of the underlying bonds are matched to the currency and expected maturities of the post-employment pension obligations.

Actuarial assumptions

	Germany		USA		Other countries[1]	
in percent	2019	2020	2019	2020	2019	2020
Discount rate	1.30	**1.00**	3.20	**2.30**	1.80	**1.40**
Income trend	3.00	**3.00**	3.00	**3.00**	2.90	**2.90**
Retirement benefits trend	1.70	**1.70**	–	**–**	2.20	**2.30**
Expected increases in costs for medical benefits	–	**–**	6.00	**5.70**	3.70	**3.50**
in years						
Life expectancy at age 65 as of the valuation date for a person currently						
65 years old	21.9	**22.1**	22.0	**21.0**	23.6	**22.8**
40 years old	25.0	**25.2**	24.0	**23.0**	25.9	**24.9**

[1] Weighted average

Development of defined benefit obligations 2019

in million euros	Germany	USA	Other countries	Total
At January 1, 2019	**3,024**	**1,082**	**1,169**	**5,275**
Changes in the scope of consolidation	–	–	–	**–**
Translation differences	–	21	33	**54**
Actuarial gains (-)/losses (+)	217	98	93	**408**
Of which: from changes in demographic assumptions	–	-8	-4	**-12**
Of which: from changes in financial assumptions	205	108	104	**417**
Of which: from experience adjustments	12	-2	-7	**3**
Current service cost	41	11	24	**76**
Employee contributions	21	–	1	**22**
Gains (-)/losses (+) arising from the termination and curtailment of plans	-8	–	–	**-8**
Interest expense	54	44	27	**125**
Retirement benefits paid out of plan assets	-131	-80	-40	**-251**
Employer payments for pension obligations	–	-31	-9	**-40**
Other changes	–	–	3	**3**
At December 31, 2019	**3,218**	**1,145**	**1,301**	**5,664**
Of which: obligations not covered by plan assets	102	124	97	**323**
Of which: obligations covered by plan assets	3,116	900	1,204	**5,220**
Of which: obligations covered by reimbursement rights	–	121	–	**121**

Development of plan assets 2019

in million euros	Germany	USA	Other countries	Total
At January 1, 2019	**2,656**	**845**	**1,036**	**4,537**
Changes in the scope of consolidation	–	–	–	**–**
Translation differences	–	16	32	**48**
Employer contributions	29	–	21	**50**
Employee contributions	21	–	1	**22**
Retirement benefits paid out of plan assets	-131	-80	-40	**-251**
Planned income on plan assets	57	34	24	**115**
Remeasurements in equity	388	123	99	**610**
Other changes	–	–	-1	**-1**
At December 31, 2019	**3,020**	**938**	**1,172**	**5,130**

Development of asset ceiling 2019

in million euros	Germany	USA	Other countries	Total
At January 1, 2019	**–**	**–**	**14**	**14**
Interest cost for asset ceiling	–	–	–	**–**
Remeasurements in equity	–	–	4	**4**
At December 31, 2019	**–**	**–**	**18**	**18**

Development of net obligation 2019

in million euros	Germany	USA	Other countries	Total
Net obligation at January 1, 2019	**368**	**237**	**147**	**752**
Recognized through profit or loss				
Current service cost	41	11	24	**76**
Gains (-)/losses (+) arising from the termination and curtailment of plans	-8	–	–	**-8**
Interest expense	-4	10	4	**10**
Recognized in other comprehensive income				
Actuarial gains (-)/losses (+)	217	98	93	**408**
Remeasurements in equity	-388	-123	-99	**-610**
Change in the effect of the asset ceiling	–	–	4	**4**
Other items recognized in equity				
Employer payments	-29	-31	-30	**-90**
Changes in the scope of consolidation	–	–	–	**–**
Translation differences	–	5	1	**6**
Other changes	–	–	4	**4**
Net obligation at December 31, 2019	**197**	**207**	**148**	**552**
Overfunding of pension obligations	–	41	42	**83**
Recognized provision at December 31, 2019	**197**	**248**	**190**	**635**

Development of defined benefit obligations 2020

in million euros	Germany	USA	Other countries	Total
At January 1, 2020	**3,218**	**1,145**	**1,301**	**5,664**
Changes in the scope of consolidation	–	–	1	**1**
Translation differences	–	-101	-45	**-146**
Actuarial gains (-)/losses (+)	134	108	71	**313**
Of which: from changes in demographic assumptions	–	-5	-32	**-37**
Of which: from changes in financial assumptions	133	115	120	**368**
Of which: from experience adjustments	1	-2	-17	**-18**
Current service cost	39	12	26	**77**
Employee contributions	21	–	1	**22**
Gains (-)/losses (+) arising from the termination and curtailment of plans	-8	–	-8	**-16**
Interest expense	41	34	22	**97**
Retirement benefits paid out of plan assets	-127	-65	-34	**-226**
Employer payments for pension obligations	-4	-25	-9	**-38**
Other changes	2	–	-26	**-24**
At December 31, 2020	**3,316**	**1,108**	**1,300**	**5,724**
Of which: obligations not covered by plan assets	108	107	123	**338**
Of which: obligations covered by plan assets	3,208	883	1,177	**5,268**
Of which: obligations covered by reimbursement rights	–	118	–	**118**

Development of plan assets 2020

in million euros	Germany	USA	Other countries	Total
At January 1, 2020	**3,020**	**938**	**1,172**	**5,130**
Changes in the scope of consolidation	–	–	–	**–**
Translation differences	–	-85	-35	**-120**
Employer contributions	50	–	17	**67**
Employee contributions	21	–	1	**22**
Retirement benefits paid out of plan assets	-127	-65	-34	**-226**
Planned income on plan assets	39	28	19	**86**
Remeasurements in equity	167	119	82	**368**
Other changes	–	–	-26	**-26**
At December 31, 2020	**3,170**	**935**	**1,196**	**5,301**

Development of asset ceiling 2020

in million euros	Germany	USA	Other countries	Total
At January 1, 2020	**–**	**–**	**18**	**18**
Interest cost for asset ceiling	–	–	–	**–**
Remeasurements in equity	–	–	-4	**-4**
At December 31, 2020	**–**	**–**	**14**	**14**

Development of net obligation 2020

in million euros	Germany	USA	Other countries	Total
Net obligation at January 1, 2020	**197**	**207**	**148**	**552**
Recognized through profit or loss				
Current service cost	39	12	26	**77**
Gains (-)/losses (+) arising from the termination and curtailment of plans	-8	–	-8	**-16**
Interest expense	2	6	3	**11**
Recognized in other comprehensive income				
Actuarial gains (-)/losses (+)	134	108	71	**313**
Remeasurements in equity	-167	-119	-82	**-368**
Change in the effect of the asset ceiling	–	–	-4	**-4**
Other items recognized in equity				
Employer payments	-54	-25	-26	**-105**
Changes in the scope of consolidation	–	–	1	**1**
Translation differences	–	-16	-10	**-26**
Other changes	2	–	–	**2**
Net obligation at December 31, 2020	**145**	**173**	**119**	**437**
Overfunding of pension obligations	–	58	56	**114**
Recognized provision at December 31, 2020	**145**	**231**	**175**	**551**

Analysis of reimbursement rights

in million euros	2019	2020
At January 1	**111**	**121**
Changes in the scope of consolidation	–	**–**
Translation differences	1	**-11**
Employer contributions	1	**1**
Employee contributions	–	**–**
Retirement benefits paid	-10	**-9**
Interest income	5	**4**
Remeasurements in equity	13	**12**
At December 31	**121**	**118**

Other changes in the present value of pension benefits and in plan assets relate to the reversal of a pension provision in Austria. The same reversal resulted in gains of around 8 million euros from the termination of pension plans. In Germany, the effect from terminating pension plans was caused by a change in the plan from annuity commitments to lump-sum benefits.

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

- 2,011 million euros (previous year: 1,978 million euros) for active employees,
- 1,007 million euros (previous year: 971 million euros) for former employees with vested benefits, and
- 2,706 million euros (previous year: 2,715 million euros) for retirees.

The average weighted duration of pension obligations is 14 years (previous year: 14 years) for Germany, 9 years (previous year: 8 years) for the USA and 17 years (previous year: 18 years) for other countries.

In determining net liability, we take into account amounts that are not recognized due to asset ceiling restrictions. If the fair value of the plan asset item exceeds the obligations arising from the pension benefits, an asset is recognized only if the reporting entity can also derive economic benefit from these assets, for example in the form of return flows or a future reduction in contributions (“Asset Ceiling” per IAS 19.58 ff.). In the reporting period, we recorded an amount of 14 million euros as an asset ceiling (previous year: 18 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 balance of interest expense for the defined benefit obligation and interest income for the fund assets is reported in net interest result. All gains/losses from the termination and curtailment of plans are recognized in other operating income/expenses. Employer contributions to state pension insurance are included as “Social security contributions and staff welfare costs” under Note 35 on page 261. In 2020, additions to plan assets totaled 67 million euros (previous year: 50 million euros). Payments into pension funds in fiscal 2021 are expected to total 53 million euros.

The reimbursement rights covering a portion of the pension obligations in the USA are assets that are not protected against insolvency and therefore are not classified as plan assets under 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.

Analysis of plan assets

in million euros	Dec. 31, 2019 Quotation on active markets	Dec. 31, 2019 No quotation on active markets	Dec. 31, 2019 Total	Dec. 31, 2020 Quotation on active markets	Dec. 31, 2020 No quotation on active markets	Dec. 31, 2020 Total
Shares	**1,157**	**–**	**1,157**	**1,154**	**–**	**1,154**
Europe	361	–	361	377	–	377
USA	213	–	213	215	–	215
Others	583	–	583	562	–	562
Bonds and hedging instruments	**3,741**	**49**	**3,790**	**3,727**	**123**	**3,850**
Government bonds	2,053	–	2,053	1,909	–	1,909
Corporate bonds	1,688	–	1,688	1,818	–	1,818
Derivatives	–	49	49	–	123	123
Alternative investments	**–**	**427**	**427**	**–**	**418**	**418**
Cash	**–**	**193**	**193**	**–**	**213**	**213**
Liabilities[1]	**–**	**-621**	**-621**	**–**	**-497**	**-497**
Other assets	**–**	**184**	**184**	**–**	**163**	**163**
Total	**4,898**	**232**	**5,130**	**4,881**	**420**	**5,301**

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

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 funding ratio of the pension plans. To improve the funding ratio, Henkel invests plan assets in a diversified portfolio for which the expected long-term yield is above the interest costs of the pension obligations.

In order to cover the risks arising from trends in wages, salaries and life expectancies, and to close the potential deficit between plan assets and pension obligations over the long term, additional investments are made in a return-enhancing portfolio as an add-on instrument that contains assets such as equities, private equity and real estate. The target portfolio structure of the plan assets is essentially determined in asset-liability studies. These studies are conducted regularly with the help of external advisors who assist Henkel in the investment of plan assets. They examine the actual portfolio structure, taking into account current capital market conditions, investment principles and the obligation structure, and can suggest adjustments be made to the portfolio.

The expected long-term yield for individual plan assets is derived from the target portfolio structure and the expected long-term yields for the individual asset classes.

Risks associated with pension obligations

Our internal pension risk management monitors the risks of all pension plans Group-wide in compliance with local legal regulations. As part of the monitoring process, guidelines on the control and management of risks are adopted and continuously developed; these guidelines mainly govern funding levels, portfolio structure and actuarial assumptions. The objective of the financing strategy within the Group is to ensure that plan assets cover 90 to 100 percent of the present value of the funded pension obligations. The contributions and investment strategies are intended to ensure nearly complete coverage of the plans for the duration of the pension obligations.

Henkel's pension obligations are exposed to various market risks. These risks are counteracted by the required funding level and the structure of pension benefits. The risks relate primarily to changes in market interest rates, inflation, and life expectancy, as well as general market fluctuations. Pension obligations based on contractual provisions in Germany generally entail lifelong benefits payable when the employee reaches retirement age or in the case of incapacity or death.

In order to reduce the risks arising from the payment of lifelong benefits as well as from 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 a lump-sum portion. Newly hired employees since 2011 receive a commitment based primarily on the lump-sum benefit. Generally, lump-sum benefits may also be paid out as an annuity through a pension fund. All benefits in Germany are financed through a provident fund (Vorsorgefonds) established for the purpose of the occupational pension plan. Benefits for new employees since 2011, as well as a portion of the entitlements vested since 2004, are linked to the performance of this provident fund, resulting in a reduction in overall risk to the Group. The described adjustments within the pension structure reduce the financial risk arising from pension commitments in Germany. By linking the benefit to the capital investment, the net risk is also largely eliminated. An increase in the long-term inflation assumption would mainly affect the expected increase in pensions and the expected trend in pension-eligible salaries.

The pension obligations in the USA are based primarily on three retirement plans that are all closed to new employees. New employees receive pension benefits based on a defined contribution plan. The pension benefits generally have a lump-sum option which is usually exercised. When a pension becomes payable, the amount granted is determined on the basis of current market interest rates. As a result, the impact of a change to the interest rate used in the calculation is low compared to pension commitments entailing lifelong benefits. Additionally, in the USA, pensions paid once are not adjusted by amount, thus there are no direct risks during the pension payment period arising from pending annuity adjustments. Inflation risks therefore result mainly from the salary adjustments awarded.

In addition to the pension obligation risks already presented, there are specific risks associated with multi-employer plans. In the Henkel Group, these relate solely to the USA. The contributions to these plans are determined mainly through an allocation process based on the pension-eligible income of active employees. Restructuring contributions may also be required in order to close gaps in coverage. The risks of such plans arise largely from higher future contributions to close coverage gaps or could occur through discontinuation by other companies obligated to make contributions.

The effects of changes to assumptions with respect to medical benefits for employees and retirees in the USA are shown in the sensitivity analysis.

The analysis of our Group-wide pension obligations revealed no extraordinary risks.

Cash flows and sensitivities

In the next five years, the following payments from pension plans are expected:

Future payments for pension benefits

in million euros	Germany	USA	Other countries	Total
2021	158	116	39	**313**
2022	139	89	39	**267**
2023	148	86	41	**275**
2024	152	86	42	**280**
2025	160	82	44	**286**

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 incurred after retirement by former employees of our subsidiaries in the USA are also recognized in the pension obligations for defined benefit plans. A rate of increase of 5.7 percent (previous year: 6.0 percent) was assumed for the medical costs. We expect this rate of increase to fall gradually to 4.5 percent by 2037 (previous year: 4.5 percent by 2037). The effects of a change in material actuarial assumptions for the present value of pension obligations are as follows:

Sensitivities – Present value of pension obligations at December 31, 2019

in million euros	Germany	USA	Other countries	Total
Present value of obligations	3,218	1,145	1,301	**5,664**
In the event of:				
Rise in the discount rate by 0.5 pp	3,026	1,098	1,191	**5,315**
Reduction in the discount rate by 0.5 pp	3,435	1,194	1,429	**6,058**
Rise in future income increases by 0.5 pp	3,218	1,150	1,323	**5,691**
Reduction in future income increases by 0.5 pp	3,218	1,141	1,281	**5,640**
Rise in retirement benefits increases by 0.5 pp	3,361	1,145	1,374	**5,880**
Reduction in retirement benefits increases by 0.5 pp	3,087	1,145	1,238	**5,470**
Rise in medical cost increases by 0.5 pp	3,218	1,147	1,300	**5,665**
Reduction in medical cost increases by 0.5 pp	3,218	1,143	1,301	**5,662**

pp = percentage points

Sensitivities – Present value of pension obligations at December 31, 2020

in million euros	Germany	USA	Other countries	Total
Present value of obligations	3,316	1,108	1,300	**5,724**
In the event of:				
Rise in the discount rate by 0.5 pp	3,123	1,061	1,187	**5,371**
Reduction in the discount rate by 0.5 pp	3,535	1,156	1,412	**6,103**
Rise in future income increases by 0.5 pp	3,317	1,111	1,319	**5,747**
Reduction in future income increases by 0.5 pp	3,316	1,103	1,278	**5,697**
Rise in retirement benefits increases by 0.5 pp	3,458	1,107	1,355	**5,920**
Reduction in retirement benefits increases by 0.5 pp	3,187	1,107	1,236	**5,530**
Rise in medical cost increases by 0.5 pp	3,316	1,109	1,298	**5,723**
Reduction in medical cost increases by 0.5 pp	3,316	1,106	1,298	**5,720**

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). In the USA, an extension of life expectancy by one year would increase the present value of pension obligations by 2 percent (previous year: 2 percent).

It should be noted with respect to the sensitivities presented that, due to mathematical effects, the percentage change is not and does not need to be linear. Thus the percentage increases and decreases do not vary with the same absolute amount. Each sensitivity is independently calculated with no scenario analysis.

17 Other provisions

Development in 2020

in million euros	At December 31, 2019[1]	Acquisitions	Utilized	Released	Added	Other changes	At December 31, 2020
Restructuring provisions	**237**	**0**	**-99**	**-22**	**126**	**-14**	**228**
Of which: non-current	84	0	-21	-5	27	3	**87**
Of which: current	153	0	-78	-17	100	-17	**141**
Sales provisions	**1,023**	**0**	**-722**	**-30**	**991**	**-47**	**1,215**
Of which: non-current	7	0	-0	-0	0	-1	**6**
Of which: current	1,016	0	-722	-30	991	-45	**1,209**
Personnel provisions	**349**	**1**	**-224**	**-20**	**347**	**-16**	**438**
Of which: non-current	66	0	-7	-2	15	-4	**69**
Of which: current	283	1	-217	-18	332	-11	**370**
Sundry provisions	**351**	**0**	**-89**	**-38**	**153**	**-14**	**363**
Of which: non-current	150	0	-13	-7	39	-0	**168**
Of which: current	201	0	-76	-31	114	-14	**195**
Total	**1,960**	**2**	**-1,134**	**-111**	**1,618**	**-91**	**2,245**
Of which: non-current	307	0	-41	-14	81	-3	**329**
Of which: current	1,653	2	-1,093	-97	1,537	-87	**1,915**

[1] Prior-year figures amended (please refer to the notes on page 188).

Provisions are recognized for obligations toward third parties where the outflow of resources is probable and the expected obligation can be reliably estimated. Provisions are measured to the best estimate of the expenditures required in order to meet the current obligation as of the reporting date. Price increases expected to take place prior to the time of performance are included in the calculation. Provisions in which the interest effect is material are discounted to the reporting date at a pre-tax interest rate. For obligations in Germany, we have applied interest rates of between 0.0 and 1.4 percent (previous year: 0.1 and 1.5 percent).

Other changes in provisions include changes in the scope of consolidation, translation differences, 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 relate to the optimization of our production and logistics structures, and of our sales and distribution structures.

Sales provisions cover expected refunds to customers and risks arising from pending transactions. Commitments to customers result in cash outflows in the following period.

Personnel provisions essentially cover expenditures likely to be incurred by the Group for variable, performance-related remuneration components.

Sundry provisions include, for example, provisions for warranties in production and engineering. The figure also includes provisions to cover the risk arising from legal disputes and proceedings, representing not just the cash outflows for the probable amount but also the anticipated cost of legal –

for example civil-law – proceedings. The pending judicial and arbitrational court proceedings and administrative actions relate in particular to issues of product liability, product deficiency, competition law, infringement of proprietary rights, patent law, tax law, environmental protection and legacy remediation.

The course and outcomes of legal disputes are inherently uncertain and unpredictable. Based on the knowledge currently available, no material future impact, negative or otherwise, on the net assets, financial position and results of operations of the corporation is expected.

18 Borrowings

Analysis

	December 31, 2019			December 31, 2020		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Bonds	1,932	543	2,475	**1,666**	**704**	**2,370**
Commercial paper[1]	–	1,448	1,448	**–**	**690**	**690**
Liabilities to banks[2]	–	35	35	**0**	**24**	**24**
Total	**1,932**	**2,026**	**3,958**	**1,666**	**1,418**	**3,084**

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

Bonds

Issuer	Type	Nominal value	Carrying amounts excluding accrued interest		Market values excluding accrued interest[1]		Market values including accrued interest[1]		Interest rate p.a.		Maturity
in million euros			Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	2019	2020	
Henkel AG & Co. KGaA	Bond	600 million US dollars	534	**–**	533	**–**	539	**–**	2.0%	**2.0%**	6/12/2020
Henkel AG & Co. KGaA	Bond	700 million euros	699	**700**	703	**701**	703	**701**	0.0%	**0.0%**	9/13/2021
Henkel AG & Co. KGaA	Bond	300 million GB pounds[2]	351	**333**	355	**337**	355	**338**	0.875%	**0.875%**	9/13/2022
Henkel AG & Co. KGaA	Bond	400 million GB pounds[2]	470	**445**	474	**451**	475	**452**	1.0%	**1.0%**	9/30/2022
Henkel AG & Co. KGaA	Bond	100 million GB pounds[2]	–	**111**	–	**113**	–	**113**	–	**1.0%**	9/30/2022
Henkel AG & Co. KGaA	Bond	330 million Swiss francs[2]	–	**305**	–	**310**	–	**311**	–	**0.2725%**	4/28/2023
Henkel AG & Co. KGaA	Bond	70 million US dollars[2]	–	**57**	–	**57**	–	**57**	–	**1.042%**	7/7/2025
Henkel AG & Co. KGaA	Bond	25 million euros	–	**25**	–	**25**	–	**25**	–	**0.12%**	7/10/2025
Henkel AG & Co. KGaA	Bond	350 million GB pounds[2]	411	**389**	410	**407**	411	**408**	1.25%	**1.25%**	9/30/2026
Total			**2,465**	**2,366**	**2,475**	**2,403**	**2,483**	**2,407**			

[1] Market value of the bonds derived from the stock market price at December 31.
[2] Cross-currency interest rate swaps are in place to convert the interest and principal payments on the bonds denominated in British pounds, Swiss francs and US dollars into euro payments.

In the year under review, we added a second tranche of 100 million British pounds to our British pound bond maturing in 2022, increasing the total nominal value to 500 million British pounds. A further bond with a nominal volume of 330 million Swiss francs was issued in April 2020. In addition, Henkel placed a plastic waste reduction bond in July 2020 consisting of two tranches of 70 million US dollars and 25 million euros respectively. The reclassification of one bond with a nominal volume of 700 million euros to current borrowings caused a corresponding reduction in non-current liabilities. The scheduled redemption of a bond with a nominal volume of 600 million US dollars led to a reduction in current borrowings in June 2020. At the same time, our commercial paper borrowings decreased by 758 million euros to 690 million euros.

19 Other financial liabilities

Analysis

	December 31, 2019			December 31, 2020		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Lease liabilities	423	128	551	**443**	**117**	**560**
Liabilities to non-consolidated subsidiaries and associates	–	7	7	**–**	**5**	**5**
Liabilities to customers	–	65	65	**–**	**58**	**58**
Derivative financial instruments	21	79	100	**44**	**75**	**119**
Sundry financial liabilities	124	13	137	**317**	**10**	**326**
Total	**568**	**292**	**860**	**804**	**264**	**1,068**

Lease liabilities increased slightly year on year by 9 million euros to 560 million euros. For further details of lease liability measurement, please refer to Note 2 on pages 202 and 203.

Of the liabilities to non-consolidated subsidiaries and associates, 5 million euros (previous year: 7 million euros) is attributable to non-consolidated subsidiaries.

Sundry financial liabilities include a liability of 122 million euros (previous year: 115 million euros) for the put option granted to the non-controlling shareholders of eSalon.com LLC, the subsidiary we acquired in 2019. This item also includes a liability for the put option granted to the non-controlling shareholders of Henkel Beauty & IB Holding GmbH. Henkel Beauty & IB Holding GmbH holds the business comprising the premium direct-to-consumer brands HelloBody, Banana Beauty, and Mermaid+Me acquired in the year under review. As of December 31, 2020, the carrying amount of the liability was 191 million euros.

20 Other liabilities

Analysis

in million euros	December 31, 2019[1] Non-current	Current	Total	December 31, 2020 Non-current	Current	Total
Other tax liabilities	2	186	188	**3**	**189**	**192**
Liabilities to employees	4	39	43	**4**	**37**	**41**
Liabilities relating to employee deductions	–	40	40	**11**	**46**	**57**
Liabilities in respect of social security	–	19	19	**–**	**17**	**17**
Sundry other liabilities	8	49	57	**9**	**63**	**73**
Total	**14**	**333**	**347**	**27**	**352**	**380**

[1] Prior-year figures amended (please refer to the notes on page 188).

Sundry other liabilities primarily comprise various income deferrals for other accounting periods amounting to 21 million euros (previous year: 15 million euros) and payments on account received in the amount of 6 million euros (previous year: 3 million euros).

21 Trade accounts payable

Trade accounts payable increased from 3,819 million euros to 3,953 million euros. In addition to purchase invoices, they also relate to accruals for invoices outstanding in respect of goods and services received. They are due within one year.

22 Income tax liabilities

Income tax liabilities include tax obligations and uncertain tax positions. The tax treatment of certain items and transactions is, in part, dependent on future recognition by the tax authorities or tax judiciary. Insofar as it is deemed likely that the tax authorities will not accept a tax position, this is taken into consideration when determining the income tax liabilities and other tax items, with the most probable or expected amount then being applied (per IAS 12 and IFRIC 23). The same assumptions are applied to both current and deferred taxes when accounting for uncertain tax positions.

23 Financial instruments report

How Henkel recognizes and measures financial instruments

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

Within Henkel Group, financial instruments are reported in the statement of financial position under trade accounts receivable, trade accounts payable, borrowings, other financial assets, other financial liabilities, and cash and cash equivalents.

Financial instruments are recognized once Henkel becomes a party to the contractual provisions of the financial instrument and thereby acquires rights or enters into comparable obligations relating to same. The recognition of financial assets takes place at the settlement date, with the exception of derivative financial instruments, which are recognized at the trade date. All financial instruments are initially reported at their fair value. Only those trade accounts receivable without any significant financing component are recognized at transaction price as defined in IFRS 15 Revenue from Contracts with Customers. Transaction costs are only capitalized if the financial instruments are not subsequently remeasured at fair value through profit or loss.

IFRS 9 specifies three categories for measuring financial assets:

- Measured at amortized cost
- Measured at fair value through profit or loss
- Measured at fair value through other comprehensive income

Classification of financial assets to one of the measurement categories is initially based on the structure of the contractual cash flows. The classification of financial assets in respect of which cash flows occur at fixed points in time and are comprised entirely of principal and interest payments is then dictated by the business model in which they are held.

Financial instruments held so as to collect contractual cash flows are recognized at amortized cost using the effective interest method. With the exception of derivative financial instruments, other investments, and certain cash deposits recognized as securities and time deposits and as cash equivalents, all financial assets fulfill these criteria and are measured at amortized cost.

If the business model essentially requires the assets to be held – albeit with their sale remaining possible where necessary to cover liquidity needs, for example – said assets are recognized at fair value through other comprehensive income.

Financial instruments in respect of which cash flows are comprised entirely of principal and interest payments but which are not held within one of the two aforementioned business models, are recognized at fair value through profit or loss.

In addition, a risk provision must be accrued in the amount of expected credit losses for financial assets that are measured at amortized cost or at fair value through other comprehensive income. For more details, please refer to the notes on trade accounts receivable on pages 206 and 207 and on credit risk on pages 241 to 246.

Financial assets of which the cash flows are not comprised entirely of principal and interest payments are in general recognized at fair value through profit or loss. At Henkel this is the case with derivative financial assets and shares in open-end investment funds held to manage liquidity. As a rule, Henkel exercises its right to choose to recognize equity instruments at fair value through other comprehensive income. This approach is commensurate with the fact that, as a rule, the corporation does not plan to sell the assets to benefit from short-term changes in their fair value. If these equity instruments are, nevertheless, sold or derecognized for some other reason, the valuation effects accumulated up to then in other comprehensive income are reclassified to retained earnings rather than the consolidated statement of income.

Financial liabilities must be allocated to one of the following measurement categories:

- Measured at amortized cost
- Measured at fair value through profit or loss

As a rule, Henkel recognizes financial liabilities at amortized cost using the effective interest method, apart from derivative financial liabilities, which are measured at fair value through profit or loss.

Hedge accounting is applied in individual cases – where possible and economically sensible – in order to avoid profit and loss variations arising from fair value changes in derivative financial instruments. Fair value and cash flow hedges are designated within the Group depending on the type of underlying and the risk being hedged. Details relating to the hedging contracts transacted within the Group and how the fair values of the derivatives are determined are provided on pages 235 to 241.

Henkel currently does not exercise the fair value option for financial assets, nor for financial liabilities. In the case of already contracted future purchases of non-financial assets containing embedded derivatives, Henkel exercises the option on a case-by-case basis to recognize the entire contract at fair value through profit or loss.

The following table summarizes the allocation of items on the statement of financial position to the financial instrument classes and compares the carrying amounts of the financial assets and liabilities with their respective fair values:

Comparison of carrying amounts and fair values of financial instruments

in million euros		Dec. 31, 2019[1]	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2020
Financial assets	**Financial instruments class (Valuation hierarchy of fair values)**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Trade accounts receivable	Amortized cost	3,415		3,106	
Other financial assets		1,460		1,471	
Receivables from non-consolidated subsidiaries and associates	Amortized cost	0		0	
Financial receivables from third parties	Amortized cost	138		223	
Derivative financial instruments not included in a designated hedging relationship	Fair value through profit or loss (level 2)	60	60	67	67
Derivative financial instruments included in a designated hedging relationship	Derivatives included in a designated hedging relationship (level 2)	54	54	39	39
Investments in non-consolidated subsidiaries and associates	Not assigned to any valuation category under IFRS 9	9		6	
Other investments	Fair value through other comprehensive income (level 3)	36	36	57	57
Receivables from Henkel Trust e.V.	Amortized cost	621		497	
Securities and time deposits	Amortized cost	8		5	
Securities and time deposits	Fair value through other comprehensive income (level 1)	4	4	2	2
Securities and time deposits	Fair value through profit or loss (level 1)	13	13	14	14
Securities and time deposits	Fair value through profit or loss (level 2)	400	400	401	401
Financial collateral provided	Amortized cost	26		74	
Sundry financial assets	Amortized cost	91		86	
Cash and cash equivalents	Amortized cost	1,347		1,566	
Cash and cash equivalents	Fair value through profit or loss (level 2)	113	113	161	161
Total		**6,335**		**6,303**	

[1] Prior-year figures amended (please refer to the notes on page 188).

TABLE CONTINUED ON NEXT PAGE

Comparison of carrying amounts and fair values of financial instruments

in million euros		Dec. 31, 2019[1]	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2020
Financial liabilities	**Financial instruments class (Valuation hierarchy of fair values)**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Borrowings		3,958		3,084	
Bonds	Amortized cost (level 1)	2,475	2,483	2,370	2,407
Other borrowings	Amortized cost	1,483		714	
Trade accounts payable	Amortized cost	3,819		3,953	
Other financial liabilities		860		1,068	
Lease liabilities	Not assigned to any valuation category under IFRS 9	551		560	
Liabilities to non-consolidated subsidiaries and associates	Amortized cost	7		5	
Liabilities to customers	Amortized cost	65		58	
Derivative financial instruments not included in a designated hedging relationship	Fair value through profit or loss (level 2)	56	56	64	64
Derivative financial instruments included in a designated hedging relationship	Derivatives included in a designated hedging relationship (level 2)	44	44	55	55
Derivative financial instruments included in a designated hedging relationship	Derivatives included in a designated hedging relationship (level 3)	–	–	–	–
Sundry financial liabilities	Amortized cost (level 3)	115	109	313	322
Sundry financial liabilities	Amortized cost	22		13	
Sundry financial liabilities	Fair value through profit or loss (level 3)	–	–	-11	-11
Sundry financial liabilities	Not assigned to any valuation category under IFRS 9	–		12	
Total		**8,637**		**8,106**	

[1] Prior-year figures amended (please refer to the notes on page 188).

IFRS 13 Fair Value Measurement defines fair value as the price that would be payable in a principal market – or in the most favorable market, in the absence of the former – if an asset were to be sold or a liability transferred. Valuation parameters as close to market reality as possible must be used as input factors to determine fair value. The fair value hierarchy prioritizes the input factors used in the valuation methods in three descending levels, depending on market proximity:

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

The fair value of securities and time deposits classified as level 1 is based on quoted market prices as of the reporting date. Observable market data are used to measure the fair value of level 2 securities, time deposits and cash equivalents. If bid and ask prices are available, the mid price is used to determine the fair value. When using the discounted cash flow method to determine fair values, the contractually specified cash flows are discounted using currency-specific yield curves. When measuring derivative financial instruments, the credit risk is determined by netting all financial assets, liabilities, collateral received and collateral provided for each counterparty to determine the net credit exposure. An explanation of the method used to determine the fair values of derivative financial instruments can be found on pages 235 to 241.

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

Development of level 3 assets and liabilities 2019

in million euros	Derivative financial instruments included in a designated hedging relationship	Other investments	Contingent purchase price commitments	Puttable instruments for minority shareholders	Contracts with embedded derivatives
Carrying amount at January 1, 2019	**-1**	**20**	**33**	**29**	**–**
Purchases	–	23	–	-21	–
Gains/losses (realized) recognized in operating profit or loss	–	–	-26	–	–
Of which: attributable to assets and liabilities held at the end of the reporting period	–	–	-16	–	–
Gains/losses recognized in other changes in equity	1	-8	–	-8	–
Foreign exchange effects/Other changes	–	1	1	–	–
Carrying amount at December 31, 2019	**-0**	**36**	**8**	**–**	**–**

Development of level 3 assets and liabilities 2020

in million euros	Derivative financial instruments included in a designated hedging relationship	Other investments	Contingent purchase price commitments	Puttable instruments for minority shareholders	Contracts with embedded derivatives
Carrying amount at January 1, 2020	**-0**	**36**	**8**	**–**	**–**
Purchases	–	20	–	–	12
Gains/losses (realized) recognized in operating profit or loss	–	–	-8	–	-0
Of which: attributable to assets and liabilities held at the end of the reporting period	–	–	-8	–	-0
Gains/losses recognized in other changes in equity	0	3	–	–	–
Foreign exchange effects/Other changes	–	-2	–	–	–
Carrying amount at December 31, 2020	**–**	**57**	**–**	**–**	**11**

The derivative financial instruments categorized as level 3 are commodity forwards accounted for using hedge accounting. In the absence of forward quotes on the market, the fair value is determined on the basis of bids obtained from several banks for new contracts involving similar products.

Changes in the fair values determined using this procedure are included in full in other comprehensive income in the hedge reserve. Reclassification of the corresponding amounts to the cost of hedged inventories is performed when the derivatives are realized.

Other investments include investments in companies and investment funds that are currently not intended for sale. The carrying amounts of the investments in companies totaled 23 million euros (previous year: 16 million euros). Shares in investment funds amounted to 34 million euros (previous year: 20 million euros). The fair value of other investments is based either on information derived from recent financing transactions, on a cost-based method or on valuation using the discounted cash flow method taking into account the free cash flow of the investee. Appropriate risk-adjusted costs of capital are applied when using the discounted cash flow method.

The individual other investments are of minor importance for the presentation of the net assets and results of operations of the Henkel Group. If any conceivably realistic changes were to occur in the valuation parameters, the change in the carrying amounts revealed by sensitivity analysis would not exceed a range in the mid-single-digit euro millions. The changes would be included in full in the overall figure for other changes in equity recognized in other comprehensive income. No valuation results recognized in equity were reclassified to retained earnings in the year under review, nor in the previous year.

The fair value of the performance-related purchase price component pertaining to the acquisition of the outstanding non-controlling shares in our subsidiary in the United Arab Emirates is determined on the basis of the expected trend in earnings before interest, taxes, depreciation and amortization, impairment losses and write-ups (EBITDA) that was relevant to payment of the contingent purchase price component. In addition to the EBITDA, the exchange rate of the UAE dirham is a further material valuation parameter.

At December 31, 2020, the fair value of the liability was 0 million euros. The income from reducing the liability was recognized through profit in the income statement. A conceivably realistic change in the valuation parameters would not change the fair value.

The Virtual Power Purchase Agreement entered into in the year under review as part of our sustainability strategy is recognized in total at fair value through profit or loss due to the embedded derivative it contains. The fair value allocated to level 3 is derived from the present value of the expected cash flows from the contract. In this case, the material valuation parameters are the anticipated electricity prices and the US dollar interest rate used for discounting.

If the anticipated electricity prices had been 10 percent higher or lower on the valuation date, the fair value of the agreement would have been 0 million euros higher or lower. An increase of 100 basis points in the US dollar interest rate would lead to a reduction in the fair value of -1 million euros, whereas a corresponding decrease would lead to an increase in the fair value of 1 million euros.

At the time of initial recognition, the fair value of the contract was higher than the transaction price. The corresponding difference of 12 million euros was deferred. Once the wind farm on which the Virtual Power Purchase Agreement is based starts operating, the difference will be recognized pro rata temporis in the statement of income over the term of the agreement. Since the wind farm has not yet started operating, no income was recognized in the year under review. The deferred difference is recognized in the statement of financial position together with the positive or negative fair value of the agreement under sundry financial assets or sundry financial liabilities. The changes in fair value and deferred amount are captured in other operating income or other operating expenses in the statement of income.

The liabilities recognized in sundry financial liabilities for the put options granted to the non-controlling shareholders of eSalon.com LLC and Henkel Beauty & IB Holding GmbH are measured at amortized cost. The fair values indicated in the notes, which are allocable to level 3, correspond to the present value of the expected obligation in each case. The liabilities are calculated using multiple methods based on the sales of the company and an adjustment to net working capital, and discounted at the current market interest rate for comparable debt instruments. In addition to the sales of the company, the average annual growth rate in sales that forms the basis for determining the multiplier is a further material valuation parameter. In the case of the liability to the non-controlling shareholders of eSalon.com LLC, the exchange rate of the US dollar is also a material valuation parameter.

We did not perform any reclassifications between the valuation categories or IFRS 7 classes, or transfers within the fair value hierarchy, either in the reporting period or in the comparative prior-year period.

Net gains and losses from financial instruments by category

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

Net results by measurement category 2019

in million euros	Interest	Valuation allowances	Payments received for written-off and derecognized financial instruments	Fees	Other effects recognized through profit or loss	Valuation effects recognized through other comprehensive income	Reclassifications of valuation effects recognized through other comprehensive income	Total net results
Financial assets measured at amortized cost	13	-19	2	–	8	–	–	4
Financial assets measured at fair value through other comprehensive income (debt instruments)	–	–	–	–	–	1	–	1
Financial assets measured at fair value through other comprehensive income (equity instruments)	–	–	–	–	–	-8	–	-8
Financial assets and liabilities measured at fair value through profit or loss[1]	1	–	–	–	102	-80	76	99
Financial liabilities measured at amortized cost	-87	–	–	-5	-12	–	–	-104
Total net results 2019	**-73**	**-19**	**2**	**-5**	**98**	**-87**	**76**	**-8**

[1] Including designated hedging instruments.

Net results by measurement category 2020

in million euros	Interest	Valuation allowances	Payments received for written-off and derecognized financial instruments	Fees	Other effects recognized through profit or loss	Valuation effects recognized through other comprehensive income	Reclassifications of valuation effects recognized through other comprehensive income	Total net results
Financial assets measured at amortized cost	12	-61	1	–	6	–	–	-43
Financial assets measured at fair value through other comprehensive income (debt instruments)	0	–	–	–	–	1	–	1
Financial assets measured at fair value through other comprehensive income (equity instruments)	–	–	–	–	–	2	–	2
Financial assets and liabilities measured at fair value through profit or loss[1]	-11	–	–	–	-52	63	-24	-23
Financial liabilities measured at amortized cost	-44	–	–	-3	-13	–	–	-61
Total net results 2020	**-44**	**-61**	**1**	**-3**	**-59**	**66**	**-24**	**-124**

[1] Including designated hedging instruments.

Reconciliation of net results to financial result

in million euros	2019	2020
Total net results	**-8**	**-124**
Less/plus results included in operating profit or in other comprehensive income	24	**10**
Foreign exchange effects	-98	**21**
Interest expense of pension obligations less interest income from plan assets and reimbursement rights	-7	**-8**
Other financial result (not related to financial instruments)	1	**8**
Financial result	**-88**	**-94**

No gains or losses were realized in the fiscal year from derecognized financial assets measured at amortized cost.

Derivative financial instruments and hedge accounting

Derivative financial instruments are measured at their fair value at the reporting date. Recognition of the gains and losses arising from fair value changes of derivative financial instruments is dependent upon whether hedge accounting rules are applicable. The Group ensures that its hedge accounting is consistent with the Group risk management objectives and strategy, and that a qualitative and forward-looking approach is adopted when assessing the effectiveness of its hedging transactions.

Hedge accounting is not applied for derivative financial instruments as long as their valuation is offset by direct compensatory changes in the fair values of the hedged items or the requirements for hedge accounting are not fulfilled. We recognize directly in the statement of income the fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of the Group strategy.

In hedge accounting, derivative financial instruments are classified as instruments for hedging fair value (fair value hedge), as instruments for hedging future cash flows (cash flow hedge) or as instruments for hedging a net investment in a foreign subsidiary (hedge of a net investment in a foreign operation). When closing the transaction, Henkel documents the relationship between the hedging instrument and the hedged item, together with the risk management objectives and strategies of the hedging transactions. All derivatives classified as hedging instruments are tied to specific committed and planned transactions. Henkel uses acknowledged methods – such as the dollar offset method or the hypothetical derivative method – to determine the effective portion of the hedges and any ineffective portions.

The following table provides an overview of the derivative financial instruments utilized and recognized within the Group, and their fair values:

Derivative financial instruments

	Nominal value		Positive fair value[2]		Negative fair value[2]	
in million euros	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020
Currency risk						
Currency forwards[1]	6,334	**7,279**	71	**99**	-69	**-75**
Of which: for hedging loans within the Group	2,823	**3,159**	52	**21**	-35	**-39**
Of which: designated as cash flow hedges	1,580	**1,996**	11	**32**	-13	**-11**
Cross-currency interest rate swaps[3]	1,234	**1,642**	43	**7**	-13	**-44**
Of which: designated as cash flow hedges	1,234	**1,642**	43	**7**	-13	**-44**
Interest rate risk						
Interest rate swaps[4]	979	**–**	–	**–**	-11	**–**
Of which: designated as cash flow hedges	979	**–**	–	**–**	-11	**–**
Commodity price risk						
Commodity forwards	3	**–**	–	**–**	0	**–**
Of which: designated as cash flow hedges	3	**–**	–	**–**	0	**–**
Share price risk						
Equity forward contracts	35	**–**	–	**–**	-7	**–**
Of which: designated as cash flow hedges	35	**–**	–	**–**	-7	**–**
Total derivative financial instruments	**8,585**	**8,921**	**114**	**106**	**-100**	**-119**

[1] Maturity less than 1 year.
[2] Fair values including accrued interest and excluding valuation allowance for counterparty credit risk of 0 million euros (previous year: 0 million euros).
[3] Nominal value: 1,150 million British pounds, 330 million Swiss francs and 70 million US dollars (previous year: 1,050 million British pounds).
[4] Nominal value previous year: 1.1 billion US dollars.

We determine the fair value of currency forwards and cross-currency interest rate swaps on the basis of the reference rates issued by the European Central Bank for the reporting date, taking into account forward premiums/forward discounts for the remaining term of the respective contract versus the contracted foreign exchange rate. Currency options are measured using price quotations or recognized models for the determination of option prices. The fair value of equity forward contracts is measured on the basis of the closing price of Henkel preferred shares on the reporting date, taking into account forward premiums/forward discounts for the remaining term of the respective contract versus the contracted forward share price. Interest rate swaps are measured on the basis of discounted cash flows expected in the future, taking into account market interest rates applicable for the remaining term of the contracts. These are indicated for the two most important currencies in the following table. It shows the interest rates quoted on the interbank market in each case on December 31.

Interest rates in percent p.a.

At December 31 Term	Euro		US dollar	
	2019	**2020**	2019	**2020**
1 month	-0.44	**-0.55**	1.76	**0.14**
3 months	-0.38	**-0.55**	1.91	**0.24**
6 months	-0.32	**-0.53**	1.91	**0.26**
1 year	-0.25	**-0.53**	2.00	**0.19**
2 years	-0.29	**-0.52**	1.68	**0.20**
5 years	-0.13	**-0.46**	1.72	**0.43**
10 years	0.21	**-0.26**	1.88	**0.92**

In measuring derivative financial instruments, counterparty credit risk is taken into account with an adjustment to the unsecured fair values concerned, determined on the basis of credit risk premiums. The adjustment relating to fiscal 2020 amounts to 0 million euros (previous year: 0 million euros). Changes in credit risk are recognized through profit or loss in the financial result.

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

Most of the currency forwards served to hedge risks arising from trade accounts receivable and payable, and those pertaining to Group financing.

Fair value hedges

A fair value hedge hedges fluctuations in the fair value of recognized assets and liabilities or unrecognized firm commitments from which a specific risk arises. The changes in the fair values of the hedging instruments and of the hedged item from the hedged risk are simultaneously recognized in profit or loss.

The Henkel Group did not use any fair value hedges in fiscal 2020, nor in the previous year.

Cash flow hedges

A cash flow hedge hedges fluctuations in future cash flows from recognized assets and liabilities, unrecognized firm commitments, and highly probable forecast transactions, from which a specific risk arises. The Henkel Group uses them to hedge currency, interest rate, and commodity and share price risks. The effective portion of the change in fair value of the cash flow hedge is initially recognized in the cash flow hedge reserve in equity. The ineffective portion of the change in value is recognized directly through profit or loss in the financial result or operating profit, depending on the hedged item. Henkel exercises its right to choose to also initially recognize changes in value of non-designated components of hedging instruments – such as the forward component and foreign currency basis spreads of currency forwards and the foreign currency basis spreads of cross-currency interest rate swaps – in the hedging cost reserve in equity. Amounts recognized in the reserves are released through profit or loss in the same period in which the hedged transaction impacts profit or loss. If a cash flow hedge results in the recognition of a non-financial asset, the amounts recognized in equity are included as part of the acquisition cost when the asset is recognized ("basis adjustment").

Cash flow hedge reserve (net of deferred taxes)

in million euros	At Jan. 1	Hedge results	Reclassifications to the statement of income	Reclassifications to inventories (basis adjustment)	At Dec. 31
2020	**-224**	**70**	**-39**	**1**	**-192**
2019	-232	-62	71	-1	-224

Hedging cost reserve (net of deferred taxes)

in million euros	At Jan. 1	Hedge results	Reclassifications to the statement of income	Reclassifications to inventories (basis adjustment)	At Dec. 31
2020	**-15**	**-8**	**16**	**0**	**-7**
2019	-2	-20	7	0	-15

The reserves stated in equity essentially relate to currency hedges for past acquisitions and planned inventory purchases, and for our foreign currency bonds. The cash flow hedge reserve reported as of December 31, 2020 in the amount of -237 million euros (previous year: -235 million euros) was attributable to results from hedges that were no longer subject to hedge accounting.

Currency risk
As part of its risk management, the Henkel Group hedges fluctuations in cash flows of planned sales and inventory purchases in foreign currencies against currency risk. Currency forwards or recognized receivables and payables are used as hedging instruments. They are all due within one year. In the case of currency forwards, no ineffectiveness arises, since the Group only designates the spot component as the hedging instrument. Changes in the non-designated components of the derivatives over their duration are recognized in the hedging cost reserve. The hedge ratio is determined individually, depending on the relevant strategy for each currency. The hedging rates for major currencies are shown in the following table:

Hedging rates for sales and inventory purchases

	2020	
in million euros	Nominal	Weighted hedging rate
US dollar	555	1.19
Chinese yuan	52	8.05
Canadian dollar	43	1.55
Polish zloty	36	4.47
British pound	33	0.91

An addition of 56 million euros (previous year: -53 million euros) to the reserves (net of deferred taxes) relates to currency hedges of planned inventory purchases and currency hedges of planned sales as protection against fluctuating spot rates. Of the changes in the values of hedging instruments recognized in equity in the reporting period, 35 million euros (previous year: -48 million euros) was reclassified to cost of hedged inventories without affecting profit or loss or – within the framework of hedging planned sales – to operating result through profit or loss. The positive and negative fair values of the derivatives contracted as a currency hedge of planned inventory purchases and as a currency hedge of planned sales amounted to 32 million euros (previous year: 11 million euros) and -11 million euros (previous year: -13 million euros). The cash flows from these currency derivatives, like the cash flows from the hedged inventory purchases and the hedged sales, are expected to occur and affect operating profit in the next fiscal year when the inventories are used and the sales revenue is realized.

In addition to the currency derivatives, foreign currency trade accounts payable are designated as hedging instruments for planned sales. The carrying amount of the liabilities designated as hedging instruments amounted to 472 million euros (previous year: 524 million euros). The cash flows from these liabilities and the cash flows from the hedged sales are expected to occur and affect operating profit in the next fiscal year. The hedge transactions did not result in any ineffectiveness.

In addition, cross-currency interest rate swaps are used to hedge currency risks arising in connection with interest and redemption payments in foreign currencies relating to Group funding. Fixed payments in foreign currencies are converted into fixed payments in euros through cross-currency interest rate swaps. The hedging rates for the bonds issued in foreign currencies are shown in the table below:

Bond hedging rates

	2020	
Bond maturity	Nominal	Weighted hedging rate in euros
9/13/2022	300 million GB pounds	0.84
9/30/2022	400 million GB pounds	0.88
9/30/2022	100 million GB pounds	0.85
4/28/2023	330 million Swiss francs	1.05
7/7/2025	70 million US dollars	1.12
9/30/2026	350 million GB pounds	0.88

The hedging instruments have been structured and designated such that the occurrence of ineffectiveness has been eliminated. Changes in the non-designated foreign currency basis spreads over their duration are recognized in the hedging cost reserve. The cash flows from the cross-currency interest rate swap that are attributable to the interest payments were recognized proportionately for the reporting period through profit or loss as an interest expense. The term of the cross-currency interest rate swaps is matched to the term of the respective bond.

Interest rate risk

Until the beginning of December 2020, interest rate swaps with a nominal volume of 1,100 million US dollars hedged part of the risk of interest rate changes in connection with our commercial paper program. The swaps were designated as cash flow hedges. Because of the revolving nature of our commercial paper borrowings, the interest payments in US dollars are variable and were converted into fixed-interest payments through the interest rate swaps. The interest rate risk was not hedged at the reporting date.

Commodity price risk
Payments for planned commodity purchases are selectively hedged against fluctuations due to changes in the purchase prices of the raw materials. Commodity forwards are used to hedge this risk. They are all due within one year. The Group only designates the commodity price component of the planned raw material purchases. Other price components, such as transportation costs, are not designated. Accordingly, no ineffectiveness arises.

During fiscal 2020, the Henkel Group hedged exposure in connection with clearly identifiable ethylene components. During the process of accounting for the designated hedging instruments, positive changes of 0 million euros (previous year: 1 million euros) in the value of the derivatives designated as hedges (net of deferred taxes) were added to the cash flow hedge reserve. Once the hedges expired, the total loss recognized in equity amounting to 0 million euros (previous year: 3 million euros) was reclassified to cost of hedged inventories without affecting profit or loss (basis adjustment). As of December 31, 2020, there were no hedging contracts covering commodity price exposure.

Share price risk
Until payment of the incentive from the final cycle of the Global Long Term Incentive Plan (LTI Plan) 2013 in July 2020, equity forward contracts were used to hedge against potential fluctuations in future payroll costs for planned payouts due to fluctuations in the price of Henkel shares. In these cases, no ineffectiveness arose, since only the spot component of the equity forward contracts was designated as the hedging instrument.

In the year under review, hedging this planned exposure led to an addition to the cash flow hedge reserve amounting to (net of deferred taxes) -4 million euros (previous year: -6 million euros). Once the hedge expired, the total loss of -4 million euros recognized in equity until then was reclassified to operating profit as an expense.

Hedges of a net investment in a foreign operation
The accounting treatment of hedges of a net investment in a foreign operation against translation risk is similar to that applied to cash flow hedges. The gain or loss arising from the effective portion of the hedging instrument is recognized in the reserve for hedges of a net investment in a foreign operation; the ineffective portion is recognized directly through profit or loss. Henkel exercises its right to choose to also recognize changes in value of the foreign currency basis spreads of currency forwards that are not designated as hedging instruments in equity. The gains or losses recognized directly in equity in connection with the hedges of a net investment in a foreign operation remain there until disposal or partial disposal of the net investment. The changes in non-designated foreign currency basis spreads that are recognized in equity are reclassified pro rata temporis over the term of the hedge to the statement of income.

The reserve for hedges of a net investment in a foreign operation relates essentially to translation risks arising from net investments in Swiss francs, US dollars, Chinese yuans, Russian rubles, Thai bahts and British pounds, for which most of the associated hedging instruments expired in previous years.

Reserve for hedges of a net investment in a foreign operation (net of deferred taxes)

in million euros	At Jan. 1	Addition (recognized in equity)	Disposal (recognized through profit or loss)	At Dec. 31
2020	**35**	**1**	**0**	**36**
2019	35	–	–	35

Reserve for cost of hedges of a net investment in a foreign operation (net of deferred taxes)

in million euros	At Jan. 1	Addition (recognized in equity)	Disposal (recognized through profit or loss)	At Dec. 31
2020	**–**	**0**	**0**	**0**
2019	–	–	–	–

Risks arising from financial instruments, and risk management

As a globally active corporation, Henkel is exposed in the course of its ordinary business operations to credit risks, liquidity risks and market risks (currency translation, interest rate and other price risks). The purpose of financial risk management is to restrict the exposure arising from operating activities through the use of selective derivative and non-derivative hedging instruments. 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 derivative and hedged item 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. These guidelines define the targets, principles and competences of the Corporate Treasury unit. They also 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 126 and 127. There were no major risk clusters in the reporting period. Appropriate details are provided in the description of the individual risks.

Credit risk

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

The maximum credit risk arising from financial assets not subject to the impairment rules of IFRS 9 – irrespective of any collateral provided – is reflected by the carrying amounts of the financial assets recognized in the statement of financial position and presented as follows:

Maximum risk position

in million euros	Dec. 31, 2019	Dec. 31, 2020
Financial assets measured at fair value through profit or loss	586	**642**
Derivative financial instruments included in a designated hedging relationship	54	**39**
Equity instruments measured at fair value through other comprehensive income	36	**57**
Total carrying amounts	**676**	**738**

Given that collateral has been provided, the actual credit risk is significantly lower and is discussed in detail in the following. Other financial assets include 497 million euros (previous year: 621 million euros) representing a receivable from Henkel Trust e.V. This constitutes the largest single item under the financial assets heading. Given the investment structure and rules of Henkel Trust e.V., the credit risk is very minor. Further details of risk clusters are discussed in the following.

Under IFRS 9, valuation allowances for expected credit losses ("expected loss model") must be recognized for all financial assets measured at amortized cost and for all debt instruments measured at fair value through other comprehensive income.

IFRS 9 provides a three-level method for this purpose. Risk provisions are accrued on the basis either of the 12 months expected losses (level 1), or of the lifetime expected losses if the credit risk has increased significantly since initial recognition (level 2), or if the asset is credit-impaired (level 3). The simplified approach is adopted, however, for most of the financial assets, including trade accounts receivable with no material financing component. As such, the expected credit losses are always determined for the full lifetime of the financial instruments.

To calculate the expected credit losses, counterparties are grouped by similar credit default risks. Individual valuation allowances are made on a case-by-case basis in response to specific circumstances and risk indicators. Both empirical data such as historical default rates and forward-looking information such as individual and macroeconomic circumstances are considered when determining the amounts of the valuation allowances. If a counterparty's credit rating is deemed to be impaired – following noticeable changes in payment behavior or application for bankruptcy, for example – all outstanding amounts relating to that counterparty are subjected to a valuation allowance. The expected default is determined on the basis of individual assessment. Valuation allowances and increases thereto are always recognized through profit or loss.

If the expected credit losses decrease, a corresponding amount of the risk provision is reversed through profit or loss.

A financial asset is derecognized if it is reasonably judged to be unlikely that the corresponding cash flows will be recoverable in part or in whole, for example after completion of insolvency proceedings or after consideration of other local legal circumstances. If an outstanding receivable is judged to be unrecoverable, the valuation allowance already in place is utilized and the derecognition of the remaining net amount outstanding results in an expense.

Trade accounts receivable and other financial assets in Henkel's operating business

In its operating business, Henkel is confronted by progressive concentration on the customer side, as reflected in the receivables from individual customers. As of December 31, 2020, the USA and China represented the highest risk concentration at country level. Outstanding trade accounts receivable from customers based in the USA accounted for 17 percent of all trade accounts receivable on the reporting date. Trade accounts receivable from customers based in China accounted for 13 percent. The risk concentration at individual customer level was much lower. Receivables from customers with a high credit risk rating accounted for about 11 percent of all trade accounts receivable. These risks are monitored regularly at the global and regional level and steps are taken to mitigate exposure.

Our credit risk management system operating on the basis of a globally applied credit policy ensures that credit risks are constantly monitored and credit losses 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, letters of credit in the export business and, for example, sureties, guarantees and cover notes. Since the beginning of 2020, the credit risk associated with trade accounts receivable has, moreover, been reduced globally through excess-of-loss credit insurance. The insurance covers trade accounts receivable starting at a specific amount and includes an aggregate first loss deductible as well as a small percentage deductible.

When determining the valuation allowances on trade accounts receivable, greater default probabilities were assumed in some cases compared to year-end 2019 to reflect the anticipated financial difficulties that some of our customers may face in connection with the COVID-19 pandemic. They were based on expert estimates of the economic impacts of the pandemic and on in-house and external data regarding the financial status of individual customers or customer groups.

Valuation allowances on trade accounts receivable by risk category as of December 31, 2019

Risk categories	Equivalent to S&P rating	Probability of default	Gross before deduction of collateral and value-added tax in million euros	Net for determining the valuation allowance in million euros	Valuation allowance in million euros
Low risk	A- to AA	0.1%	1,646	1,045	2
Moderate risk	BBB- to BB+	0.3% to 0.8%	1,073	653	3
High risk	C to B+	4.1% to 24.8%	327	212	21
Individual assessment	n/a	individual	17	16	4
Default	D	100%	60	57	55
SMEs and microbusinesses	n/a	4.0%	192	151	6
Total			**3,315**	**2,134**	**91**

Valuation allowances on trade accounts receivable by risk category as of December 31, 2020

Risk categories	Equivalent to S&P rating	Probability of default[1]	Gross before deduction of collateral and value-added tax in million euros	Net for determining the valuation allowance in million euros	Valuation allowance in million euros
Low risk	A- to AA	0.1%	1,632	694	8
Moderate risk	BB- to BBB+	0.3% to 0.8%	867	391	7
High risk	C to B+	3.6% to 23.3%	342	212	22
Individual assessment	n/a	individual	18	13	9
Default	D	100%	72	69	68
SMEs and microbusinesses	n/a	5.2%	139	116	7
Total			**3,070**	**1,495**	**123**

[1] Average probability of default before analysis on a case-by-case basis and adjustments due to the COVID-19 pandemic.

Of the gross amount before deduction of collateral and value-added tax of 3,070 million euros (previous year: 3,315 million euros), positions worth 1,575 million euros (previous year: 1,181 million euros) were deducted for which no valuation allowances were required. Of this figure, 1,341 million euros (previous year: 941 million euros) relates to collateral received and 233 million euros (previous year: 240 million euros) to refundable value-added tax. Accordingly, the net base for determining valuation allowances was 1,495 million euros (previous year: 2,134 million euros).

The carrying amount of trade accounts receivable, the term of which was renegotiated because they would have otherwise been more than 30 days overdue, was 4 million euros (previous year: 5 million euros). Receivables of 68 million euros (previous year: 56 million euros) were written off in full, but not yet derecognized as they are still subject to ongoing collection proceedings.

Apart from financial receivables from third parties amounting to 223 million euros (previous year: 138 million euros), no valuation allowances exist in respect of other financial assets in our operating business because the credit risk is considered to be very low. A valuation allowance of 8 million euros (previous year: 3 million euros) exists for financial receivables from third parties.

Financial investments
Credit risks also arise from financial investments such as cash at banks, securities and the positive fair value of derivatives. Such exposure is limited by our Corporate Treasury specialists through the selection of counterparties with strong credit ratings, and limitations on the amounts allocated to individual investments. In financial investments and derivatives trading with German and international banks, we only enter into transactions with counterparties of high financial standing. We invest primarily in securities from issuers with an investment grade rating. Our cash deposits can be liquidated at short notice. Our financial investments are broadly diversified across various counterparties and various financial assets. Credit ratings and investment limits are continuously monitored and steps taken if fixed thresholds for ratings and credit default swaps (CDS) are exceeded. To minimize the credit risk, we agree netting arrangements to offset bilateral receivables and obligations with counterparties. We additionally enter into collateral agreements with relevant banks, on the basis of which reciprocal sureties are established twice a month to secure the fair values of contracted derivatives and other claims and obligations. The netting arrangements only provide for a contingent right to offset transactions conducted with a contractual party. Accordingly, associated amounts can be offset only under certain circumstances, such as the insolvency of one of the contractual parties. Thus, the netting arrangements do not meet the offsetting criteria under IAS 32 Financial Instruments: Presentation. The following table provides an overview of financial assets and financial liabilities from derivatives that are subject to netting, collateral or similar arrangements:

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

At December 31 in million euros	Gross amount recognized in the statement of financial position[1] 2019	2020	Amount eligible for offsetting 2019	2020	Financial collateral received/provided 2019	2020	Net amount 2019	2020
Financial assets	114	**106**	67	**76**	28	**17**	19	**13**
Financial liabilities	100	**119**	67	**76**	26	**74**	7	**-31**

[1] Fair values excluding valuation allowance of 0 million euros relating to counterparty credit risk (previous year: 0 million euros).

In addition to netting and collateral arrangements, investment limits are set, based on the ratings of the counterparties, in order to minimize credit risk. These limits are monitored and adjusted regularly. When determining the limits, we also apply certain other indicators, such as the pricing of credit default swaps by the banks. A valuation allowance of 0 million euros exists to cover the remaining credit risk relating to the positive fair values of derivatives (previous year: 0 million euros).

In the case of financial assets held by Henkel in connection with EU emission rights swap contracts, the underlying emission rights are provided as collateral to the Henkel Group. They may be utilized even if the debtor is not in default of payment, since Henkel is only committed to returning the same number and specification of emission rights. The fair value of the non-financial assets held as collateral as of December 31, 2020 was 232 million euros (previous year: 101 million euros). Because the financial assets are fully backed, the credit risk was classified as absolutely minor, and no valuation allowance was recognized.

Liquidity risk

Liquidity risk is defined as the risk of an entity failing to meet its financial obligations at any given time. We mitigate this risk through our long-term management strategy of using financing instruments by issuing bonds in different currencies with variously staggered terms up to six years. With the help of our existing debt issuance program in the amount of 10 billion euros, this is also possible on a short-term and flexible basis. We predominantly invest cash in financial assets traded in a liquid market in order to ensure that they can be sold at any time to generate cash or to manage liquidity in the short term. We also use our US dollar and euro commercial paper program for short-term liquidity management. In order to ensure the financial flexibility of Henkel at any time, the liquidity within the Group is largely centralized and managed through the use of cash pools. In addition, the Henkel Group has at its disposal a confirmed credit line of 1.5 billion euros with a term through to 2025. The individual subsidiaries additionally have at their disposal bilateral loan commitments of 0.1 billion euros with a revolving term of up to one year. Our credit rating is regularly assessed by the rating agencies Standard & Poor's and Moody's. We intend to maintain our ratings within a "single A" target corridor.

Our liquidity risk can therefore be regarded as very low.

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The maturity structure of the original and derivative financial liabilities within the scope of IFRS 7 based on undiscounted cash flows, and thus the risk concentration in relation to liquidity risk, is shown in the following table:

Cash flows from financial liabilities 2019

in million euros	Dec. 31, 2019 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	Dec. 31, 2019 Total cash flow
Bonds	**2,475**	554	1,549	419	**2,522**
Commercial paper[1]	**1,448**	1,452	–	–	**1,452**
Liabilities to banks	**35**	35	–	–	**35**
Lease liabilities	**551**	122	255	208	**585**
Trade accounts payable	**3,819**	3,819	–	–	**3,819**
Sundry financial instruments[2]	**209**	85	125	–	**210**
Original financial instruments	**8,537**	**6,067**	**1,929**	**627**	**8,623**
Expected inflow from interest rate and cross-currency interest rate swaps	**25**	993	359	–	**1,352**
Expected outflow for interest rate and cross-currency interest rate swaps		1,008	359	–	**1,367**
Other derivative financial instruments	**75**	75	–	–	**75**
Derivative financial instruments	**100**	**90**	**–**	**–**	**90**
Total	**8,637**	**6,157**	**1,929**	**627**	**8,713**

[1] From the euro and US dollar commercial paper program (total volume: 2 billion euros and 2 billion US dollars).

[2] Sundry financial instruments include amounts due to customers, and finance bills.

Cash flows from financial liabilities 2020

in million euros	Dec. 31, 2020 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	Dec. 31, 2020 Total cash flow
Bonds	**2,370**	713	1,318	393	**2,424**
Commercial paper[1]	**690**	690	–	–	**690**
Liabilities to banks	**24**	24	0	–	**24**
Lease liabilities	**560**	132	294	204	**629**
Trade accounts payable	**3,953**	3,953	–	–	**3,953**
Sundry financial instruments[2]	**389**	73	320	–	**393**
Original financial instruments	**7,987**	**5,584**	**1,933**	**597**	**8,114**
Expected inflow from interest rate and cross-currency interest rate swaps	**44**	12	1,267	–	**1,279**
Expected outflow for interest rate and cross-currency interest rate swaps		2	1,309	–	**1,311**
Other derivative financial instruments	**75**	75	–	–	**75**
Derivative financial instruments	**119**	**65**	**42**	**–**	**107**
Total	**8,106**	**5,649**	**1,975**	**597**	**8,221**

[1] From the euro and US dollar commercial paper program (total volume: 2 billion euros and 2 billion US dollars).

[2] Sundry financial instruments include amounts due to customers, and finance bills.

Market risk

Market risk exists where the fair value or future cash flows of a financial instrument may fluctuate due to changing market prices. Market risks primarily take the form of currency risk, interest rate risk and commodity price risk.

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

The currency and interest rate risk management of the Group is supported by an integrated treasury system which is used to identify, measure and analyze the Group's currency exposure and interest rate risks. In this context, "integrated" means that the entire process from the conclusion of financial transactions to their entry in the accounts is covered. Much of the currency trading takes place on internet-based, multibank trading platforms. These foreign currency transactions are automatically transferred into the treasury system. The currency exposure and interest rate risks reported by all subsidiaries under standardized reporting procedures are likewise integrated into the treasury system by data transfer. As a result, it is possible to retrieve and measure at any time all currency and interest rate risks across the Group and all derivatives entered into to hedge the exposure to these risks. The treasury system supports the use of various risk concepts.

Market risk is monitored on the basis of sensitivity analyses and value-at-risk computations. Sensitivity analyses enable estimation of potential losses, future gains, fair values or cash flows of instruments susceptible to market risks arising from one or several selected hypothetical changes in foreign exchange rates, interest rates, commodity prices or other relevant market rates or prices over a specific period. We use sensitivity analyses in the Henkel Group because they enable reasonable risk assessments to be made on the basis of direct assumptions (e.g. an increase in interest rates). Value-at-risk analyses reveal the maximum potential future loss of a certain portfolio over a given period based on a specified probability level.

Currency risk
The global nature of our business activities results in a large number of cash flows in different currencies.

This transaction risk arises from possible exchange rate fluctuations causing changes in the value of future foreign currency cash flows. The hedging of the resultant exchange rate risks forms a major part of our central risk management activity. Transaction risks arising from our operating business are partially avoided by the fact that we 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 currency hedging is to fix prices based on hedging rates so that we are protected from future adverse fluctuations in exchange rates. Because we limit our potential losses, any negative impact on profits is restricted. The transaction risk arising from major financial payables and receivables is extensively hedged. In order to manage these risks, we primarily utilize currency forwards and cross-currency interest rate swaps. The derivatives are designated as cash flow hedges and recognized accordingly in the financial statements or measured at fair value through profit or loss. The currency risk that exists within the Group in the form of transaction risk initially affects equity in the case of cash flow hedges, while all changes in the value of the other derivatives are recognized directly in the statement of income.

The following table shows the risk exposure for Henkel's major currencies. The risk arises mainly from imports and exports by Henkel AG & Co. KGaA and its foreign subsidiaries. Due to the international nature of its activities, the Henkel Group has a portfolio of more than 50 different currencies.

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Currency risk exposure[1]

	December 31, 2019			December 31, 2020		
in million euros	Total currency risk exposure before currency hedging	Of which: from planned transactions	Net currency risk exposure after currency hedging	Total currency risk exposure before currency hedging	Of which: from planned transactions	Net currency risk exposure after currency hedging
US dollar	481	769	84	**362**	**649**	**26**
Chinese yuan	156	115	58	**141**	**103**	**53**
Russian ruble	151	115	115	**135**	**87**	**52**
Canadian dollar	140	131	65	**91**	**88**	**44**
British pound	126	116	58	**78**	**80**	**40**
Others	1,081	923	796	**939**	**733**	**638**
Total	**2,135**	**2,169**	**1,176**	**1,745**	**1,740**	**853**

[1] Transaction risk.

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2020 amounted to 42 million euros after hedging (previous year: 52 million euros). The value-at-risk shows the maximum expected risk of loss in a year as a result of currency fluctuations. Our value-at-risk analysis within the internal risk reporting system assumes a time horizon of one year and a one-sided confidence interval of 95 percent, as it comprehensively reflects the risk associated with one fiscal year. We adopt the variance-covariance approach as our basis for calculation. Volatilities and correlations are determined using historical data. The value-at-risk analysis is based on the operating book positions, the derivative financial instruments and the planned transactions in foreign currency, with a forecasting horizon of up to twelve months.

Interest rate risk

Interest rate risk encompasses those potentially negative influences on profits, equity or cash flow in current or future reporting periods arising from changes in interest rates. In the case of fixed-interest financial instruments, changing capital market interest rates result in a fair value risk, as the attributable fair values fluctuate depending on those capital market interest rates. In the case of floating-interest financial instruments, a cash flow risk exists because the interest payments may be subject to future fluctuations.

The financing and cash investment activities of the Henkel Group mainly take place on international money and capital markets. The resultant 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 put in place to secure Group liquidity, the securities and time deposits used for cash investments, and other interest-bearing financial instruments. The financial instruments exposed to interest rate risk are primarily denominated in euros and US dollars.

Depending on forecasts with respect to interest rate developments, Henkel enters into derivative financial instruments, primarily interest rate swaps, in order to optimize the interest rate lock-down structure. In the event of an expected rise in interest rate levels, Henkel protects its positions by transacting additional interest rate derivatives as effective hedging instruments. In addition to the fixed-rate euro-denominated bond and US dollar bond, Henkel enters into cross-currency interest rate swaps to convert the bonds denominated in British pounds and Swiss francs into fixed-rate euro obligations. Financial instruments with interest rates pegged for less than 12 months are included in the calculation on a time-weighted basis. All other financial instruments bear floating interest rates. Our exposure to interest rate risk at the reporting dates was as follows:

Interest rate risk exposure

in million euros	Carrying amounts			
	December 31, 2019		December 31, 2020	
	Interest rate risk exposure before interest hedge	Interest rate risk exposure after interest hedge	Interest rate risk exposure before interest hedge	Interest rate risk exposure after interest hedge
Fixed-interest financial instruments				
Euro	-1,935	-1,935	**-2,169**	**-2,169**
US dollar	-270	-1,182	**-75**	**-75**
Total	**-2,205**	**-3,117**	**-2,244**	**-2,244**
Floating-interest financial instruments				
Euro	897	897	**2,064**	**2,064**
US dollar	-1,952	-1,040	**-1,809**	**-1,809**
Chinese yuan	212	212	**264**	**264**
Polish zloty	201	201	**210**	**210**
Others	799	799	**827**	**827**
Total	**157**	**1,069**	**1,556**	**1,556**

The calculation of the interest rate risk is based on sensitivity analyses that assume a parallel shift of 100 basis points in the interest curves of all currencies. When analyzing fair value risk, we calculate the hypothetical fair value loss or gain of the relevant fixed-interest financial instruments as of the reporting date.

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

Interest rate risk

in million euros	2019	2020
Based on an interest rate change of 100 basis points	19	**17**
Of which:		
Cash flow through profit and loss	11	**16**
Fair value recognized in equity through other comprehensive income	8	**1**

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 page 155. As a small part of the risk management strategy, cash-settled commodity forwards are entered into on the basis of forecasted purchasing requirements in order to hedge future uncertainties with respect to commodity prices. Cash-settled commodity forwards are only used by Henkel where there is a direct relationship between the hedging derivative and the physical underlying. Henkel uses hedge accounting for these hedging transactions, thus limiting the temporary exposure to price risks related to holding commodity forwards. Developments in fair values and the resultant risks are continuously monitored.

Notes to the consolidated statement of income

24 Sales and principles of income recognition

Comprised exclusively of revenues from contracts with customers, sales came in at 19,250 million euros and were thus lower than in the previous year (previous year: 20,114 million euros).

Sales encompass the transfer of goods and services less direct sales deductions such as customer-related rebates, credits and other benefits paid or granted. Sales are recognized once control of the goods has been transferred, or the service provided. The timing of transfer of control of the goods to a customer is determined by the underlying contract and the terms and conditions of supply stipulated therein, or by international trade rules.

Sales represent the consideration that Henkel will likely receive in exchange for transferring the goods or providing the service. Sales may only be recognized when no substantial adjustments to the cumulative recognized revenue is expected.

Pursuant to IFRS 15, Henkel does not recognize sales for products that it expects to be returned. In addition, empirical experience has shown that customers are justified in expecting invoice amounts to be reduced in certain instances. The amounts of these expected refunds are also not recognized as sales. Henkel draws on past return and refund statistics to quantify the expected returns and refunds; these are separated by business unit and legal entity, and are subject to ongoing calculation and adjustment. Mathematical estimates and assumptions were made with regard to the underlying analysis period for determining, among other factors, the return and refund rates and the amount of sales to be adjusted by such rates, and also with regard to observable volatilities.

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

Warranty obligations do not constitute a separate performance obligation and are recognized as provisions in accordance with IAS 37.

Services are generally provided in conjunction with the sale of goods, and recorded once the service has been performed. The amount of sales revenue relating to the provision of services is less relevant than that attributable to the transfer of goods.

For information on opening and closing balances of, and valuation allowances on receivables from contracts with customers in fiscal 2020, please refer to our discussion of trade accounts receivable in Note 7 on pages 206 and 207.

A disaggregation of sales by business unit and region can be found in the Group segment report by business unit on pages 178 and 179 and in the discussion of regional development on page 180.

Henkel exercises its right to choose to refrain from disclosing transaction prices relating to any remaining performance obligations, since the underlying contracts have an expected original term of no more than one year.

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

25 Cost of sales

Cost of sales amounted to 10,378 million euros (previous year: 10,883 million euros).

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

26 Marketing, selling and distribution expenses

Marketing, selling and distribution expenses increased from 4,942 million euros to 5,377 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 amortization charges and impairment losses on trademarks and other rights.

27 Research and development expenses

At 501 million euros, research and development expenses were more or less on a par with the previous year (previous year: 499 million euros). Expenditures directly attributable to research and development activities amounted to 495 million euros (previous year: 488 million euros).

The capitalization of research expenses is not permitted. Development expenditures are recognized as an asset if all the criteria for recognition are met, the research phase can be clearly distinguished from the development phase, and the expenditures can be attributed to distinct project phases. Currently, the criteria set out in IAS 38 Intangible Assets for recognizing development expenditures are not all met with respect to product and technology developments. This is due to a high level of interdependence within these developments and the difficulty of assessing which products will eventually be marketable.

28 Administrative expenses

Administrative expenses totaled 950 million euros (previous year: 969 million euros).

Administrative expenses include personnel and material costs relating to the Group management, Human Resources, Purchasing, Accounting and IT functions, as well as the costs of managing and administering the business units.

29 Other operating income

Other operating income

in million euros	2019	2020
Gains on disposal of non-current assets	17	**22**
Release of provisions	32	**20**
Insurance claim payouts	13	**13**
Payments on derecognized receivables	2	**1**
Write-ups of non-current assets	3	**0**
Sundry operating income	95	**60**
Total	**162**	**115**

Sundry operating income relates to a number of individual items arising from ordinary operating activities, such as grants and subsidies, tax refunds for indirect taxes, and similar income.

30 Other operating expenses

Other operating expenses

in million euros	2019	2020
Losses on disposal of non-current assets	-7	**-7**
Other taxes	-0	**-0**
Amortization, depreciation of other assets	-0	**-0**
Goodwill impairment	-9	**-31**
Sundry operating expenses	-68	**-102**
Total	**-84**	**-139**

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

31 Financial result

Financial result

in million euros	2019	2020
Interest result	-75	**-44**
Other financial result	-13	**-51**
Investment result	0	**0**
Total	**-88**	**-94**

Interest result

in million euros	2019	2020
Interest and similar income from third parties	13	**12**
Interest to third parties	-88	**-55**
Total	**-75**	**-44**

Other financial result

in million euros	2019	2020
Interest result from net obligation (pensions)	-9	**-11**
Interest income from reimbursement rights (IAS 19)	5	**4**
Expenses from currency losses	-131	**-103**
Income from currency gains	135	**70**
Other financial expenses	-38	**-29**
Other financial income	25	**19**
Total	**-13**	**-51**

Please see pages 234 and 235 in Note 23 for information on the net results of the financial instruments by measurement category per IFRS 7, and the reconciliation of same to the financial result.

32 Taxes on income

Income tax expense/income breaks down as follows:

Income before tax and analysis of taxes

in million euros	2019	2020
Income before tax	**2,811**	**1,925**
Current taxes	644	**686**
Deferred taxes	64	**-185**
Taxes on income	**708**	**501**
Tax rate	25.2%	**26.0%**

Main components of tax expense and income

in million euros	2019	2020
Current tax expense/income in the reporting year	633	**659**
Current tax adjustments for prior years	11	**27**
Current taxes	**644**	**686**
Deferred tax expense/income from temporary differences	92	**-171**
Deferred tax expense/income from unused tax losses	-35	**-20**
Deferred tax expense from tax credits	3	**4**
Deferred tax income from changes in tax rates	1	**-3**
Increase/decrease in valuation allowances on deferred tax assets	3	**5**
Deferred taxes	**64**	**-185**

Deferred tax expense by items on the statement of financial position

in million euros	2019	2020
Intangible assets	84	**-19**
Property, plant and equipment	52	**-41**
Financial assets	4	**-18**
Inventories	-1	**1**
Other receivables and other assets	-1	**-8**
Special tax items	–	**1**
Provisions	-32	**-90**
Liabilities	-12	**-1**
Tax credits	4	**–**
Unused tax losses	-34	**-10**
Total	**64**	**-185**

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 reconciliation 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

in million euros	2019	2020
Income before tax	2,811	1,925
Tax rate (including trade tax) of Henkel AG & Co. KGaA	31%	31%
Expected tax charge	**871**	**601**
Tax reductions due to differing tax rates abroad	-169	-134
Tax increases/reductions for prior years	3	-8
Tax increases/reductions due to changes in tax rates	1	-3
Tax increases/reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	3	5
Tax reductions due to tax-free income and other items	-137	-95
Tax increases/reductions arising from additions and deductions for local taxes	-7	-6
Tax increases due to withholding taxes	54	61
Tax increases due to non-deductible expenses	89	80
Tax charge disclosed	**708**	**501**
Tax rate	**25.2%**	**26.0%**

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

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

Allocation of deferred taxes

in million euros	Deferred tax assets Dec. 31, 2019	Deferred tax assets Dec. 31, 2020	Deferred tax liabilities Dec. 31, 2019	Deferred tax liabilities Dec. 31, 2020
Intangible assets	313	289	893	813
Property, plant and equipment	12	35	142	123
Financial assets	3	–	76	48
Inventories	29	24	1	1
Other receivables and other assets	58	83	71	90
Special tax items	–	–	26	25
Provisions	732	781	89	89
Liabilities	175	171	37	33
Tax credits	2	2	–	–
Unused tax losses	84	88	–	–
Amounts netted	-532	-586	-532	-586
Financial statement figures	**875**	**887**	**802**	**636**

The deferred tax assets of 781 million euros (previous year: 732 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 813 million euros (previous year: 893 million euros) relating to intangible assets are mainly attributable to business combinations. Deferred tax liabilities of 36 million euros (previous year: 50 million euros) were recognized with respect to retained earnings of foreign subsidiaries, as these earnings will be distributed in 2021.

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 558 million euros (previous year: 525 million euros), as it is not probable that sufficient taxable profit will be available against which they may be utilized. Of these unused tax losses, 470 million euros (previous year: 465 million euros) is attributable to unused state tax losses of our US-American subsidiaries (tax rate around 6.1 percent [previous year: 2.5 percent]). Of the unused tax losses for which no deferred tax assets have been recognized, 515 million euros (previous year: 467 million euros) expire after more than three years, while 41 million euros are non-expiring (previous year: 57 million euros).

We have summarized the expiry dates of unused tax losses and tax credits in the following table.

Expiry dates of unused tax losses and tax credits

	Unused tax losses		Tax credits	
in million euros	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020
Expire within				
1 year	1	**6**	–	**–**
2 years	3	**–**	–	**–**
3 years	3	**–**	–	**–**
more than 3 years	716	**698**	33	**17**
May be carried forward without restriction	135	**213**	–	**–**
Total	**858**	**917**	**33**	**17**

The list includes unused tax losses arising from losses on the disposal of assets of 9 million euros (previous year: 9 million euros) which may be carried forward without restriction. In many countries, different tax rates apply to losses on the disposal of assets than to operating profits, and in some cases losses on the disposal of assets may only be offset against gains on the disposal of assets. Of the unused tax losses, 545 million euros (previous year: 555 million euros) are attributable to our US subsidiaries. Of this figure, 527 million euros (previous year: 550 million euros) relate exclusively to state taxes. The tax credits of 17 million euros (previous year: 33 million euros) that can be carried forward are attributable to US subsidiaries. In addition to the unused tax losses listed in the table above, interest of 37 million euros (previous year: 2 million euros) has been carried forward, of which 37 million euros (previous year: 0 million euros) is attributable to state taxes of our US subsidiaries. No deferred tax assets were recognized in respect of interest carry-forwards of 37 million euros (previous year: 0 million euros). The interest carry-forwards lapse after more than three years (previous year: no expiration). In addition, other expenses amounting to 106 million euros (previous year: 106 million euros) can be carried forward in full with no expiration.

In China, deferred tax assets on unused tax losses, other expense carry-forwards and temporary differences were recognized in a total amount of 54 million euros (previous year: 62 million euros) for a company that generated a loss in both the year just ended and the previous year. There are no countervailing deferred tax liabilities. In addition, a total of 284 million euros (previous year: 291 million euros) was recognized as an excess of deferred tax assets on unused tax losses and temporary differences for a company in Germany that generated a loss in both the year just ended and the previous year. Measures were taken to ensure the availability of sufficient taxable income in future. As such, our current position is that the deferred tax assets can be realized.

A deferred tax expense of 8 million euros (previous year: expense of 7 million euros) was recognized in other comprehensive income. Within this figure, income of 1 million euros (previous year: expense of 7 million euros) resulted from actuarial gains and losses on pension obligations. Deferred taxes from hedging currency and interest rate risks were recognized as an expense of 9 million euros (previous year: 0 million euros) in other comprehensive income.

33 Non-controlling interests

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

Their share of net income was 16 million euros (previous year: 18 million euros).

The non-controlling interests included in the Henkel Group at the end of fiscal 2020 had no material impact on our net assets, financial position and results of operations. The Group has no joint operations or unconsolidated structured entities.

Other disclosures

34 Reconciliation of adjusted net income

in million euros		2019	2020	+/-
Operating profit (EBIT) (as reported)		**2,899**	**2,019**	**-30.4%**
One-time income		-7	**-5**	–
One-time expenses		34	**328**	–
Restructuring expenses		294	**237**	–
Adjusted operating profit (adjusted EBIT)		**3,220**	**2,579**	**-19.9%**
Adjusted return on sales	in %	16.0	**13.4**	-2.6pp
Financial result		-88	**-94**	6.8%
Taxes on income (adjusted)		-760	**-625**	-17.7%
Adjusted tax rate		24.3	**25.2**	0.9pp
Adjusted net income	in %	**2,372**	**1,860**	**-21.6%**
Attributable to non-controlling interests		19	**17**	-11.4%
Attributable to shareholders of Henkel AG & Co. KGaA		2,353	**1,843**	-21.7%
Adjusted earnings per ordinary share	in euros	**5.41**	**4.24**	**-21.6%**
Adjusted earnings per preferred share	in euros	**5.43**	**4.26**	**-21.5%**
At constant exchange rates				-17.9%

One-time income of 5 million euros is attributable to the reversal of a previously adjusted provision for legal disputes (previous year: 0 million euros).

The one-time expenses in fiscal 2020 include expenses of 12 million euros related to the termination of a long-term services contract (previous year: 0 million euros), as well as impairment of 303 million euros attributable to assets designated as held for sale and trademark rights discontinued as part of our active portfolio management. The one-time expenses also include 11 million euros related to the optimization of our IT system architecture for managing business processes (previous year: 11 million euros) and 2 million euros for acquisition-related incidental costs (previous year: 2 million euros).

Of the restructuring expenses in fiscal 2020, 119 million euros is attributable to cost of sales (previous year: 72 million euros) and 74 million euros to marketing, selling and distribution expenses (previous year: 144 million euros). A further 7 million euros is attributable to research and development expenses (previous year: 12 million euros), while 37 million euros is attributable to administrative expenses (previous year: 66 million euros).

Taxes on income amounting to 625 million euros (previous year: 760 million euros) reflect the tax effects of the adjustments to operating profit (EBIT).

35 Payroll cost and employee structure

Payroll cost[1]

in million euros	2019	2020
Wages and salaries	2,550	**2,687**
Social security contributions and staff welfare costs	476	**454**
Pension costs	169	**166**
Total	**3,195**	**3,307**

[1] Excluding personnel-related restructuring expenses of 102 million euros (previous year: 137 million euros).

Number of employees per function[1]

	2019	2020
Production and engineering	28,700	**28,700**
Marketing, selling and distribution	13,450	**13,200**
Research and development	2,650	**2,600**
Administration	7,850	**8,100**
Total	**52,650**	**52,600**

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

36 Share-based remuneration 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. The two plans existed alongside each other until the final tranche of the Global LTI Plan 2013 was paid out in 2020. However, as from January 1, 2017, first-time-eligible employees were only being admitted to the Global LTI Plan 2020+.

The Global LTI Plan 2020+ provides for share-based remuneration settled with preferred shares of Henkel AG & Co. KGaA. These treasury shares are granted on condition that members of the plan are employed for four years by Henkel AG & Co. KGaA or one of its subsidiaries in a position senior enough to qualify for participation, and that they are not under notice during that period. This minimum period of employment pertains to the calendar year in which the treasury shares are granted and the three subsequent calendar years. A performance-related investment amount is pledged to eligible employees at the start of each four-year cycle. Target achievement is determined, and the investment amount for the cycle specified, at the end of the first calendar year. At the start of the second calendar year, this investment amount – after deduction of taxes and social security contributions, where applicable – is used to purchase treasury shares on the stock exchange, which are then transferred to the employees. The number of shares transferred to each employee on the basis of the investment amount is determined by the actual market price (stock exchange price) of the shares at the time of purchase. The shares are subject to a lock-up period that ends upon completion of the relevant four-year cycle. During this time, the employees participate in all share price developments. Once the lock-up period has expired, the employees may dispose of the shares as they wish.

The investment amount specified in the first year of the cycle based on target achievement is recognized as a proportionate payroll cost spread over the four-year performance measurement period. As the Global LTI Plan 2020+ provides for settlement using treasury shares, the allocations are recognized in equity. If treasury shares are granted at the end of the performance measurement period, equity is reduced accordingly with no effect on profit or loss. Additional employer contributions and other payments that do not constitute part of the investment amount and are not settled with treasury shares are recognized under other provisions.

For the current 2020–2023 cycle, the gross investment would be 48 million euros, based on 100-percent target achievement as of December 31, 2020. The final investment amount will be determined in 2021 on the basis of the conclusive target achievement, and will be invested net of taxes and other social insurance contributions in shares for the employees.

For the 2019–2022 cycle, a gross investment amount of 16 million euros was determined, based on target achievement. In fiscal 2020, after deduction of taxes and social insurance contributions, 134,684 treasury shares with a total value of 11 million euros were purchased and will be made freely available to qualifying employees on January 1, 2023. The shares were purchased at an average price of 85.09 euros. Recognition of the payment of the gross investment amount resulted in a reduction in equity.

Global LTI Plan 2020+ – 2019–2022 cycle – Development in reporting year

	Number of shares
Granted entitlements on June 10, 2020	134,684
Forfeited entitlements in fiscal 2020	-3,786
Dividend payments converted into shares in fiscal 2020	2,114
Entitlements that became vested in fiscal 2020	-2,283
Outstanding entitlements on December 31, 2020	**130,729**

Of the shares already acquired for the 2019–2022 cycle, 2,283 became vested in fiscal 2020. They are freely available to qualifying employees. 3,786 shares to which entitlement forfeited were sold. 2,114 shares were purchased to convert dividend payments into shares. At the end of fiscal 2020, therefore, 130,729 treasury shares were transferred to employees, who will be able to dispose of them freely at the end of 2022.

For the 2018–2021 cycle, a gross investment amount of 0 million euros was determined, based on target achievement. Accordingly, no treasury shares were acquired for this cycle.

The following table shows the numbers of shares acquired for the 2017–2022 cycle in fiscal 2020 and the previous year:

Global LTI Plan 2020+ – 2017–2020 cycle – Development prior year

	Number of shares
Outstanding entitlements on January 1, 2019	301,782
Forfeited entitlements in fiscal 2019	-27,837
Dividend payments converted into shares in fiscal 2019	4,534
Entitlements that became vested in fiscal 2019	-7,053
Outstanding entitlements on December 31, 2019	**271,426**

Global LTI Plan 2020+ – 2017–2020 cycle – Development current year

	Number of shares
Outstanding entitlements on January 1, 2020	271,426
Forfeited entitlements in fiscal 2020	-18,788
Dividend payments converted into shares in fiscal 2020	4,218
Entitlements that became vested in fiscal 2020	-6,631
Outstanding entitlements on December 31, 2020	**250,225**

At the end of 2020, 250,225 shares were freely available to qualifying employees.

In fiscal 2020, an equity-increasing payroll cost of 28 million euros (previous year: equity-increasing payroll cost of 11 million euros) was recognized in connection with the Global LTI Plan 2020+.

Global Long Term Incentive (LTI) Plan 2013

The Global Long Term Incentive Plan (LTI Plan) 2013 – which was replaced by the Global Long Term Incentive Plan (LTI Plan) 2020+ effective January 1, 2017 – provided for share-based remuneration with cash settlement. Under the plan, Cash Performance Units (CPUs) were granted to qualifying employees on condition that members of the plan were employed for four years by Henkel AG & Co. KGaA or one of its subsidiaries in a position senior enough to qualify for participation and that they were not under notice during that period. This minimum period of employment pertained to the calendar year in which the CPUs were granted and the three subsequent calendar years.

The value of a CPU in each case was the average price of the Henkel preferred share as quoted 20 stock exchange trading days after the Annual General Meeting following the performance measurement period. The total value of the cash remuneration payable to senior management personnel, which was capped, was 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 spread over the period of service of the beneficiary. All changes to the measurement of this provision were reported under payroll cost.

In fiscal 2020, the cash remuneration from the last cycle of the plan – the 2016 to 2019 cycle – was paid to qualifying employees based on a share price of 83.21 euros, which was the average price of Henkel preferred shares as quoted 20 stock exchange trading days after our Annual General Meeting 2020. The adjustment of the provision in the reporting year due to fluctuations in the price of Henkel preferred shares produced income of 3 million euros (previous year: no adjustment). Of the previously accrued provision, 19 million euros was used to pay the amounts due.

Employee share plan

Since 2001, Henkel has been offering its employees a share plan whereby employees can voluntarily invest up to 4 percent of their salary up to a maximum amount of 4,992 euros each year in Henkel preferred shares. As was also the case last year, in 2020 Henkel rewarded each euro invested by employees with a bonus of 33 eurocents, which was also invested in Henkel preferred shares. Employees can dispose freely of these bonus shares after a lock-up period of three years on condition that they remain employed by Henkel AG & Co. KGaA or one of its subsidiaries without being under notice during that period. The employee share plan constitutes a share-based remuneration program as defined in IFRS 2 Share-Based Payment that is serviced through equity instruments.

Under the plan, the Henkel Group paid its employees a bonus of 8 million euros in Henkel preferred shares in fiscal 2020 (previous year: 8 million euros). Because of the revolving nature of the plan, this bonus was recognized directly as a payroll cost for reasons of simplification. The sale of bonus shares forfeited by employees lowered the payroll cost by 0 million euros in 2020 (previous year: 0 million euros). The following table summarizes the outstanding entitlements of employees from bonus shares in fiscal 2020 and the previous year.

Contents

Employee share plan –
Development prior year

	Number of shares
Outstanding entitlements on January 1, 2019	186,120
Entitlements granted in fiscal 2019	86,742
Forfeited entitlements in fiscal 2019	-5,088
Dividend payments converted into shares in fiscal 2019	1,628
Entitlements that became vested in fiscal 2019	-60,214
Outstanding entitlements on December 31, 2019	**209,188**

Employee share plan –
Development current year

	Number of shares
Outstanding entitlements on January 1, 2020	209,188
Entitlements granted in fiscal 2020	87,964
Forfeited entitlements in fiscal 2020	-3,420
Dividend payments converted into shares in fiscal 2020	662
Entitlements that became vested in fiscal 2020	-65,378
Outstanding entitlements on December 31, 2020	**229,015**

37 Group segment report

The Group segment report examines the activities of the Henkel Group by operating segments; selected regional information is also provided. The segment report corresponds to the way in which the Group managed its operating business in fiscal 2020, and the Group's internal reporting structure.

In keeping with the requirements of IFRS 8 Operating Segments, the three business units – Adhesive Technologies, Beauty Care and Laundry & Home Care – were identified as operating segments in fiscal 2020. The operating segments also constitute the reportable segments.

The formerly independent reportable segments Adhesives for Consumers, Craftsmen and Building, and Industrial Business, which in turn comprised four operating segments were reorganized with the aim of enhancing management efficiency. Accordingly, since January 1, 2020, the new reportable segment Adhesive Technologies, which corresponds to the business unit, is made up of four business areas: Automotive & Metals, Packaging & Consumer Goods, Electronics & Industrials, and Craftsmen, Construction & Professional. Prior-year figures have been amended accordingly. The level on which goodwill and trademarks and other rights with indefinite useful lives are tested for impairment remained unchanged from the previous year.

The Beauty Care and Laundry & Home Care operating segments include the same businesses as last year. There is therefore no change in the reporting procedure.

Reportable segments

Adhesive Technologies

The operating segment Adhesive Technologies offers a broad and globally leading portfolio of high-performance solutions in adhesives, sealants and functional coatings. The business unit is composed of four business areas: Automotive & Metals, Packaging & Consumer Goods, Electronics & Industrials, and Craftsmen, Construction & Professional.

Our Automotive & Metals business provides our customers in the automotive and metal processing industries with tailor-made, high-impact and advanced system solutions along the value chain, together with an extensive technology portfolio and specialized technical services.

Our Packaging & Consumer Goods business supplies to small and medium-sized branded goods manufacturers and to major international companies operating in the consumer goods, packaging and furniture industries. We lead the way in developing innovative solutions to address global consumer trends, such as the growing demand for more sustainable products, and actively drive circular economy.

Our Electronics & Industrials business ranks among the world's leaders, offering major customers a specialized portfolio of innovative high-technology adhesives, materials for the manufacture of microchips and electronic assemblies, and for industrial fabrication. With our technical knowledge and extensive research expertise, we help our customers develop innovative designs for products that are known the world over. Our solutions are also deployed in the expansion of digital infrastructures.

In our Craftsmen, Construction & Professional business, we distribute a comprehensive range of brand-name products for private consumers, DIYers, craftsmen and retailers, as well as serving maintenance and installation experts in more than 800 different branches of industry. We supply adhesives and sealants for home use, adhesive, sealant and insulating systems and building materials for use in construction, and a comprehensive portfolio of high-impact solutions for assembling and servicing machinery.

Beauty Care

The operating segment Beauty Care is globally active in the Branded Consumer Goods business area with Hair Cosmetics, Body Care, Skin Care and Oral Care, as well as in the professional Hair Salon business. Both business areas offer focused brand portfolios featuring consumer-relevant innovations that create added value for our customers and consumers.

Laundry & Home Care

The operating segment Laundry & Home Care covers the global activities of Henkel in laundry and home care branded consumer goods. The Laundry Care segment includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers and other fabric care products. Our operating segment Home Care 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 expenses and income, and also for restructuring expenses.

Of the restructuring expenses, 69 million euros (previous year: 65 million euros) is attributable to Adhesive Technologies, 43 million euros (previous year: 97 million euros) to Beauty Care and 100 million euros (previous year: 121 million euros) to Laundry & Home Care.

For reconciliation with the figures for the Henkel Group, Group management overheads are reported under Corporate together with income and expenses that cannot be allocated to the individual business units.

For reconciliation with the pre-tax earnings of the Henkel Group, please refer to the consolidated statement of income and the financial result reported therein.

Proceeds transferred between the segments only exist to a negligible extent and are therefore not separately disclosed.

Net operating assets, provisions and liabilities are assigned to the segments in accordance with their usage or origin. Where usage or origin is attributable to several segments, allocation is effected on the basis of appropriate ratios and keys.

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

	Net operating assets		Financial statement figures	Net operating assets		**Financial statement figures**
in million euros	**Annual average[1] 2019**	**December 31, 2019**	**December 31, 2019[4]**	**Annual average[1] 2020**	**December 31, 2020**	**December 31, 2020**
Goodwill at carrying amounts	12,592	12,922	12,972	12,535	12,374	**12,359**
Other intangible assets and property, plant and equipment (including assets held for sale)	7,997	8,138	8,092	7,931	7,555	**7,568**
Deferred taxes	–	–	875	–	–	**887**
Inventories	2,296	2,193	2,187	2,255	2,189	**2,189**
Trade accounts receivable from third parties	3,765	3,413	3,415	3,423	3,106	**3,106**
Intra-group trade accounts receivable	1,837	1,745	–	1,868	1,792	**–**
Other assets and tax refund claims[2]	584	640	2,408	686	664	**2,414**
Cash and cash equivalents	–	–	1,460	–	–	**1,727**
Operating assets/Total assets	**29,070**	**29,051**	**31,409**	**28,699**	**27,680**	**30,250**
Operating liabilities	8,179	7,978	–	8,439	8,688	**–**
Of which:						
Trade accounts payable to third parties	3,886	3,819	3,819	3,864	3,953	**3,953**
Intra-group trade accounts payable	1,837	1,745	–	1,861	1,792	**–**
Other provisions and other liabilities[2] (financial and non-financial)	2,456	2,414	3,167	2,715	2,943	**3,693**
Net operating assets	20,891	21,073	–	20,260	18,992	**–**
– Goodwill at carrying amounts	12,592	–	–	12,535	–	**–**
+ Goodwill at cost[3]	13,161	–	–	13,600	–	**–**
Capital employed	21,460	–	–	21,325	–	**–**

[1] The annual average is calculated on the basis of the 12 monthly figures.
[2] We take only amounts relating to operating activities into account in calculating net operating assets.
[3] Before deduction of accumulated impairment pursuant to IFRS 3.79(b).
[4] Prior-year figures amended (please refer to the notes on pages 188).

38 Earnings per share

Earnings per share

in million euros		2019 Reported	2019 Adjusted	2020 Reported	2020 Adjusted
Net income attributable to shareholders of Henkel AG & Co. KGaA		**2,085**	**2,353**	**1,408**	**1,843**
Dividends, ordinary shares		475	475	475	475
Dividends, preferred shares		323	323	323	323
Total dividends		798	798	798	798
Retained earnings, ordinary shares		770	930	365	625
Retained earnings, preferred shares		517	625	245	420
Retained earnings		**1,287**	**1,555**	**609**	**1,045**
Number of ordinary shares		259,795,875	259,795,875	259,795,875	259,795,875
Dividend per ordinary share	in euros	1.83	1.83	1.83[3]	1.83
Of which: preliminary dividend per ordinary share[1]	in euros	0.02	0.02	0.02	0.02
Retained earnings per ordinary share	in euros	2.96	3.58	1.40	2.41
Earnings per ordinary share	in euros	**4.79**	**5.41**	**3.23**	**4.24**
Number of outstanding preferred shares[2]		174,482,323	174,482,323	174,482,323	174,482,323
Dividend per preferred share	in euros	1.85	1.85	1.85[3]	1.85
Of which: preferred dividend per preferred share[1]	in euros	0.04	0.04	0.04	0.04
Retained earnings per preferred share	in euros	2.96	3.58	1.40	2.41
Earnings per preferred share	in euros	**4.81**	**5.43**	**3.25**	**4.26**
Number of ordinary shares		259,795,875	259,795,875	259,795,875	259,795,875
Dividend per ordinary share	in euros	1.83	1.83	1.83[3]	1.83
Of which: preliminary dividend per ordinary share[1]	in euros	0.02	0.02	0.02	0.02
Retained earnings per ordinary share (after dilution)	in euros	2.96	3.58	1.40	2.41
Diluted earnings per ordinary share	in euros	**4.79**	**5.41**	**3.23**	**4.24**
Number of potentially outstanding preferred shares[2]		174,482,323	174,482,323	174,482,323	174,482,323
Dividend per preferred share	in euros	1.85	1.85	1.85[3]	1.85
Of which: preferred dividend per preferred share[1]	in euros	0.04	0.04	0.04	0.04
Retained earnings per preferred share (after dilution)	in euros	2.96	3.58	1.40	2.41
Diluted earnings per preferred share	in euros	**4.81**	**5.43**	**3.25**	**4.26**

[1] See combined management report, Corporate governance, Composition of issued capital/Shareholders' rights on pages 31 and 32.
[2] Weighted annual average of preferred shares.
[3] Proposal to shareholders for the Annual General Meeting on April 16, 2021.

39 Consolidated statement of cash flows

We prepare the consolidated statement of cash flows in accordance with IAS 7. 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 of intangible assets, property, plant and equipment, and assets held for sale, supplemented by changes in provisions, changes in other assets and liabilities, and also changes in net working capital. In fiscal 2020, the result of operations was adjusted to reflect non-cash impairment of intangible assets, property, plant and equipment and assets held for sale in the amount of 378 million euros (previous year: 43 million euros). We likewise disclose payments made for income taxes under cash flow from operating activities.

Cash flows from investing activities occur as a result of outflows of funds for investments in intangible assets and property, plant and equipment, subsidiaries and other business units, as well as associates and other investments. Here, we also recognize inflows of funds from the sale of intangible assets and property, plant and equipment, subsidiaries, other business units and investments. In the reporting period, cash flows from investing activities mainly involved outflows for the acquisition of subsidiaries and other business units in the amount of -452 million euros (previous year: -564 million euros). The divestment of businesses resulted in proceeds on disposal of subsidiaries, other business units and investments totaling 53 million euros. Investments in intangible assets and property, plant and equipment, including payments on account, resulted in outflows of -715 million euros (previous year: -677 million euros). Of the outflows for the acquisition of subsidiaries and other business units, virtually the entire amount is attributable to the acquisitions described in the section “Acquisitions and divestments” on pages 182 and 183.

In cash flow from financing activities, we disclose interest and dividends paid and received, the change in borrowings relating to bonds together with other changes in borrowings, the redemption of lease liabilities, the change in pension provisions, and also payments made for the acquisition of non-controlling interests and other financing transactions. The other changes in borrowings are essentially due to payments made and received in connection with our revolving short-term commercial paper financing program, which accounted for -705 million euros in the year under review (previous year: -506 million euros) of cash flow from financing activities. Other changes in pension obligations include payment receipts of 217 million euros in fiscal 2020 constituting the refund of pension payments to retirees for which a right of reimbursement exists with respect to Henkel Trust e.V. The prior-year reimbursement amounted to 104 million euros, recognized in cash flow from financing activities.

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 2019

in million euros	Derivative assets and liabilities	Receivable from Henkel Trust e.V. and reimbursement rights	Provisions for pensions and similar obligations	Borrowings	Lease liabilities	Other assets and liabilities[1]	Total
At January 1, 2019	**-24**	**719**	**-794**	**-4,175**	**-507**	**-47**	**-4,828**
Change in cash flow from financing activities[2]	12	3	23	401	141	21	601
Of which:							
Interest paid[3]	3	–	–	72	16	–	91
Redemption of bonds	–	–	–	666	–	–	666
Issuance of bonds	–	–	–	-847	–	–	-847
Other changes in borrowings[4]	11	–	–	510	–	–	521
Redemption of lease liabilities	–	–	–	–	125	–	125
Allocations to pension funds	–	–	50	–	–	–	50
Other changes in pension obligations	–	3	-27	–	–	–	-24
Payments for the acquisition of non-controlling interests with no change in control	–	–	–	–	–	21	21
Other financing transactions	-2	–	–	–	–	–	-2
Interest expense/income	1	5	-10	-74	-16	2	-92
Additions of lease liabilities	–	–	–	–	-141	–	-141
Purchase or sale of subsidiaries	–	–	–	–	-15	–	-15
Foreign exchange effects	–	2	-6	-21	-13	–	-38
Changes in fair value	25	13	202	-89	–	8	159
Sundry	–	–	-50	–	–	–	-50
At December 31, 2019	**14**	**742**	**-635**	**-3,958**	**-551**	**-16**	**-4,404**

[1] Commitments and entitlements relating to incidental tax expenses and liabilities for put options granted on non-controlling interests.
[2] The received interest disclosed in the cash flow from financing activities is mainly attributable to cash and cash equivalents, the reconciliation of which is provided in the statement of cash flows.
[3] Does not include cash outflow of 5 million euros for fees and other financial charges relating to the procurement of money and loans.
[4] Differs from the cash flow statement due to currency differences and the currency results of intra-group financing and capital transactions, and changes in financial liabilities to third parties.

Reconciliation of assets and liabilities reflected in cash flow from financing activities 2020

in million euros	Derivative assets and liabilities	Receivable from Henkel Trust e.V. and reimbursement rights	Provisions for pensions and similar obligations	Borrowings	Lease liabilities	Other assets and liabilities[1]	Total
At January 1, 2020	**14**	**742**	**-635**	**-3,958**	**-551**	**-16**	**-4,404**
Change in cash flow from financing activities[2]	-77	-131	43	778	155	–	**768**
Of which:							
Interest paid[3]	16	–	–	37	16	–	**69**
Redemption of bonds	–	–	–	534	–	–	**534**
Issuance of bonds	–	–	–	-518	–	–	**-518**
Other changes in borrowings[4]	-93	–	–	725	–	–	**632**
Redemption of lease liabilities	–	–	–	–	139	–	**139**
Allocations to pension funds	–	–	67	–	–	–	**67**
Other changes in pension obligations	–	-131	-24	–	–	–	**-155**
Payments for the acquisition of non-controlling interests with no change in control	–	–	–	–	–	–	**–**
Other financing transactions	–	–	–	–	–	–	**–**
Interest expense/income	-11	4	-11	-28	-16	–	**-62**
Additions of lease liabilities	–	–	–	–	-181	–	**-181**
Purchase or sale of subsidiaries	–	–	–	–	-3	–	**-3**
Foreign exchange effects	–	-11	26	51	39	–	**104**
Changes in fair value	40	11	55	73	-3	–	**177**
Sundry	–	–	-29	–	–	–	**-29**
At December 31, 2020	**-34**	**615**	**-551**	**-3,084**	**-560**	**-16**	**-3,630**

[1] Commitments and entitlements relating to incidental tax expenses and liabilities for put options granted on non-controlling interests.
[2] The received interest disclosed in the cash flow from financing activities is mainly attributable to cash and cash equivalents, the reconciliation of which is provided in the statement of cash flows.
[3] Does not include cash outflow of 10 million euros for fees and other financial charges relating to the procurement of money and loans.
[4] Differs from the cash flow statement due to currency differences and the currency results of intra-group financing and capital transactions, and changes in financial liabilities to third parties.

40 Contingent liabilities

Compared to provisions, contingent liabilities are prone to much greater uncertainty as they represent either only a potential obligation or a current obligation where payment is unlikely or the amount of the obligation cannot be estimated with sufficient reliability.

Estimating the financial impact from the contingent liabilities for those risks arising from legal disputes and proceedings that do not meet the criteria for recognition as provisions is not expedient due to the uncertainty surrounding the likelihood of resolution and amount of resource outflow involved.

Within the Henkel Group, contingent liabilities also exist with respect to guarantee and warranty agreements and to guarantees assumed with respect to public authorities. At December 31, 2020, these contingent liabilities amounted to 13 million euros (previous year: 16 million euros).

41 Other unrecognized financial commitments

As of the end of 2020, commitments arising from orders for property, plant and equipment amounted to 110 million euros (previous year: 130 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, 2020 amounted to 19 million euros (previous year: 29 million euros).

42 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 together, the non-consolidated subsidiaries, the associates, and the members of the corporate bodies of Henkel AG & Co. KGaA. Related parties as defined in IAS 24 also include Henkel Trust e.V. and Metzler Trust e.V.

Henkel AG & Co. KGaA, Düsseldorf, has been notified that the members of the Henkel family share-pooling agreement together held the majority of voting rights in Henkel AG & Co. KGaA (ISIN DE0006048408) as of the reporting date. The voting rights are held by

- 135 members of the families of the descendants of Fritz Henkel, the company's founder,
- 18 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, and 13 limited partnerships with a limited company as general partner (GmbH & Co. KG),

under a share-pooling agreement as defined in Section 34 (2) German Securities Trading Act [WpHG].

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, whether with or without the addition of 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.

Together, the members of the Henkel family share-pooling agreement represent the ultimate controlling party of the Henkel Group as defined in IAS 24. No business transactions took place between Henkel and this party in fiscal 2020 and in the previous year.

Financial receivables from and payables to non-consolidated subsidiaries and associates are disclosed in Notes 3 and 19.

Further detailed information on the remuneration paid to the members of the corporate bodies can be found in the explanations relating to the remuneration system and in the remuneration report on pages 53 to 92. As was also the case last year, no further material business transactions took place between the corporation and members of the Management Board, Supervisory Board and Shareholders' Committee.

Henkel Trust e.V. and Metzler Trust e.V., as parties to relevant contractual trust arrangements (CTA), hold the assets required to cover the corporation's 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 204). The receivable does not bear interest.

43 Exercise of exemption options

The following German companies included in the consolidated financial statements of Henkel AG & Co. KGaA exercised exemption options in fiscal 2020:

- Schwarzkopf Henkel Production Europe GmbH & Co. KG, Düsseldorf (Section 264b German Commercial Code [HGB])
- Henkel Loctite-KID GmbH, Hagen (Section 264 (3) HGB)
- Henkel IP Management and IC Services GmbH, Monheim (Section 264 (3) HGB)
- Sonderhoff Holding GmbH, Cologne (Section 264 (3) HGB)

The Dutch company Henkel Nederland B.V., Nieuwegein, exercised the exemption option afforded in Article 2:403 of the Civil Code of the Netherlands.

44 Remuneration of the corporate bodies

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,562,000 euros plus value-added tax (previous year: 1,565,000 euros) and 2,350,000 euros (previous year: 2,350,000 euros) respectively. The total remuneration (Section 285 No. 9a and Section 314 (1) No. 6a HGB) of the Management Board, i.e. members of the Management Board of Henkel Management AG, amounted to 15,880,397 euros (previous year: 17,247,891 euros).

Provisions for pension obligations to former members of the Management Board and the management of Henkel KGaA, as well as the former management of its legal predecessor and surviving dependents, amounted to 119,491,147 euros (previous year: 105,312,747 euros). The total remuneration for this group of persons (Section 285 No. 9b and Section 314 (1) No. 6b HGB) in the reporting year amounted to 7,300,068 euros (previous year: 13,291,431 euros).

The following expenditure was recognized in fiscal 2020 under IFRS for remuneration paid to members of the Management Board, Supervisory Board and Shareholders' Committee in office in the year under review:

Remuneration of the corporate bodies

in euros	2019	2020
Management Board remuneration		
Short-term remuneration[1]	14,418,084	**14,498,717**
Expense for Long Term Incentive	4,519,679	**1,435,387**
Service cost of pension obligations	3,125,737	**3,031,332**
Remuneration paid in connection with termination of employment	8,208,000	**–**
Total	30,271,500	**18,965,436**
Supervisory Board remuneration		
Fixed fee and meeting attendance[2]	1,565,000	**1,562,000**
Shareholders' Committee remuneration		
Fixed fee[2]	2,350,000	**2,350,000**
Total expenses relating to the corporate bodies	34,186,500	**22,877,436**

[1] Fixed remuneration, other emoluments, Short Term Incentive.
[2] Including committee activity.

Further discussion of the remuneration paid to the individual members who served on the Management Board, Supervisory Board and Shareholders' Committee in the year under review can be found in the audited remuneration report on pages 77 to 92.

45 Declaration of compliance with the Corporate Governance Code

In March 2020, the Management Board of Henkel Management AG, and the Supervisory Board and Shareholders' Committee of Henkel AG & Co. KGaA approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code (GCGC) in accordance with Section 161 German Stock Corporation Act [AktG]. The declaration has been made permanently available to shareholders on the company website: **www.henkel.com/ir**

46 Subsidiaries and other investments

Details relating to the investments held by Henkel AG & Co. KGaA and the Henkel Group, which are part of these financial statements, are provided in a separate schedule appended to these notes to the consolidated financial statements but not included in this version of the Annual Report. Said schedule is included in the accounting record submitted for publication in the electronic Federal Gazette and can be viewed there. The schedule is also published on our website: **www.henkel.com/reports**

47 Auditor's fees and services

The following table lists the total fees charged to the Group for services provided by the auditor PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft and other companies of the worldwide PwC network for fiscal 2020, and by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft and other companies of the worldwide KPMG network in fiscal 2019:

Type of fee

in million euros	2019	Of which: Germany	2020	Of which: Germany
Audit services	9.9	2.0	**9.1**	**3.0**
Other attestation services	0.5	0.4	**0.1**	**0.1**
Tax advisory services	1.0	0.1	**0.9**	**0.2**
Other services	0.6	0.5	**0.6**	**0.5**
Total	**12.0**	**3.0**	**10.7**	**3.8**

The financial statement auditing services relate primarily to the statutory audits of the annual and consolidated financial statements of Henkel AG & Co. KGaA, together with various audits of annual financial statements of its subsidiaries. Reviews of interim financial statements were also included in the audit mandate.

Other attestation services included the provision of a comfort letter, and the performance of legally and contractually stipulated audits such as those specified in Section 20 Securities Trading Act [WpHG] in relation to the European Market Infrastructure Regulation (EMIR). These fees also covered the audit of the non-financial report and sustainability disclosures.

Fees for tax advisory services mainly relate to those performed in connection with intra-group restructuring procedures under company law, and provision of support on ongoing tax issues.

Other services mainly comprised services focusing on the implementation of regulatory requirements, and other project-related advisory services.

Subsequent events

After December 31, 2020, 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, 2021

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board
Carsten Knobel,
Jan-Dirk Auris, Sylvie Nicol, Bruno Piacenza,
Jens-Martin Schwärzler, Marco Swoboda

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 2,006,781,698.41 euros for fiscal 2020 be applied as follows:

a)	Payment of a dividend of 1.83 euros per ordinary share (259,795,875 shares)	= 475,426,451.25 euros
b)	Payment of a dividend of 1.85 euros per preferred share (178,162,875 shares)	= 329,601,318.75 euros
c)	Carried forward as retained earnings	= 1,201,753,928.41 euros
		2,006,781,698.41 euros

At the time of convocation, the corporation holds 3,680,552 of its preferred treasury shares. According to Section 71b German Stock Corporation Act [AktG], treasury shares do not qualify for a dividend. The amount in unappropriated profit which relates to the shares held by the corporation at the date of the Annual General Meeting will be carried forward as retained earnings. As the number of such treasury shares can change up to the time of the Annual General Meeting, a correspondingly adapted proposal for the appropriation of profit will be submitted to it, providing for an unchanged payout of 1.83 euros per ordinary share qualifying for a dividend, and 1.85 euros per preferred share qualifying for a dividend, with corresponding adjustment of the payout totals and of retained earnings carried forward to the following year.

Düsseldorf, January 30, 2021

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board

Corporate bodies of Henkel AG & Co. KGaA

Boards/memberships as defined by Section 125 (1) sentence 5 German Stock Corporation Act [AktG] as at January 2021

Honorary Chairman of the Henkel Group: Dipl.-Ing. Albrecht Woeste

Supervisory Board of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah
Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: April 14, 2008

Memberships:
Henkel Management AG (Chair)[1]
Henkel AG & Co. KGaA
(Shareholders' Committee, Chair)[2]
Bayer AG[1]
Heraeus Holding GmbH[1]

Birgit Helten-Kindlein*
Vice Chair,
Chairwoman of the General Works Council of Henkel AG & Co. KGaA and Chairwoman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1964
Member since: April 14, 2008

Michael Baumscheiper*
(since December 11, 2020)
Member of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Hamburg site

Born in 1966
Member since: December 11, 2020

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
(until June 17, 2020)
Astrophysicist, Pasadena

Born in 1971
Member from: April 19, 2010

Lutz Bunnenberg
(since June 17, 2020)
Private Investor, Munich

Born in 1973
Member since: June 17, 2020

Membership:
Analyticon Biotechnologies AG (Vice Chair)[1]

Peter Emmerich*
(until December 11, 2020)
Member of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Herborn-Schönbach site

Born in 1966
Member from: April 9, 2018

Benedikt-Richard Freiherr von Herman
Private Investor, Wain

Born in 1972
Member since: April 11, 2016

Timotheus Höttges
Chairman of the Executive Board
Deutsche Telekom AG, Bonn

Born in 1962
Member since: April 11, 2016

Memberships:
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
Former Chairman of the Executive Board, Carl Zeiss AG, Oberkochen

Born in 1957
Member since: April 14, 2008

Memberships:
Carl Zeiss Meditec AG (Chair)[1]
Deutsche Telekom AG[1]
Robert Bosch GmbH[1]

* Employee representatives.
[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Barbara Kux
Private Investor, Zurich

Born in 1954
Member since: July 3, 2013

Memberships:
Firmenich S.A. (Vice Chair), Switzerland[2]
Grosvenor Group Ltd., Great Britain[2]

Simone Menne
(since June 17, 2020)
Private Investor, Kiel

Born in 1960
Member since: June 17, 2020

Memberships:
Bayerische Motoren Werke AG[1]
Deutsche Post AG[1]
Johnson Control International plc., Ireland[2]
Russel Reynolds Associates Inc., USA[2]

Andrea Pichottka*
Managing Director, IG BCE Bonusagentur GmbH, Hannover
Managing Director, IG BCE Bonusassekuranz GmbH, Hannover

Born in 1959
Member since: October 26, 2004

Philipp Scholz
Adjunct Professor at Humboldt University Berlin, Berlin

Born in 1967
Member since: April 9, 2018

Dr. rer. nat. Martina Seiler*
Chemist, Duisburg
Member of the Senior Staff Representative Committee of Henkel AG & Co. KGaA

Born in 1971
Member since: January 1, 2012

Prof. Dr. oec. publ. Theo Siegert
(until June 17, 2020)
Managing Partner of de Haen-Carstanjen & Söhne, Düsseldorf

Born in 1947
Member from: April 20, 2009

Dirk Thiede*
Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1969
Member since: April 9, 2018

Edgar Topsch*
Member of the General Works Council of Henkel AG & Co. KGaA and
Vice Chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1960
Member since: August 1, 2010

Michael Vassiliadis*
Chairman of IG BCE, Hannover

Born in 1964
Member since: April 9, 2018

Memberships:
BASF SE
RAG AG (Vice Chair)
STEAG GmbH
Vivawest GmbH

* Employee representatives
[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Committees of the Supervisory Board

Nominations Committee

Functions
The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members of the Supervisory Board (representatives of the shareholders).

Members
Dr. Simone Bagel-Trah, Chair
Benedikt-Richard Freiherr von Herman, Vice Chair (since June 17, 2020)
Dr. Kaspar von Braun (until June 17, 2020)
Barbara Kux (since June 17, 2020)
Prof. Dr. Theo Siegert (until June 17, 2020)

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 (until June 17, 2020)
Prof. Dr. Michael Kaschke, Chair (since June 17, 2020)
Simone Menne, Vice Chair (since June 17, 2020)
Dr. Simone Bagel-Trah
Birgit Helten-Kindlein
Edgar Topsch
Michael Vassiliadis

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,
Private Investor, London

Born in 1958
Member since: May 27, 1991

Prof. Dr. rer. pol. HSG Paul Achleitner
Chairman of the Supervisory Board,
Deutsche Bank AG, Munich

Born in 1956
Member since: April 30, 2001

Memberships:
Bayer AG[1]
Deutsche Bank AG (Chair)[1]

Alexander Birken
(since June 17, 2020)
Chairman of the Management Board,
Otto Group (GmbH & Co. KG), Hamburg

Born in 1964
Member since: June 17, 2020

Memberships:
C&A AG, Switzerland[2]
Otto Group:
Hermes Europe GmbH[1]

Johann-Christoph Frey
Private Investor, Klosters

Born in 1955
Member since: April 9, 2018

Memberships:
Antai Venture Builder S.L., Spain
Henkel Management AG[1]

Stefan Hamelmann
(until June 17, 2020)
Private Investor, Düsseldorf

Born in 1963
Member from: May 3, 1999

Dr. rer. oec. Christoph Kneip
(since June 17, 2020)
Tax Consultant, Düsseldorf

Born in 1962
Member since: June 17, 2020

Memberships:
Arenberg Schleiden GmbH[2]
Arenberg Recklinghausen GmbH[2]
Rheinische Bodenverwaltung AG[1]

Prof. Dr. rer. pol. Ulrich Lehner
Former Chairman of the Management Board
of Henkel KGaA, Düsseldorf

Born in 1946
Member since: April 14, 2008

Memberships:
Deutsche Telekom AG (Chair)[1]
Porsche Automobil Holding SE[1]

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer
Chairman of the Supervisory Board
of Bayerische Motoren Werke
Aktiengesellschaft, Munich

Born in 1956
Member since: April 11, 2011

Memberships:
Bayerische Motoren Werke Aktiengesellschaft (Chair)[1]
Henkel Management AG[1]
Siemens AG[1]

Konstantin von Unger
Managing Partner, CKA Capital Ltd., London

Born in 1966
Member since: April 14, 2003

Jean-François van Boxmeer
Chairman of the Board of Directors of
Vodafone Group plc., London

Born in 1961
Member since: April 15, 2013

Memberships:
Heineken Holding N.V., Netherlands[2]
Mondelez International Inc., USA[2]
Vodafone Group plc. (Chair), Great Britain[2]

Werner Wenning
(until June 17, 2020)
Former Chairman of the Supervisory Board
of Bayer AG, Leverkusen

Born in 1946
Member from: April 14, 2008

Memberships:
Henkel Management AG[1]
Siemens AG[1]

Subcommittees of the Shareholders' Committee

Finance Subcommittee

Functions
The Finance Subcommittee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, internal auditing, and risk management in the corporation.

Members
Dr. Christoph Henkel, Chair
Stefan Hamelmann,
Vice Chair (until June 17, 2020)
Konstantin von Unger,
Vice Chair (since June 17, 2020)
Prof. Dr. Paul Achleitner
Dr. Christoph Kneip (since June 17, 2020)
Prof. Dr. Ulrich Lehner
Dr. Dr. Norbert Reithofer (until June 17, 2020)

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 (until June 17, 2020)
Johann-Christoph Frey,
Vice Chair (since June 17, 2020)
Alexander Birken (since June 17, 2020)
Dr. Dr. Norbert Reithofer (since June 17, 2020)
Jean-François van Boxmeer
Werner Wenning (until June 17, 2020)

[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Management Board of Henkel Management AG*

Carsten Knobel
Chairman of the Management Board
(since January 1, 2020)

Born in 1969
Member since: July 1, 2012

Membership:
Deutsche Lufthansa AG[1]

Jan-Dirk Auris
Adhesive Technologies

Born in 1968
Member since: January 1, 2011

Sylvie Nicol
Human Resources/Infrastructure Services

Born in 1973
Member since: April 9, 2019

Membership:
Henkel Central Eastern Europe GmbH, Austria[2]

Bruno Piacenza
Laundry & Home Care

Born in 1965
Member since: January 1, 2011

Jens-Martin Schwärzler
Beauty Care

Born in 1963
Member since: November 1, 2017

Marco Swoboda
(since January 1, 2020)
Finance

Born in 1971
Member since: January 1, 2020

Memberships:
Henkel Central Eastern Europe GmbH (Chair), Austria[2]
Henkel Nederland BV (Chair), Netherlands[2]
Henkel South Africa (Pty.) Ltd. (Chair), South Africa[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
(until June 22, 2020)
Vice Chair,
Managing Partner, CKA Capital Ltd., London

Born in 1966
Member from: April 17, 2012

Membership:
Henkel AG & Co. KGaA
(Shareholders' Committee)[2]

Johann-Christoph Frey
(since June 22, 2020)
Vice Chair
Private Investor, Klosters

Born in 1955
Member since: June 22, 2020

Memberships:
Antai Venture Builder S.L., Spain
Henkel AG & Co. KGaA
(Shareholders' Committee)[2]

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer
(since June 22, 2020)
Chairman of the Supervisory Board of Bayerische Motoren Werke Aktiengesellschaft, Munich

Born in 1956
Member since: June 22, 2020

Memberships:
Bayerische Motoren Werke Aktiengesellschaft (Chair)[1]
Henkel AG & Co. KGaA
(Shareholders' Committee)[2]
Siemens AG[1]

Werner Wenning
(until June 22, 2020)
Former Chairman of the Supervisory Board of Bayer AG, Leverkusen

Born in 1946
Member from: September 16, 2013

Memberships:
Henkel AG & Co. KGaA
(Shareholders' Committee)[2]
Siemens AG[1]

* Personally Liable Partner of Henkel AG & Co. KGaA.
[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Further information

Independent Auditor’s Report

The auditor’s report reproduced below also includes a report on the audit of the European Single Electronic Format of the financial statements and management report prepared for disclosure purposes in accordance with § [Article] 317 Abs. [paragraph] 3b HGB [Handelsgesetzbuch: German Commercial Code] (“ESEF Report”). The subject matter of the audit on which the ESEF report is based (ESEF documents to be audited) is not attached. The audited ESEF documents can be viewed in or retrieved from the Federal Gazette.

To Henkel AG & Co. KGaA, Düsseldorf

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

AUDIT OPINIONS

We have audited the consolidated financial statements of Henkel AG & Co. KGaA, Düsseldorf, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, 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, which is combined with the Company’s management report, for the financial year from 1 January to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of those parts of the group management report listed in the “Other Information” section of our auditor’s 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 § [Article] 315e Abs. [paragraph] 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 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, 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 audit opinion on the group management report does not cover the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report.

Pursuant to § 322 Abs. 3 Satz [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.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of goodwill and brands and other rights with indefinite useful lives

2. Recognition and measurement of pension provisions

Our presentation of these key audit matters has been structured in each case as follows:

1. Matter and issue

2. Audit approach and findings

3. Reference to further information

Hereinafter we present the key audit matters:

1. Recoverability of goodwill and brands and other rights with indefinite useful lives

1. In the consolidated financial statements of Henkel AG & Co. KGaA, goodwill amounting to € 12.4 billion in total (40.9% of consolidated total assets) and brands and other rights with indefinite useful lives amounting to € 2.8 billion in total (9.2% of consolidated total assets) are reported under the line item "Intangible assets" of the balance sheet. Goodwill and brands and other rights with indefinite useful lives are tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment tests are performed at the level of the cash-generating units or groups of cash-generating units to which the respective goodwill and brands and other rights with indefinite useful lives are allocated. The carrying amount of the relevant (group of) cash-generating units, including the respective allocated goodwill and brands and other rights with indefinite useful lives, are compared with the corresponding recoverable amount in the context of the impairment test. The

recoverable amount is generally determined on the basis of fair value less costs of disposal. The valuation to determine the fair value less costs of disposal carried out for the purposes of the impairment tests is based on the present values of the future cash flows derived from the financial planning for the financial year 2021 prepared by the executive directors and acknowledged by the supervisory board which is extrapolated for subsequent years based on assumptions. Expectations relating to future market developments and country-specific assumptions about the development of macroeconomic factors, as well as the expected effects of the ongoing corona crisis on the business activities of the Group are also taken into account. Present values are calculated using discounted cash flow models. The discount rate used is the weighted average cost of capital for the respective cash-generating unit. The impairment test determined that no write-downs were necessary. The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors of the future cash flows of the cash-generating units, and on the respective discount rates, rates of growth and other assumptions employed. The valuation is therefore, also against the background of the effects of the corona crisis, subject to considerable uncertainty. Against this background and due to the underlying complexity of the valuation, this matter was of particular significance in the context of our audit.

2. As part of our audit we assessed, among other things, the methodology used for the purpose of the impairment tests and evaluated the calculation of the weighted average cost of capital. In addition, we assessed whether the future cash inflows underlying the valuation together with the weighted average cost of capital used represent an appropriate basis for the impairment tests overall. We evaluated the appropriateness of the future cash inflows used in the calculations, among other things by comparing this data with the Group's extrapolated financial planning, by reconciling it against general and sector-specific market expectations, and on the basis of the executive directors' explanations regarding key planning value drivers. In this context, we also assessed the appropriate consideration of the costs of Group functions in the respective cash-generating unit. In addition, we evaluated the assessment of the executive directors regarding the effects of the corona crisis on the business activities of the Group and examined how they were taken into account in the planning. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the fair values less costs of disposal calculated in this way, we also focused our assessment on the parameters used to determine the discount rate applied, and evaluated the measurement model. Furthermore, we evaluated the sensitivity analyses performed by the Company in order to assess any impairment risk (lower recoverable amount versus carrying amount) relating to any potential change in a material assumption underlying the valuation. Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

3. The Company's disclosures on goodwill and brands and other rights with indefinite useful lives are contained in the notes to the consolidated financial statements in the section entitled “Notes to the consolidated balance sheet”, note “(1) Goodwill and other intangible assets”.

2. Recognition and measurement of pension provisions

1. Pension provisions amounting to € 0.5 billion are reported in the consolidated financial statements of Henkel AG & Co. KGaA under the balance sheet item "Provisions for pensions and similar obligations." The pension provisions comprise pension obligations amounting to € 5.7 billion, plan assets of € 5.3 billion and a reported surplus of plan assets over benefit obligations of € 0.1 billion. The obligations from defined benefit pension plans are measured using the projected unit credit method. This requires assumptions to be made in particular about long-term rates of growth in salaries and pensions, average life expectancy and staff turnover. The average life expectancy is calculated for Germany as at 31 December 2020 based on the mortality tables published by Heubeck-Richttafeln GmbH (Heubeck-Richttafeln RT 2018 G). Country-specific mortality tables are used to calculate obligations outside of Germany. The discount rates must be determined by reference to market yields on high-quality corporate bonds with matching currencies and consistent maturities. This usually requires the data to be extrapolated, since sufficient long-term corporate bonds do not exist. The plan assets are measured at fair value, which in turn involves estimation uncertainties.

   From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

2. As part of our audit, we firstly assessed whether the criteria for recognition as defined benefit or defined contribution pension commitments were met and evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with the standard and appropriateness, in addition to other procedures. In addition, we analyzed the development of the obligation and the cost components in accordance with actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and assessed their plausibility. For the audit of the fair value of the plan assets, we obtained bank and fund confirmations and assessed the methods on which the respective valuation was based and the valuation parameters applied.

   Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented.

3. The Company's disclosures relating to the pension provisions are contained in the notes to the consolidated financial statements in the section entitled "Notes to the consolidated balance sheet" in note "(16) Provisions for pensions and similar obligations".

Contents

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate governance statement" of the group management report
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit 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 audit 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 THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are 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 § 315e Abs. 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, the executive directors are 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, the executive directors are 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, the executive directors are 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, the executive directors are 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 audit 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 § 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.

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 audit 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 audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' 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 audit 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 § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit 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 audit 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 the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors 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 audit 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.

Other Legal and Regulatory Requirements

Assurance Report in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Group Management Report Prepared for Publication Purposes

REASONABLE ASSURANCE CONCLUSION

We have performed an assurance engagement in accordance with § 317 Abs. 3b HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file Henkel_KA+KLB_ESEF-2021-01-30.zip and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance engagement only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within this reproduction nor to any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of § 328 Abs. 1 HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned electronic file beyond this reasonable assurance conclusion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the financial year from 1 January to 31 December 2020 contained in the “Report on the Audit of the Consolidated Financial Statements and on the Group Management Report” above.

BASIS FOR THE REASONABLE ASSURANCE CONCLUSION

We conducted our assurance engagement on the reproduction of the consolidated financial statements and the group management report contained in the above-mentioned attached electronic file in accordance with § 317 Abs. 3b HGB and the Exposure Draft of IDW Assurance Standard: Assurance in Accordance with § 317 Abs. 3b HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below in the “Group Auditor’s Responsibilities for the Assurance Engagement on the ESEF Documents” section. Our audit firm has applied the IDW Standard on Quality Management: Requirements for Quality Management in the Audit Firm (IDW QS 1).

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE SUPERVISORY BOARD FOR THE ESEF DOCUMENTS

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with § 328 Abs. 1 Satz 4 Nr. 1 HGB and for the tagging of the consolidated financial statements in accordance with § 328 Abs. 1 Satz 4 Nr. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of § 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor’s report and the attached audited consolidated financial statements and audited group management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

GROUP AUDITOR’S RESPONSIBILITIES FOR THE ASSURANCE ENGAGEMENT ON THE ESEF DOCUMENTS

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of § 328 Abs. 1 HGB, whether due to fraud or error, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance conclusion.

- Obtain an understanding of internal control relevant to the assurance engagement on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance conclusion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the electronic file containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as at the balance sheet date on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enables a XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 17 June 2020. We were engaged by the supervisory board on 19 June 2020. We have been the group auditor of the Henkel AG & Co. KGaA, Düsseldorf, without interruption since the financial year 2020.

We declare that the audit 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 Michael Reuther.

Düsseldorf, January 31, 2021

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Peter Bartels
German Public Auditor

Michael Reuther
German Public Auditor

Responsibility statement

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, 2021

Henkel Management AG

Management Board
Carsten Knobel,
Jan-Dirk Auris, Sylvie Nicol, Bruno Piacenza,
Jens-Martin Schwärzler, Marco Swoboda

Quarterly breakdown of sales

in million euros	1st quarter 2019	1st quarter 2020	2nd quarter 2019	2nd quarter 2020	Half year 2019	Half year 2020	3rd quarter 2019	3rd quarter 2020	4th quarter 2019	4th quarter 2020	Full year 2019	Full year 2020
Adhesive Technologies	2,309	**2,209**	2,422	**1,944**	4,731	**4,153**	2,395	**2,280**	2,335	**2,251**	9,461	**8,684**
Change versus previous year	1.7%	**-4.3%**	-0.4%	**-19.7%**	0.6%	**-12.2%**	0.9%	**-4.8%**	0.3%	**-3.6%**	0.6%	**-8.2%**
Adjusted for foreign exchange	-0.2%	**-4.1%**	-0.4%	**-17.8%**	-0.3%	**-11.1%**	-1.6%	**0.7%**	-1.4%	**3.7%**	-0.9%	**-4.5%**
Organic	-0.8%	**-4.1%**	-1.2%	**-17.4%**	-1.0%	**-10.9%**	-2.4%	**1.3%**	-1.8%	**3.7%**	-1.5%	**-4.2%**
Beauty Care	960	**935**	1,002	**883**	1,962	**1,818**	970	**999**	944	**934**	3,877	**3,752**
Change versus previous year	-0.4%	**-2.6%**	-3.2%	**-11.9%**	-1.9%	**-7.4%**	-2.3%	**3.0%**	-1.3%	**-1.1%**	-1.8%	**-3.2%**
Adjusted for foreign exchange	-2.4%	**-1.7%**	-2.5%	**-10.4%**	-2.4%	**-6.2%**	-1.8%	**6.3%**	-0.5%	**4.7%**	-1.8%	**-0.4%**
Organic	-2.2%	**-3.9%**	-2.4%	**-12.8%**	-2.3%	**-8.5%**	-2.2%	**4.3%**	-1.6%	**1.4%**	-2.1%	**-2.8%**
Laundry & Home Care	1,667	**1,755**	1,666	**1,705**	3,334	**3,460**	1,682	**1,693**	1,640	**1,551**	6,656	**6,704**
Change versus previous year	6.3%	**5.3%**	1.3%	**2.3%**	3.8%	**3.8%**	2.5%	**0.7%**	4.8%	**-5.4%**	3.7%	**0.7%**
Adjusted for foreign exchange	5.8%	**5.5%**	2.6%	**4.3%**	4.1%	**4.9%**	3.8%	**7.7%**	3.9%	**4.9%**	4.0%	**5.6%**
Organic	4.7%	**5.5%**	2.0%	**4.4%**	3.3%	**4.9%**	4.0%	**7.7%**	4.0%	**4.9%**	3.7%	**5.6%**
Corporate	32	**29**	30	**26**	62	**55**	30	**26**	28	**29**	121	**110**
Henkel Group	**4,969**	**4,927**	**5,121**	**4,558**	**10,090**	**9,485**	**5,077**	**4,999**	**4,947**	**4,765**	**20,114**	**19,250**
Change versus previous year	**2.8%**	**-0.8%**	**-0.4%**	**-11.0%**	**1.1%**	**-6.0%**	**0.8%**	**-1.5%**	**1.3%**	**-3.7%**	**1.1%**	**-4.3%**
Adjusted for foreign exchange	**1.3%**	**-0.5%**	**0.1%**	**-9.1%**	**0.7%**	**-4.9%**	**0.1%**	**4.0%**	**0.4%**	**4.3%**	**0.5%**	**-0.4%**
Organic	**0.7%**	**-0.9%**	**-0.4%**	**-9.4%**	**0.1%**	**-5.2%**	**-0.3%**	**3.9%**	**0.0%**	**3.7%**	**0.0%**	**-0.7%**

Multi-year summary

in million euros		2014	2015	2016	2017	2018	2019[1]	2020
Results of operations								
Sales		16,428	18,089	18,714	20,029	19,899	20,114	**19,250**
Adhesive Technologies		8,127	8,992	8,961	9,387	9,403	9,461	**8,684**
Beauty Care		3,547	3,833	3,838	3,868	3,950	3,877	**3,752**
Laundry & Home Care		4,626	5,137	5,795	6,651	6,419	6,656	**6,704**
Corporate		128	128	121	123	128	121	**110**
Gross margin		47.0	48.2	47.9	46.7	46.0	45.9	**46.1**
Research and development expenses		413	478	463	476	484	499	**501**
Operating profit (EBIT)		2,244	2,645	2,775	3,055	3,116	2,899	**2,019**
Adhesive Technologies		1,345	1,462	1,561	1,657	1,669	1,631	**1,248**
Beauty Care		421	561	526	535	589	418	**246**
Laundry & Home Care		615	786	803	989	970	973	**688**
Corporate		-137	-164	-115	-126	-112	-123	**-162**
Income before tax		2,195	2,645	2,742	2,988	3,051	2,811	**1,925**
Tax rate		24.3%	24.4%	23.7%	15.0%	23.6%	25.2%	**26.0%**
Net income		1,662	1,968	2,093	2,541	2,330	2,103	**1,424**
Attributable to shareholders of Henkel AG & Co. KGaA		1,628	1,921	2,053	2,519	2,314	2,085	**1,408**
Earnings per preferred share (EPS)	in euros	3.76	4.44	4.74	5.81	5.34	4.81	**3.25**
Net return on sales[2]		10.1%	10.9%	11.2%	12.7%	11.7%	10.5%	**7.4%**
Interest coverage ratio		48.4	75.7	107.9	59.2	56.0	41.5	**33.1**
Net assets								
Total assets		20,961	22,323	27,951	28,339	29,562	31,409	**30,250**
Non-current assets		14,150	15,406	19,738	19,864	20,879	22,279	**20,930**
Current assets		6,811	6,917	8,213	8,475	8,683	9,130	**9,321**
Equity		11,644	13,811	15,185	15,647	16,999	18,611	**17,879**
Liabilities		9,317	8,512	12,766	12,692	12,563	12,798	**12,372**
Equity ratio		55.6%	61.9%	54.3%	55.2%	57.5%	59.3%	**59.1%**
Return on equity[3]		16.4%	16.9%	15.2%	16.7%	14.9%	12.4%	**7.6%**
Operating debt coverage ratio		274.8%	375.2%	80.8%	80.9%	79.0%	88.6%	**126.4%**

TABLE CONTINUED ON NEXT PAGE

in million euros		2014	2015	2016	2017	2018	2019[1]	2020
Financial position								
Cash flow from operating activities		1,914	2,384	2,850	2,468	2,698	3,241	**3,080**
Capital expenditures		2,214	979	4,430	2,511	1,104	1,262	**1,220**
Investment ratio	as % of sales	13.5	5.4	23.7	12.5	5.5	6.3	**6.3**
Shares								
Dividend per ordinary share	in euros	1.29	1.45	1.60	1.77	1.83	1.83	**1.83**[4]
Dividend per preferred share	in euros	1.31	1.47	1.62	1.79	1.85	1.85	**1.85**[4]
Total dividends		569	639	704	779	805	805	**805**[4]
Payout ratio		30.0%	30.2%	30.3%	30.7%	30.9%	34.2%	**43.7%**[4]
Share price, ordinary shares, at year-end	in euros	80.44	88.62	98.98	100.00	85.75	84.00	**78.85**
Share price, preferred shares, at year-end	in euros	89.42	103.20	113.25	110.35	95.40	92.20	**92.30**
Market capitalization at year-end	in bn euros	36.8	41.4	45.9	45.6	39.3	38.2	**36.9**
Employees								
Total[5]	(at December 31)	49,750	49,450	51,350	53,700	53,000	52,450	**52,950**
Germany		8,200	8,350	8,250	8,300	8,500	8,550	**8,700**
Abroad		41,550	41,100	43,100	45,400	44,500	43,900	**44,250**

[1] Prior-year figures amended (please refer to the notes on page 188).
[2] Net income divided by sales.
[3] Net income divided by equity at the start of the year.
[4] Proposal to shareholders for the Annual General Meeting on April 16, 2021.
[5] Basis: permanent employees excluding trainees.

Glossary

Adjusted EBIT
Earnings Before Interest and Taxes (EBIT) adjusted for exceptional items in the form of one-time expenses and income, and for restructuring expenses.

Capital employed
Capital invested in company assets and operations.

Compliance
Acting in conformity with applicable regulations; adherence to laws, rules, regulations and in-house or corporate codes of conduct.

Compound annual growth rate
Year-over-year rate of growth, e.g. of an investment.

Corporate governance
System of management and control, primarily within listed companies. Describes the powers and authority of corporate management, the extent to which these need to be monitored and the extent to which structures should be put in place through which certain interest/stakeholder groups may exert influence on the corporate management.

Corporate Governance Code
The German Corporate Governance Code (abbreviation: GCGC) is intended to render the rules governing corporate management and control for a stock corporation in Germany transparent for national and international investors, engendering trust and confidence in the governance 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 of the German Stock Corporation Act [AktG], confirming implementation of the recommendations of the Governmental Commission for the German Corporate Governance Code.

Defined contribution plans/Defined contribution pension system
Post-employment benefit plans under which an entity pays fixed contributions into a separate 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; impairment losses and reversals/value write-ups are also eliminated from the earnings calculation.

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 (the personally liable partner, aka general partner) has unlimited liability with respect to the company's creditors, while the liability for such debts of the other partners participating in the share-based capital stock is limited to their share capital (limited shareholders).

Long Term Incentive (LTI)
Bonus aligned to long-term financial performance.

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

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

Non-controlling interests
Proportion of equity attributable to third parties (non-controlling shareholders, aka minority shareholders) in subsidiaries included within the scope of consolidation. 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 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.

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.

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.

Credits

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Financial calendar

Annual General Meeting Henkel AG & Co. KGaA 2021:
Friday, April 16, 2021

Publication of Statement for the First Quarter 2021:
Thursday, May 6, 2021

Publication of Report for the First Half Year 2021:
Thursday, August 12, 2021

Publication of Statement for the Third Quarter 2021:
Monday, November 8, 2021

Publication of Report for Fiscal 2021:
Wednesday, February 23, 2022

Annual General Meeting Henkel AG & Co. KGaA 2022:
Monday, April 4, 2022