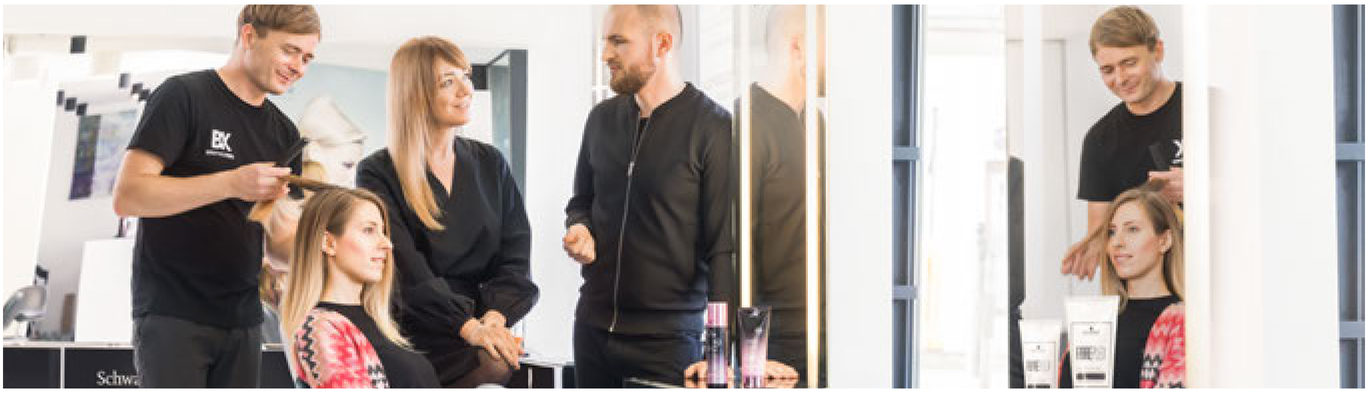
Annual Report **2016**

Creating sustainable value



Henkel

Contents

Our business units

Adhesive Technologies

Our top brands

LOCTITE
TECHNOMELT
BONDERITE

Sales

+ 2.8 %

organic sales growth

Beauty Care

Our top brands

Schwarzkopf
Dial
syoss

Sales

+ 2.1 %

organic sales growth

Laundry & Home Care

Our top brands

Persil
Purex
Pril

Sales

+ 4.7 %

organic sales growth

Key financials Adhesive Technologies

4

in million euros	2015	2016	+/–
Sales	8,992	**8,961**	–0.3%
Operating profit (EBIT)	1,462	**1,561**	6.8%
Adjusted[1] operating profit (EBIT)	1,534	**1,629**	6.2%
Return on sales (EBIT)	16.3%	**17.4%**	1.1 pp
Adjusted[1] return on sales (EBIT)	17.1%	**18.2%**	1.1 pp

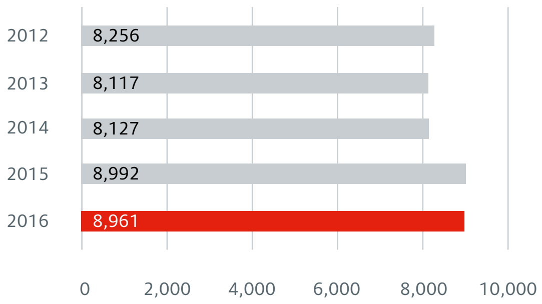
pp = percentage points

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

Sales Adhesive Technologies

5

in million euros



Key financials Beauty Care

6

in million euros	2015	2016	+/–
Sales	3,833	**3,838**	0.1%
Operating profit (EBIT)	561	**526**	–6.2%
Adjusted[1] operating profit (EBIT)	610	**647**	6.1%
Return on sales (EBIT)	14.6%	**13.7%**	–0.9 pp
Adjusted[1] return on sales (EBIT)	15.9%	**16.9%**	1.0 pp

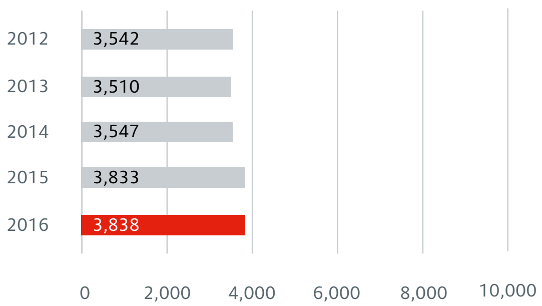
pp = percentage points

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

Sales Beauty Care

7

in million euros



Key financials Laundry & Home Care

8

in million euros	2015	2016	+/–
Sales	5,137	**5,795**	12.8%
Operating profit (EBIT)	786	**803**	2.2%
Adjusted[1] operating profit (EBIT)	879	**1,000**	13.7%
Return on sales (EBIT)	15.3%	**13.9%**	–1.4 pp
Adjusted[1] return on sales (EBIT)	17.1%	**17.3%**	0.2 pp

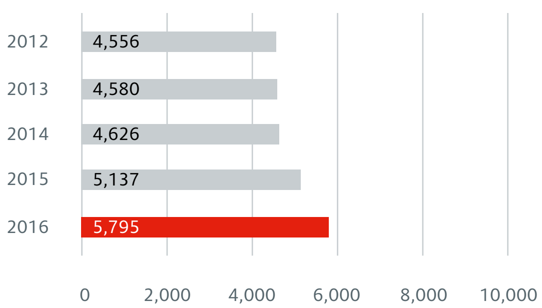
pp = percentage points

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

Sales Laundry & Home Care

9

in million euros



Highlights 2016

Sales

+3.1 %

organic
sales growth

EBIT

16.9 %

adjusted[1] return on sales (EBIT):
up 0.7 percentage points

EPS

5.36 euros

adjusted[1] earnings per preferred
share (EPS): up 9.8 percent

Dividend

1.62 euros

dividend per
preferred share[2]

Key financials

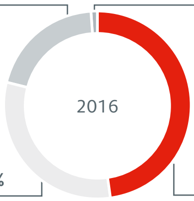
1

in million euros	2012	2013	2014	2015	**2016**	+/– 2015 – 2016
Sales	16,510	16,355	16,428	18,089	**18,714**	3.5 %
Operating profit (EBIT)	2,199	2,285	2,244	2,645	**2,775**	4.9 %
Adjusted[1] operating profit (EBIT)	2,335	2,516	2,588	2,923	**3,172**	8.5 %
Return on sales (EBIT) in %	13.3	14.0	13.7	14.6	**14.8**	0.2 pp
Adjusted[1] return on sales (EBIT) in %	14.1	15.4	15.8	16.2	**16.9**	0.7 pp
Net income	1,526	1,625	1,662	1,968	**2,093**	6.4 %
Attributable to non-controlling interests	46	36	34	47	**40**	– 14.9 %
Attributable to shareholders of Henkel AG & Co. KGaA	1,480	1,589	1,628	1,921	**2,053**	6.9 %
Earnings per preferred share in euros	3.42	3.67	3.76	4.44	**4.74**	6.8 %
Adjusted[1] earnings per preferred share in euros	3.63	4.07	4.38	4.88	**5.36**	9.8 %
Adjusted[1] earnings per preferred share in euros (2012 before IAS 19 revised)	3.70	4.07	4.38	4.88	**5.36**	9.8 %
Return on capital employed (ROCE) in %	18.7	20.5	19.0	18.2	**17.5**	– 0.7 pp
Dividend per ordinary share in euros	0.93	1.20	1.29	1.45	**1.60**[2]	10.3 %
Dividend per preferred share in euros	0.95	1.22	1.31	1.47	**1.62**[2]	10.2 %

pp = percentage points
[1] Adjusted for one-time charges/gains and restructuring expenses.
[2] Proposal to shareholders for the Annual General Meeting on April 6, 2017.

Sales by business unit

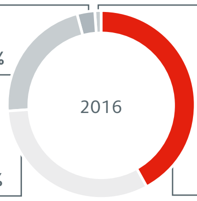
2



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

Sales by region

3



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

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.

“Our ambition is to generate more profitable growth and to become more customer-focused, innovative, agile and digital.”

Hans Van Bylen

Chairman of the Management Board

Dear Shareholders and Friends of the Company,

2016 was a very special year for Henkel. We celebrated our 140th birthday, agreed and closed the second-largest acquisition in our company's history, achieved new record levels of sales and earnings, met our financial targets for the year – and at the end of 2016, we announced our ambitions and strategic priorities for 2020 and beyond.

We are committed to continue our successful development and create sustainable value based on a strong foundation: We hold top positions with our different businesses in key markets, categories and industry segments around the world and a well-diversified portfolio with strong brands and leading technologies. We have an excellent track record of financial performance and a strong reputation in the financial markets. As a recognized leader in sustainability, we drive progress along the entire value chain – from our suppliers to our customers and consumers. All of this is only possible thanks to a highly engaged and passionate global team, united by a common purpose and strong values.

Strong performance in 2016

In fiscal 2016, we achieved new record levels for sales and earnings and met our financial targets for the year in a challenging and volatile market environment. Our shares again out-performed the DAX.

Henkel Group sales grew to 18,714 million euros compared to 18,089 million euros in the previous year. Organic sales growth was 3.1 percent. Adjusted[1] earnings before interest and taxes (EBIT) grew by 8.5 percent to 3,172 million euros compared to 2,923 million euros. Adjusted return on sales improved to 16.9 percent compared to 16.2 percent. Adjusted earnings per preferred share grew to 5.36 euros, an increase of 9.8 percent compared to 4.88 euros in the previous year.

+3.1 %
organic sales growth.

16.9 %
adjusted[1] return on sales.

+9.8 %
adjusted[1] earnings per preferred share.

All three business units again delivered solid organic growth and further improved their results in 2016. Emerging markets generated total sales of 7,814 million euros and strong organic growth of 6.8 percent. We also achieved positive organic sales growth in our mature markets.

At our Annual General Meeting on April 6, 2017, we will propose to our shareholders a dividend payment of 1.62 euros per preferred share. This represents an increase of 10.2 percent compared to the 1.47 euros paid out in 2016.

In summary, 2016 was a very important and successful year for Henkel: We delivered a strong business performance, strengthened our company and laid the foundation to continue our successful development in the future.

2016 was also a special year for me, personally. In January, the Shareholders' Committee decided to name me as new Chairman of the Management Board of Henkel. After more than 30 years with the company and more than 10 years on the Management Board, I was honored by the trust expressed through this appointment. On May 1, 2016, I took on my new role, committed to continue the successful development of our company in the future together with our strong global team.

At this point, I would also like to thank Kasper Rorsted, Chairman of the Management Board of Henkel from 2008 until 2016, for his significant contribution to Henkel's successful evolution during this period. Under his leadership, our company has become more competitive, more efficient and more successful.

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

Strategy cycle 2013 – 2016

The fiscal year 2016 also marks the end of our strategy cycle 2013 – 2016. For this period, Henkel had defined ambitious financial targets of 20 billion euros in total sales, 10 billion euros of which in emerging markets, and a compound annual growth rate (CAGR) of 10 percent in adjusted earnings per preferred share.

Henkel delivered a strong business performance over the past four years. We delivered good organic sales growth in key markets, gaining market share thanks to our strong brands and innovations. However, we faced substantial negative currency impacts over the four-year period, mostly in emerging markets. The translation to our reporting currency, the euro, had a net negative effect in excess of 1 billion euros on our global sales and of around 1.5 billion euros on our emerging markets sales ambition.

As we continuously improved efficiency, we were able to deliver 9.7 percent adjusted earnings per preferred share CAGR over the period 2013 – 2016 despite significant negative currency impacts on our earnings. This is a very strong performance which differentiates Henkel from its key competitors in both the consumer and the industrial businesses.

Strengthening Henkel

In June 2016, we announced the acquisition of The Sun Products Corporation, based in Wilton, Connecticut, USA, for a total value of around 3.2 billion euros. This is the second-largest acquisition in our company's history. On September 1, we closed the transaction and started the integration process, which is now well underway. The acquisition of The Sun Products Corporation marks a step change for our Laundry & Home Care business, adds highly attractive and established brands to our portfolio and propels Henkel to a strong number 2 position in the United States, the world's largest laundry and home care market, as well as in Canada.

Shaping our successful future: Henkel 2020^{+}

We are proud of our unique company culture, expressed by our purpose, vision, mission and values, which create a clear framework for how we do business, run our company and act responsibly in everything we do.

We want to create sustainable value – for all our stakeholders. This purpose unites our employees and is complemented by a set of strong values: customers and consumers, people, financial performance, sustainability, and family business.

Through to 2020 and beyond, our ambition for Henkel is to generate more profitable growth and to become more customer-focused, innovative, agile and digital. In addition, we will promote sustainability in our business activities along the entire value chain, reinforcing our long-standing commitment to leadership in sustainability.

Over the next four years, we aim to generate average organic sales growth of between 2 and 4 percent. For adjusted earnings per preferred share, our target is a compound annual growth rate (CAGR) of 7 to 9 percent. This ambition for EPS growth includes the impact of currency developments but excludes major acquisitions and share buy-backs. In addition, we will strive to improve our adjusted EBIT margin. We are also aiming for further expansion of our free cash flow.

In order to achieve our ambitions, we have defined four clear strategic priorities: drive growth, accelerate digitalization, increase agility and fund growth. Together with our values, these priorities define our focus areas through to 2020.

We thank you for your continued trust and support

On behalf of the Management Board, I would like to thank all our employees around the world for their passion and relentless focus on driving business success, engaging with our customers and consumers, developing innovative solutions and strengthening our brands. Their commitment makes the difference for our success.

We are grateful to our supervisory bodies for their valuable advice and would also like to thank you, our shareholders, for your continued trust and support. And finally, we would like to thank our customers and consumers around the world for their confidence in our company, our strong brands and leading technologies.

We are fully committed to creating sustainable value for you.

Düsseldorf, January 30, 2017

Sincerely,

Hans Van Bylen
Chairman of the Management Board

"Given our successful business performance and clear strategic priorities, we believe that Henkel is well equipped to face the future."

Dr. Simone Bagel-Trah

Chairwoman of
the Shareholders' Committee
and the Supervisory Board

Dear Shareholders and Friends of the Company,

The economic and political environment in which Henkel operates again proved to be challenging in 2016, with widespread uncertainty prevailing. Global economic growth was no more than moderate overall, and some emerging markets lost momentum. Fluctuations on the currency markets were again severe. In spite of these general conditions, we are very satisfied with developments in fiscal 2016. Henkel's business performance was again strong, with both sales and profits reaching new all-time highs. All of our business units contributed to this success with organic sales growth and a marked improvement in earning power.

In the 140th year since it was founded, Henkel is extremely well placed with its diversified portfolio, leading positions in its markets and categories, and its strong brands and innovative technologies.

On behalf of the Supervisory Board, I would like to thank all of our employees at Henkel for their dedicated commitment and help in securing the continuing successful development of our company. My thanks are equally due to the members of the Management Board who have steered the company successfully through these challenging times. I am also grateful to our employees' representatives and works councils for their unwavering constructive support in growing the company.

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 over this past fiscal year.

Ongoing dialog with the Management Board

In fiscal year 2016, the Supervisory Board continued to discharge its duties diligently in accordance with the legal statutes, Articles of Association and rules of procedure governing our actions. In particular, we consistently monitored the work of the Management Board, advising and supporting it in its stewardship, in the strategic development of the corporation, and in decisions relating to matters of major importance.

In 2016, the Management Board and Supervisory Board continued to cooperate 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. Quarterly reports focused on the sales and profits of Henkel Group as a whole, with further analysis by business unit and region. The members of the Supervisory Board consistently had sufficient opportunity to critically review and address the issues raised by each of these reports and to provide their individual guidance in both the Audit Committee and in plenary Supervisory Board meetings.

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

The Supervisory Board and the Audit Committee each held four regular meetings in the reporting year. One extraordinary meeting of the Supervisory Board was also convened. Attendance at the Supervisory Board and committee meetings was around 95 percent and around 83 percent respectively.

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

Major issues discussed at Supervisory Board meetings

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

In our meeting on February 23, 2016, we focused on approving the annual and consolidated financial statements for 2015, including the risk report and corporate governance report. We also discussed the findings from the Supervisory Board efficiency audit, and approved both the 2016 Declaration of Compliance and our proposals for resolution by the 2016 Annual General Meeting. A detailed report of this was included in our last Annual Report. At the same meeting, we discussed the performance of our business units, the initiatives of our Finance division, and personnel management in Western Europe.

Key items on the agenda for our meeting on April 11, 2016 included the constitution of the Supervisory Board and general business performance in the first few months of the year, together with the status of our ONE!Global Supply Chain project and the initiatives and actions that were put in place in the individual regions to strengthen our global team, such as improved recruitment concepts, flexible work time models, job rotations and training programs. We also addressed the integration of our newly acquired companies.

Our meeting on September 23, 2016 included a detailed discussion of the acquisition and integration of The Sun Products Corporation, a laundry and home care company based in Wilton, Connecticut, USA, and of business performance and market trends in North America. We also addressed issues relating to Henkel's future strategic direction.

In an extraordinary meeting on November 16, 2016, we concentrated specifically on our new strategic priorities that will shape the company up to 2020 and beyond, on the implementation of these priorities in the individual business units and on our financial ambition for the period between 2017 and 2020.

Our meeting on December 9, 2016 focused on the expected results for 2016 and our assets and financial planning for fiscal 2017. We also discussed in detail the associated budgets of our business units based on comprehensive documentation. The challenges that our people face as a result of increasing digitalization formed a further topic for discussion.

Supervisory Board committees

In order to enable us to efficiently comply with the duties incumbent upon us according to legal statute and our Articles of Association, we have established an Audit Committee and a Nominations Committee. The Audit Committee was chaired in the year under review by Prof. Dr. Theo Siegert, who complies with the statutory requirements of impartiality and expertise in the fields of accounting or auditing and brings experience in the application of accounting principles and internal control procedures. For more details on the responsibilities and composition of these committees, please refer to the corporate governance report on pages 29 to 38 and the membership lists on page 185 of this Annual Report.

Committee activities

Following the appointment of the external auditor by the 2016 Annual General Meeting, it was mandated by the Audit Committee to audit the annual financial statements and the consolidated financial statements, and to review the interim financial reports for 2016. The audit fee and focus areas of the audit were also established. The Audit Committee again obtained the necessary validation of auditor independence for the performance of these tasks. The auditor has informed the Audit Committee that there are no circumstances that might give rise to a conflict of interest in the execution of its duties.

The Audit Committee met four times in the year under review. The Chairman of the Audit Committee also remained in regular contact with the auditor outside of the meetings. The meetings and resolutions were prepared through the provision of reports and other information by the Management Board. The Chair of the Committee reported promptly and in full to the plenary Supervisory Board on the content and results of each of the Committee meetings.

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

The Audit Committee also focused in greater detail on the accounting process and the efficacy and further development of the Group-wide Internal Control and Risk Management systems. The efficiency of the risk management system was reviewed, based on the risk reports of previous years. In addition, the Audit Committee received the report of the General Counsel & Chief Compliance Officer regarding major litigations and compliance within the Group, as well as the status report of the Head of Internal Audit, and approved the audit plan prepared and submitted by Internal Audit. This extends to examining the functional efficiency and efficacy of the Internal Control System and our compliance organization. Another key item on the agenda was implementation of the EU Audit Reform: We revised the catalog of permissible non-audit-related services that an auditor may provide, and defined relevant approval processes, including monetary caps. The Audit Committee likewise discussed treasury risks and their management.

At its meeting on February 20, 2017, attended by the auditor, the Audit Committee discussed the annual and consolidated financial statements for fiscal 2016, including the audit reports, the associated proposal for appropriation of profit, and the risk report, and prepared the corresponding resolutions for the Supervisory Board. It also recommended that the Supervisory Board should propose to the Annual General Meeting the election of KPMG as auditor for fiscal year 2017. A declaration from the auditor asserting its independence was again duly received, accompanied by details pertaining to non-audit services rendered in fiscal 2016 and those envisioned for fiscal 2017. There was no evidence of any bias or partiality on the part of the auditor.

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

As already reported, the members of the Nominations Committee prepared the resolution for the Supervisory Board relating to its recommendations for the election of new shareholder representatives at the 2016 Annual General Meeting.

Corporate governance and declaration of compliance

The Supervisory Board again dealt with questions of corporate governance in the reporting year. Details of Henkel's corporate governance can be found in the management report on corporate governance (pages 29 to 38 of this Annual Report), with which we fully acquiesce.

At our meeting on February 21, 2017, we discussed and approved the joint Declaration of Compliance for 2017 to be submitted by the Management Board, Shareholders' Committee and Supervisory Board, as specified in the German Corporate Governance Code [DCGK]. The full wording of the current and previous declarations of compliance can be found on the company website.

Annual and consolidated financial statements / Audit

In its capacity as auditor appointed for 2016 by the Annual General Meeting, KPMG examined the annual financial statements prepared by the Management Board in accordance with the provisions of the German Commercial Code [HGB], 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 2016. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), and in accordance with the supplementary German statutory provisions pursuant to Section 315a (1) of the HGB. The consolidated financial statements in their present form exempt us from the requirement to prepare consolidated financial statements in accordance with German law.

KPMG conducted its audits in accordance with Section 317 of the 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 both the annual and the consolidated financial statements.

The annual financial statements, consolidated financial statements and combined management report, the audit reports of KPMG and the recommendations by the Management Board for the appropriation of the profit made by Henkel AG & Co. KGaA were presented in good time to all members of the Supervisory Board. We examined these documents and discussed them at our meeting on February 21, 2017. This was attended by the auditor, which reported on its main audit findings. We received and approved the audit reports. The Chair of the Audit Committee provided the plenary session of the Supervisory Board with a detailed account of the treatment of the annual financial statements and the consolidated financial statements by the Audit Committee. Having received the final results of the review conducted by the Audit Committee and concluded our own examination, we see no reason for objection to the aforementioned documents. We have agreed to the results of the audit. The assessment by the Management Board of the position of the company and the Group coincides with our own appraisal. At our meeting on February 21, 2017, we concurred with the recommendations of the Audit Committee and therefore approved the annual financial statements, the consolidated financial statements and the combined management 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 1.60 euros per ordinary share and of 1.62 euros per preferred share, and to carry the remainder and the amount attributable to the treasury shares held by the company at the time of the Annual General Meeting forward to the following year. This proposal takes into account the financial and earnings position of the corporation, its medium-term financial and investment planning, and the interests of our shareholders.

In our meeting on February 21, 2017, we also ratified our proposal for resolution by the Annual General Meeting relating to the appointment of the external auditor for the next fiscal year, based on the recommendations of the Audit Committee. Neither the recommendation by the Audit Committee nor the Supervisory Board's proposal to elect KPMG as auditor for 2017 were unduly influenced by any third party; nor were agreements reached that might have restricted the choice of possible auditors.

Risk management

Risk management issues were examined not only by the Audit Committee but also the plenary Supervisory Board, with emphasis on the risk management system in place at Henkel and any major individual risks of which we needed to be notified. There were no identifiable risks that might jeopardize the continued existence of the corporation as a going concern. The structure and function of the risk early warning system were also integral to the audit performed by KPMG, which found no cause for reservation. It is also our considered opinion that the risk management system corresponds to the statutory requirements and is fit for the purpose of early identification of developments that could endanger the continuation of the corporation as a going concern.

Changes in the Supervisory Board and Management Board

A number of changes took place in the composition of the Supervisory Board and Management Board, some of which we already reported on last year.

Béatrice Guillaume-Grabisch resigned from the Supervisory Board effective end of business on March 31, 2016. Boris Canessa and Ferdinand Groos left the Supervisory Board following the routine election of new shareholder representatives by the 2016 Annual General Meeting. Johann-Christoph Frey, Benedikt-Richard Freiherr von Herman and Timotheus Höttges were newly appointed to the Supervisory Board; all other shareholder representatives were re-elected.

During its constituent meeting, I was elected to chair the Supervisory Board, and Winfried Zander was confirmed as Vice Chair. We also made new appointments to the Audit and Nominations Committees.

Effective January 1, 2017, Mayc Nienhaus, employee representative, left the Supervisory Board and was replaced by Angelika Keller.

Kasper Rorsted left the company on April 30, 2016, at his own request. Hans Van Bylen was appointed new Chairman of the Management Board with effect from May 1, 2016.

Hans Van Bylen started his successful career at Henkel back in 1984 and has many years of experience managing different businesses of Henkel at international level. Prior to his appointment as Chairman of the Management Board, he had held responsibility on the Management Board for our Beauty Care business unit since 2005.

Pascal Houdayer, who had previously held the position of Corporate Senior Vice President in the Laundry & Home Care business unit since 2011, was appointed to the Management Board effective March 1, 2016, and succeeded Hans Van Bylen as Executive Vice President with lead responsibility for the Beauty Care business unit as of May 1, 2016.

We thanked the departing members of the Supervisory Board and Management Board – some of whom had been members for many years – for their successful dedication to the interests of the company. Our particular thanks go to Kasper Rorsted, who spent eight of his eleven years on the Management Board as Chairman, for driving Henkel's successful business performance.

We are delighted to close fiscal 2016 on a successful note. At the same time, we expect 2017 and beyond to pose further challenges for both our employees and the company's management. Given our successful business performance and clear strategic priorities, we believe that Henkel is well equipped to face the future.

We thank you for your ongoing trust and support.

Düsseldorf, February 21, 2017

On behalf of the Supervisory Board

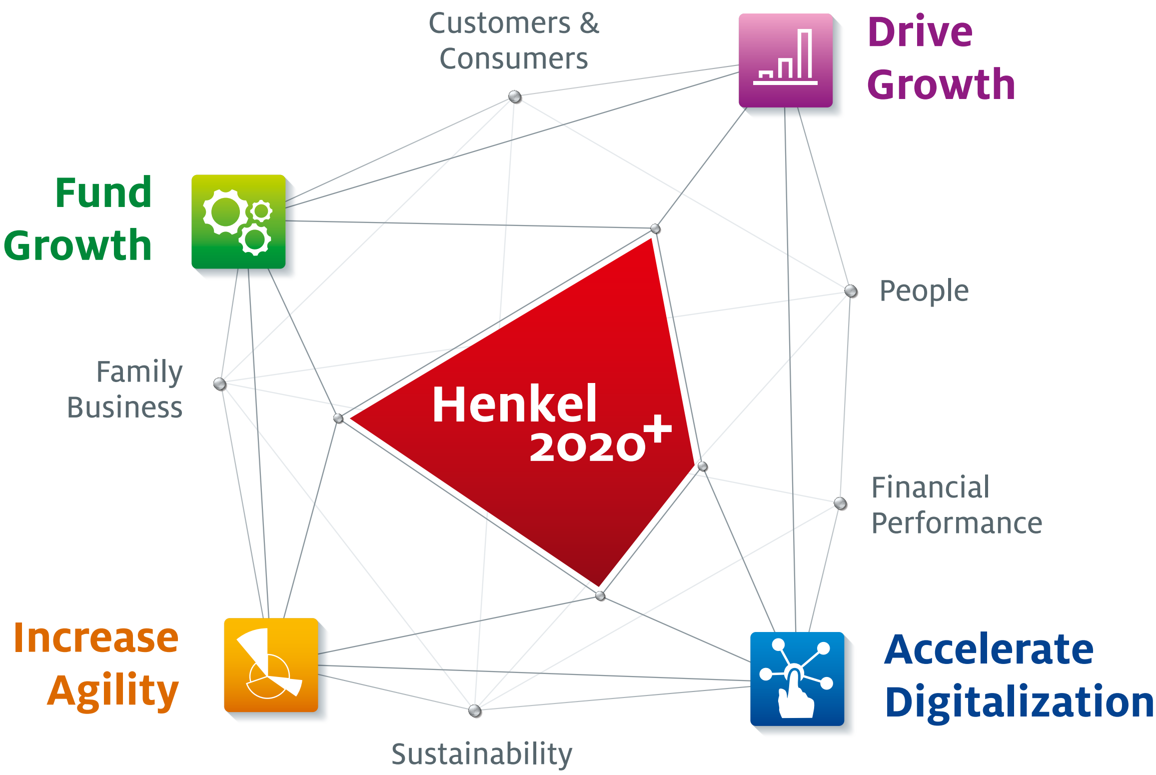
Simone Bagel-Trah

Dr. Simone Bagel-Trah
(Chairwoman)

Henkel 2020+

Clear priorities for the future

We shape our future guided by a clear, long-term strategy based on our purpose, our vision, our mission and our values.



Drive growth

Driving growth in mature and emerging markets will be a key strategic priority for Henkel. In order to achieve this, we will focus on targeted initiatives to create superior customer and consumer engagement, strengthen our leading brands and technologies, develop exciting innovations and services, and capture new sources of growth.

Accelerate digitalization

Accelerating digitalization will help us to successfully grow our business, strengthen the relationships with our customers and consumers, optimize our processes and transform the entire company. By 2020, we will implement a range of initiatives to drive our digital business, leverage Industry 4.0, and eTransform the organization.

Increase agility

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

Fund growth

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

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

We have a clear ambition for our future: We want to generate sustainable profitable growth through to 2020 and beyond. To achieve this, we want to become more customer-focused, more innovative, agile and digital. In addition, we aim to promote sustainability in all our business activities, reinforcing our leading positions in the future.

Over the next four years, we are aiming to achieve average organic sales growth of between 2 and 4 percent. For adjusted earnings per preferred share, we are targeting a compound annual growth rate (CAGR) of 7 to 9 percent. This ambition for EPS growth includes the impact of currency developments but excludes major acquisitions as well as share buy-backs. In addition, we are aiming for continued improvements of our EBIT margin and free cash flow expansion.

In order to achieve our ambitions, we will be focusing on four strategic priorities over the coming years: drive growth, accelerate digitalization, increase agility and fund growth.

We are also pursuing ambitious sustainability targets. We want to reinforce our commitment to sustainability and improve our resource efficiency. With this goal in mind, we have set challenging interim targets through to 2020: Compared to the base year 2010, we are aiming for an overall efficiency improvement of 75 percent by 2020. In addition, we want to train all employees worldwide to become sustainability ambassadors.

Henkel 2020+

Fully engaged

In a series of employee meetings around the world at the end of 2016, the Management Board presented and discussed in detail the ambition and strategic direction of Henkel through to 2020 and beyond. This has laid the foundation for all our people worldwide to fully engage with our strategic priorities.

In Düsseldorf, Germany

In Vienna, Austria

In Santa Fe, Mexico City, Mexico

Hans Van Bylen

Chairman of the
Management Board

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

Carsten Knobel

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

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

Kathrin Menges

Executive Vice President
Human Resources /
Infrastructure Services

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

In Shanghai, China

Jan-Dirk Auris

Executive Vice President
Adhesive Technologies

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

In Moscow, Russia

Pascal Houdayer

Executive Vice President
Beauty Care

Born in Eaubonne, France
on July 5, 1969;
with Henkel since 2011.

In Milan, Italy

Bruno Piacenza

Executive Vice President
Laundry & Home Care

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

Adhesive Technologies

Global leader

Modern adhesive technologies make a difference in virtually all areas of business activity and our everyday lives: from smartphones to food packaging, from cars to airplanes, from construction to industrial plants. Around the world, we offer high-impact solutions and products as the leading supplier of adhesive technologies.

Together with our customers, our experts develop pioneering innovations and customized products that generate competitive advantages and create sustainable value.

For example, Henkel has been a partner in the aviation and aerospace industry for more than 40 years, predominantly for its high-performance adhesives and system solutions for surface treatment applications.

Our compound and structural adhesives allow increased use of lightweight construction materials made of carbon and glass fibers in aircraft engineering. They enable wings, tail components and fuselage segments to bear loads ten times greater than the capacity of equivalent conventional metal structures.

We have, for example, a long-standing partnership with Airbus built on our exceptional technological expertise and innovative strengths. The photo taken in the Airbus assembly hall in Hamburg shows Guido Adolph from Henkel (right) discussing the optimal application of our 2C adhesive, Loctite EA 9394, with Andre Aldag, who heads up the Manufacturing Engineering team at Airbus.

www.annualreport.henkel.com/stories/adhesive-technologies


Schwarzkopf
PROFESSIONAL
Schwarzkopf
PROFESSIONAL

Beauty Care

Passion for hair

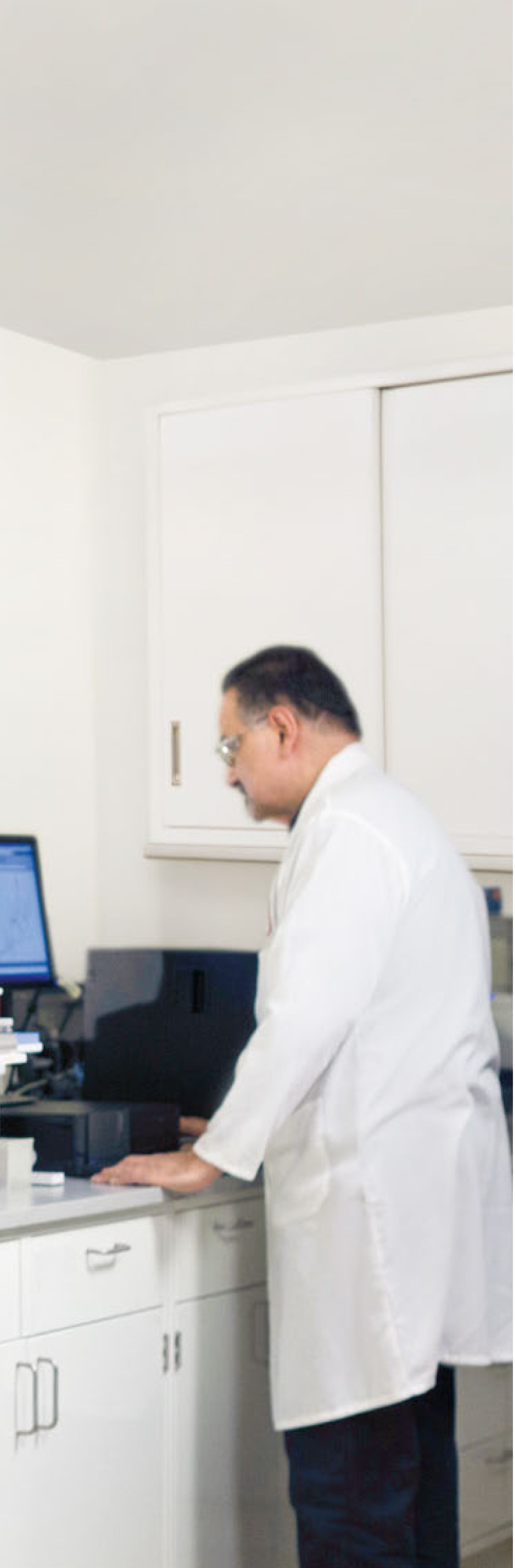
Our mega-brand Schwarzkopf generates more than 2 billion euros in sales per year and is the core of our Beauty Care business unit. For almost 120 years, Schwarzkopf has been setting trends, defining new looks and developing successful innovations for millions of consumers around the world as well as for professional hairdressers.

Schwarzkopf Professional, the Hair Salon business of our Beauty Care business unit, works with more than 500,000 clients globally. With our strong "passion for hair," we support our partners, the hairdressers, in successfully running and growing their salon business – with our innovative products but also with inspiration for new creations, technical training and business advice. The world of hairdressing is constantly evolving and successfully developing with new global techniques, trends and innovations.

The Berendowicz & Kublin salon in Warsaw, Poland, has been working with Schwarzkopf Professional since 2013. In our photo, salon owner Emil Zawisza (left) is discussing the new BC Fibre Force product range with Magdalena Wieczorek and Jaroslaw Szendera from Schwarzkopf Professional after applying it to his client's hair. Schwarzkopf Professional's Bonding Technology instantly recreates the function of missing bonds in the hair matrix, deeply reconstructing and sealing each individual hair strand for superior hair quality and resistance to breakage.

www.annualreport.henkel.com/stories/beauty-care


Persil
PROCLEAN
2in1
all
OXI
Snuggle
all
Purex
NEW!
Snuggle
PLUS
SuperFresh



Laundry & Home Care

Attractive brands

Our Laundry & Home Care business unit has been considerably strengthened by the acquisition of The Sun Products Corporation in 2016. As a result of this acquisition, Henkel is the second-largest laundry products supplier in North America – the world's biggest laundry care market.

North America is Henkel's largest market. We generate around 25 percent of our Group sales there. The acquisition of Sun Products marks an important step forward for Henkel in North America and is, moreover, of significant strategic importance for our Laundry & Home Care business unit.

The strong and attractive brands of Sun Products such as All and Snuggle as well as laundry detergent brands for leading retail chains complement and strengthen our attractive product portfolio in the world's biggest laundry care market. By combining our businesses, we will be able to better leverage our capacity for innovation and further improve the services we offer our customers and consumers.

During the course of 2017, the consumer goods businesses of Henkel and Sun Products will be merged into a new shared site in Stamford, Connecticut, USA.

At our research facility in Trumbull, Connecticut, USA, Jens-Martin Schwärzler (second from right), President Henkel Consumer Goods in North America, discusses innovations in our joint portfolio with Bibie Wu, Marketing, and Charles Crawford, Ph. D. (left), Product Development. Right: Senior scientist Michael Crisanti.

www.annualreport.henkel.com/stories/laundry-and-home-care


Bar Chart
Compare
Actions
Edit
Line Chart
Graph Curves
Bar Chart

Finance

Excellence in Finance

Excellent financial performance is essential to securing our ongoing success. It allows us to continue to effectively fund growth. We have ambitious targets for the future, and we want to further improve all our key financials.

In September 2016, Henkel placed bonds with a total value of 2.2 billion euros on the capital market to fund the acquisition of The Sun Products Corporation. Henkel was the first DAX corporation in Germany to issue bonds with negative yields, which reflects the confidence that the market has in our financial strength, profitability and credit quality. Henkel has excellent "Single A" ratings, and we aim to maintain them going forward.

Financial KPIs are essential tools in successfully steering our business. Our Treasury department analyzes and assesses relevant key ratios in real time in order to make the right decisions in a volatile market environment. This requires both efficient processes and agile structures. Standardizing and digitalizing the workflows of our global purchasing and supply chain activities and throughout the entire Finance function will reduce complexity, accelerate processes and increase efficiency.

The photo shows Dr. Michael Reuter (standing), Head of Treasury, discussing the latest performance of key international financial market indicators with his team. From the left: Renate Ohmen, Wenwen Liao and Derk Wetzold.

www.annualreport.henkel.com/stories/finance


140 YEARS OF HE

People

Proud team

Henkel employees around the world continuously demonstrate their great commitment and passion for the company. Our shared values, a strong entrepreneurial spirit and long-term strategic orientation have been shaping the culture at Henkel for more than 140 years. We are very proud of this heritage.

To celebrate “Henkel Day” on September 26, 2016, a broad range of events were organized for our people at Henkel sites around the world – exactly 140 years to the day after Henkel was founded in 1876. Photo and video initiatives on Yammer, our internal social network, team activities and fund-raising events for social projects – these are just some of the numerous ways in which our employees demonstrated their pride in our company’s unique history and the passion they put into bringing our values to life. In Shanghai, China, where our Asia-Pacific region is headquartered, Jeremy Hunter, President Henkel China, Louise Cheung (left), Head of Corporate Communications Asia-Pacific, and Cynthia Yang, Head of Shared Service Center Shanghai, take a 140 years celebration photo.

We also prepared a digital record of our company’s history to mark its anniversary. It features our most important brands, technologies and innovations, together with the people who have steered the company through the decades.

www.timeline.henkel.com

www.annualreport.henkel.com/stories/people


LOCTITE 263

Sustainability

New ways

For us, acting sustainably is more than just a duty; it is a passion. We want to make processes along our entire value chain more sustainable – together with our suppliers, in our supply chain, and with our customers and consumers. To do this, we are constantly seeking new ways to further increase our performance in all dimensions.

In 2016, we started partnering with TerraCycle in North America. The company provides recycling solutions for materials for which there are currently no collection systems or which are typically non-recyclable – due to product residue in packaging, for example. Customers of our Adhesive Technologies business unit can now recycle their used adhesives packaging. Empty Loctite specialty adhesive bottles are collected in dedicated recycling boxes and sent to TerraCycle. Any residual adhesive is then removed using a special process developed jointly with Henkel. The cleaned bottles are melted down and processed into pellets that are used to manufacture new products such as garbage cans, watering cans or yard furniture. Plans are underway to introduce this recycling method in Europe.

The photo taken at TerraCycle headquarters in Trenton, New Jersey, USA, shows TerraCycle's Rhandi Goodman demonstrating how to handle the recycling boxes to her project partners from Henkel, Simon Mawson (left) and Chris Stanford.

www.annualreport.henkel.com/stories/sustainability

Combined management report

Corporate governance at Henkel AG & Co. KGaA

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

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

Corporate governance report / Statement on corporate governance

The German Corporate Governance Code [DCGK] was introduced in order to promote confidence in the management and oversight of listed German corporations. It sets out the nationally and internationally recognized regulations and standards of responsible corporate governance applicable in Germany. The DCGK is aligned to the statutory provisions applicable to a German joint stock corporation ("Aktiengesellschaft" [AG]). It is applied analogously by Henkel AG & Co. KGaA (the corporation). For a better understanding of Henkel's situation, this report describes the principles underlying the management and control structure of the corporation. It also outlines the special features distinguishing us from an AG which derive from our specific legal form and our Articles of Association. The primary rights of shareholders of Henkel AG & Co. KGaA are likewise explained. The report takes into account the recommendations of the DCGK and contains all disclosures and explanations required according to Sections 289 (4), 289a and 315 (4) and (5) of the German Commercial Code [HGB].

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

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

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

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

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

According to our Articles of Association, in addition to the Supervisory Board, Henkel also has a standing Shareholders' Committee comprising a minimum of five and a maximum of 10 members, all of whom are elected by the Annual General Meeting (Art. 27 of the Articles of Association). The Shareholders' Committee is required in particular to perform the following functions (Section 278 (2) AktG in conjunction with Sections 114 and 161 HGB, and Articles 8, 9 and 26 of the Articles of Association):

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

Capital stock denominations / Shareholder rights / Amendments to the Articles of Association

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, of which 259,795,875 are ordinary bearer shares (nominal proportion of capital stock: 1 euro per ordinary share or a total of 259,795,875 euros, representing 59.3 percent) and 178,162,875 are preferred bearer shares (nominal proportion of capital stock: 1 euro per preferred share or a total of 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 (Section 140 (1) AktG). The preferred shares carry the following preferential right in the distribution of profit (Section 139 (1) AktG in conjunction with Art. 35 (2) of the Articles of Association) unless otherwise resolved by the Annual General Meeting:

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

The shareholders exercise their rights in the Annual General Meeting as per the relevant statutory provisions and the Articles of Association of Henkel AG & Co. KGaA. In particular, they may exercise their right to vote (ordinary shares only) – 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 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 amounts to 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 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 nominated by the corporation for exercising their voting rights. The reports, documents and information required by law for the Annual General Meeting, including the financial statements and annual reports, are made available on the internet, as are the agenda for the Annual General Meeting and any countermotions or nominations for election by shareholders that require publication.

Unless otherwise mandated by statute or the Articles of Association, the resolutions of the Annual General Meeting 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 Articles 5 and 6 of the Articles of Association with respect to each use of the Authorized Capital and upon expiration of the term of the authorization.

Authorized Capital / Share buy-back / Treasury shares

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

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

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

In addition, the Personally Liable Partner is authorized to purchase ordinary and/or preferred shares of the corporation at any time until April 12, 2020, up to a maximum nominal proportion of the capital stock of 10 percent. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may, in particular, be transferred to third parties for the purpose of acquiring entities or participating interests of entities. Treasury shares may also be sold to third parties against payment in cash, provided that the selling price is not significantly below the quoted market price at the time of share disposal. Treasury shares may likewise be used to satisfy warrants or conversion rights granted by the corporation. The Personally Liable Partner has also been authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to cancel treasury shares without the need for further resolution by the Annual General Meeting.

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

Concerning the number of treasury shares and their use, please refer to the disclosures provided in the notes to the consolidated financial statements under Note 10 on pages 139 and 140.

Restrictions with respect to voting rights or the transfer of shares

Treasury shares held by the company do not convey any rights, including voting rights (Section 71b AktG). Voting rights conveyed by the relevant shares are also excluded by law in the instances listed in Section 136 AktG.

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

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

Contractual agreements also exist with members of the Management Board governing lock-up periods for Henkel preferred shares which they are required to purchase out of their variable annual cash remuneration (for additional information, please see the remuneration report on pages 39 to 51).

Major shareholders

61.02 %

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

According to notifications received by the corporation on December 17, 2015, a total of 61.02 percent of the voting rights are held by members of the Henkel family share-pooling agreement. (For additional information, please see the disclosures provided in the notes to the consolidated financial statements under Note 40 on page 177.) No other direct or indirect investment in capital stock exceeding 10 percent of the voting rights has been reported to us or is known to us.

Shares with special rights

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

Management Board

The Supervisory Board of Henkel Management AG is responsible for the appointment and dismissal of members of the Management Board of Henkel Management AG (Management Board). The appointments are for a maximum tenure of five years. A reappointment or extension of the tenure is permitted for a maximum period of five years in each case (Section 84 AktG).

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

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

It is the duty of the Management Board to prepare the annual financial statements of Henkel AG & Co. KGaA, the consolidated and interim financial statements and also the corresponding management reports. The Management Board is responsible for management of the overall business including planning, coordination, allocation of resources, financial control, and risk management. It must also ensure compliance with legal provisions, regulatory requirements and internal company guidelines, and take steps to ensure that Group companies also observe them.

Supervisory Board and Shareholders' Committee; other committees

It is the responsibility of the Supervisory Board to advise and supervise the Management Board in the performance of its business management duties. The Supervisory Board regularly discusses business performance and planning with the Management Board. It reviews the annual financial statements of Henkel AG & Co. KGaA and the Group's consolidated financial statements as well as the associated management reports, 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 indicating its recommendation for the appointment of the external auditor.

As a general rule, the Supervisory Board meets four times per year. It passes resolutions by a simple majority of the votes cast. In the event of a tie, the Chairperson has the casting vote. The Supervisory Board has established an Audit Committee and a Nominations Committee.

The Audit Committee is made up of three shareholder and three employee representative members of the Supervisory Board. Each member is elected by the Supervisory Board based on nominations of their fellow shareholder or fellow employee representatives on the Board. The Chairperson of the Audit Committee is elected based on a proposal of the shareholder representative members. It is a statutory requirement that at least one independent member of the Supervisory Board has expertise in the fields of accounting or auditing. The Chairperson of the Audit Committee in 2016, Prof. Dr. Theo Siegert, who is not the Chairperson of the Supervisory Board nor a present or former member of the Management Board, satisfies these requirements.

The Audit Committee, which generally meets four times a year, prepares the proceedings and resolutions of the Supervisory Board relating to the adoption of the annual financial statements and the consolidated financial statements, and also the auditor appointment proposal to be made to the Annual General Meeting. It issues audit mandates to the auditor and defines the focal areas of the audit as well as deciding on the fee for the audit and other advisory services provided by the auditor. It monitors the independence and qualifications of the auditor, requiring the latter to submit a declaration of independence which it then evaluates. Furthermore, the Audit Committee monitors the 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. It discusses with the Management Board – with the external auditor in attendance – the quarterly reports and the financial report for the half year, prior to their publication.

The Nominations Committee comprises the Chairperson of the Supervisory Board and two further shareholder representatives elected by the Supervisory Board based on nominations of the shareholders' representatives. The Chairperson of the Supervisory Board is also Chairperson of the Nominations Committee. The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members to the Supervisory Board (shareholder representatives).

The Shareholders' Committee generally meets six times per year and holds a joint conference with the Management Board lasting several days. The Shareholders' Committee reaches its decisions by a simple majority of the votes cast. It has established Finance and Human Resources Subcommittees that likewise meet six times per year, as a rule. Each subcommittee comprises five of the members of the Shareholders' Committee.

The Finance Subcommittee deals primarily with financial matters, questions of financial strategy, financial position and structure, taxation and accounting policy, as well as risk management within the corporation. It also performs the necessary preparatory work for decisions to be made by the Shareholders' Committee in matters for which decision authority has not been delegated to it.

The Human Resources Subcommittee deals primarily with personnel matters relating to members of the Management Board, with issues pertaining to human resources strategy, and with remuneration. It performs the necessary preparatory work for decisions to be made by the Shareholders' Committee in matters for which decision authority has not been delegated to it. The Subcommittee also addresses issues concerned with succession planning and management potential within the individual business units, taking into account relevant diversity aspects.

At regular intervals, the Supervisory Board and the Shareholders' Committee hold an internal review to determine the efficiency with which they and their committees/subcommittees carry out their duties. This self-assessment is performed on the basis of an extensive checklist, whereupon points relating to corporate governance and improvement opportunities are also discussed.

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

Some members of the Supervisory Board and of the Shareholders' Committee are or were in past years holders of senior managerial positions in other companies. If and when Henkel pursues business activities with these companies, the same arm's length principles apply as those applicable to transactions with and between unrelated third parties. In our view, such transactions do not affect the impartiality of the members in question.

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

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

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

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

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

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

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

Our purpose:
- Creating sustainable value.

Our vision:
- Leading with our innovations, brands and technologies.

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

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

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

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

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

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

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

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

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

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

Transparency / Communication

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

Up-to-date information is likewise incorporated in the regular financial reporting undertaken by the corporation. The dates of the major recurring publications, and also the dates for the press conference on the preceding fiscal year and the Annual General Meeting, are announced in our financial calendar, which is also available on the internet.

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

Further information on corporate governance can be found in the section **“Principles of corporate governance / Compliance”** on pages 34 and 35. The composition of the Management Board is shown on page 187. For more details on the composition of the Supervisory Board and the Shareholders’ Committee or the (sub)committees established by the Supervisory Board and Shareholders’ Committee, please refer to pages 184 to 186. Details of the compensation of the Management Board, the Supervisory Board and the Shareholders’ Committee can be found in the remuneration report on pages 39 to 51.

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. Each deadline must be within five years and the first deadline can be no later than June 30, 2017.

Proportion of women on the Management Board

In September 2015, for the first time, the Supervisory Board of Henkel Management AG established a target for the proportion of women on the Management Board of 17 percent in agreement with the recommendations of the Shareholders’ Committee and its Human Resources Subcommittee. This target applied until December 31, 2016.

The proportion of women on the Management Board at December 31, 2016 was 17 percent; as such, the target was met.

The Supervisory Board of Henkel Management AG has again 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.

Proportion of women in the management levels below the Management Board

In September 2015, for the first time, the Management Board established the following targets for the first two levels of management below the Management Board in consideration of the current personnel mix.

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 2016, we were again able to raise the proportion of women in management worldwide – to around 34 percent overall at December 31, 2016.

The following targets were set for achievement by December 31, 2016:
- First management level: Proportion of 17 percent women
- Second management level: Proportion of 28 percent women

As of December 31, 2016, the target of 17 percent for the first management level of Henkel AG & Co. KGaA had been exceeded by around 5 percentage points and the target of 28 percent for the second management level had been met.

Since our organization is globally structured, and we promote career opportunities internationally, some management executives were assigned from Henkel AG & Co. KGaA to other Group companies, and vice versa, during the reporting period. This may also cause shifts in the proportion of women in the relevant management levels at Henkel AG & Co. KGaA. Equally, the result is not dependent on whether the proportion of women in management overall has changed or, as explained above, even increased at the global level.

Based on the current personnel mix, the Management Board has established new targets for the first two levels of management below the Management Board. These targets are expected to be achieved by December 31, 2021:
- First management level: Proportion of 25 percent women
- Second management level: Proportion of 30 percent women

In accordance with the legal requirements, the point of reference for the definition of the management levels was based exclusively on Henkel AG & Co. KGaA and not the Henkel Group. 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).

Objectives regarding Supervisory Board composition

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

In consideration of the specific situation of the corporation, the Supervisory Board has, in addition to the statutory requirements listed above, established the objectives described below with respect to its composition in accordance with Item 5.4.1 of the German Corporate Governance Code [DCGK]. These objectives will be taken into account by the Supervisory Board when proposing election candidates to the Annual General Meeting for all re-electable and ad hoc replacement Supervisory Board positions:

- The members of the Supervisory Board should, generally speaking, offer the knowledge, skills and relevant experience necessary in order to properly perform their duties. In particular, experience and expertise are required in one or several of the fields of corporate management, accounting, financial control/risk management, corporate governance/compliance, research and development, production/engineering, and marketing/sales/distribution, as is knowledge of the industrial or consumer businesses and of the primary markets in which Henkel is active. Members of the Supervisory Board should also have sufficient time at their disposal in order to carry out their mandate.
- The international activities of the corporation should be appropriately reflected in the composition of the Supervisory Board. Thus, it aims to include several members with an international background. The mix of candidates proposed for election should also contain an appropriate number of women. Efforts will therefore be made for upcoming new and ad hoc replacement elections to achieve a proportion higher than the minimum 30 percent required by law.
- In addition, the Supervisory Board should have an appropriate number of independent members. Specifically, the Supervisory Board should contain no more than two former members of the Management Board, no persons who perform board or committee functions or act as consultants for major competitors, and no 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. Assuming that the exercise of their Supervisory Board mandate by the employee representatives as such cannot be the basis for doubt as to whether the independence criteria as defined by Item 5.4.2 of the DCGK are fulfilled, the Supervisory Board should include at least 13 members who are independent as defined by the DCGK. Consistent with the corporation's tradition as an open family business, possession of a controlling interest or attribution of a controlling interest due to membership in the Henkel family share-pooling agreement is not viewed as a circumstance that creates a conflict of interest in the meaning above. However, irrespective of this, at least three of the shareholder representatives on the Supervisory Board should, as a rule, be neither members of the Henkel family share-pooling agreement nor members of the Shareholders' Committee nor members of the Supervisory Board of Henkel Management AG.
- No persons shall be proposed for election at the Annual General Meeting who, at the time of the election, have already reached their 70th birthday. Also, as a rule, no persons should be proposed who, at the time of the election, have already served more than two full terms of office on the Supervisory Board. However, to ensure continuity, members may also serve on the Supervisory Board for longer periods of time in individual cases. Consistent with the tradition of Henkel AG & Co. KGaA as an open family business, this applies particularly to members of the Henkel family share-pooling agreement.

Around 38 %

female membership on the Supervisory Board.

The statutory minimums listed above, or objectives within the meaning of the DCGK, were achieved in the year under review.

Among the 16 members of the Supervisory Board are ten men and six women. Shareholder representatives consist of six men and two women, while the employee representatives consist of four men and four women. This represents an overall ratio on the Supervisory Board of around 62 percent men and 38 percent women. Throughout the entire year under review, each gender was represented by at least 30 percent among both the shareholder representatives and the employee representatives.

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

None of the Supervisory Board members elected by the Annual General Meeting is a former Management Board member, or performs board or committee functions or acts as a consultant for major competitors, and none are persons whose business or personal relationship with the corporation or members of the Management Board could give rise to material conflicts of interest that are not of a merely temporary nature. Four of the eight shareholder representatives are not members of the Henkel family share-pooling agreement, and seven of the eight shareholder representatives are neither members of the Shareholders' Committee nor members of the Supervisory Board of Henkel Management AG.

Application of the German Corporate Governance Code

Taking into account the special features arising from our legal form and Articles of Association, Henkel AG & Co. KGaA complies with the recommendations ("shall" provisions) of the DCGK, latest edition, with one exception: So as to protect the legitimate interests and privacy of those members of the corporate management bodies who are also members of the Henkel family, in deviation from Item 6.3 of the DCGK as amended on May 5, 2015, the shareholdings of those members exceeding one percent of the shares issued by the corporation have not been and will not be disclosed unless required by law. The DCGK requires disclosure of shareholdings upward of one percent. In accordance with the Declaration of Compliance, the following information is reported concerning the aggregate shareholdings of all members of a corporate body, taking the relevant provisions for attribution into account: The aggregate holdings of the members of the Supervisory Board and of the members of the Shareholders' Committee exceed in each case one percent of the shares issued by the corporation. The members of the Management Board together hold less than one percent of the shares issued by the corporation.

Henkel also complies with all non-compulsory suggestions ("may/should" provisions) of the DCGK, in keeping with our legal form and the special statutory features anchored in our Articles of Association.

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

Managers' transactions

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

Statutory and regulatory situation

As a globally active corporation, our business is subject to various national rules and regulations, including relevant trade regulations governing imports and exports, customs provisions and price or currency restrictions, as well as – within the European Union (EU) – increasingly to harmonized laws applying throughout the EU. Trade restrictions, such as export controls, embargoes or economic sanctions, must also be observed in some countries. In addition, some of our activities 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 equipment 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.

Our internal standards are geared to ensuring compliance with statutory regulations and the safety of our manufacturing facilities and products. The associated requirements have been incorporated within, and implemented throughout, our management systems, and are subject to a regular audit and review regime. This includes monitoring and evaluating relevant statutory and regulatory requirements and changes in a prompt and timely fashion.

Remuneration report

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

The report takes into account the recommendations of the German Corporate Governance Code [DCGK] and contains all disclosures and explanations pursuant to the provisions of the German Commercial Code [HGB] and the appropriate principles of German Accounting Standards [DRS], and as required by International Financial Reporting Standards (IFRS). The remuneration report forms part of the combined management report for Henkel AG & Co. KGaA and the Group; the associated information has not therefore been additionally disclosed in the notes to the consolidated financial statements.

1. Remuneration of members of the Management Board

Regulation, structure and amounts

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

The structure and amounts of Management Board remuneration are aligned to the size and international activities of the corporation, its economic and financial position, its performance and future prospects, the normal levels of remuneration encountered in comparable companies, and also the general compensation structure within the corporation. The compensation package is further determined on the basis of the functions, responsibilities and personal performance of the individual executives, and the performance of the Management Board as a whole. The variable annual remuneration components have been devised such that they take into account both positive and negative developments. The overall remuneration mix is designed to be internationally competitive while also providing an incentive for sustainable business development and a sustainable increase in shareholder value in a dynamic environment.

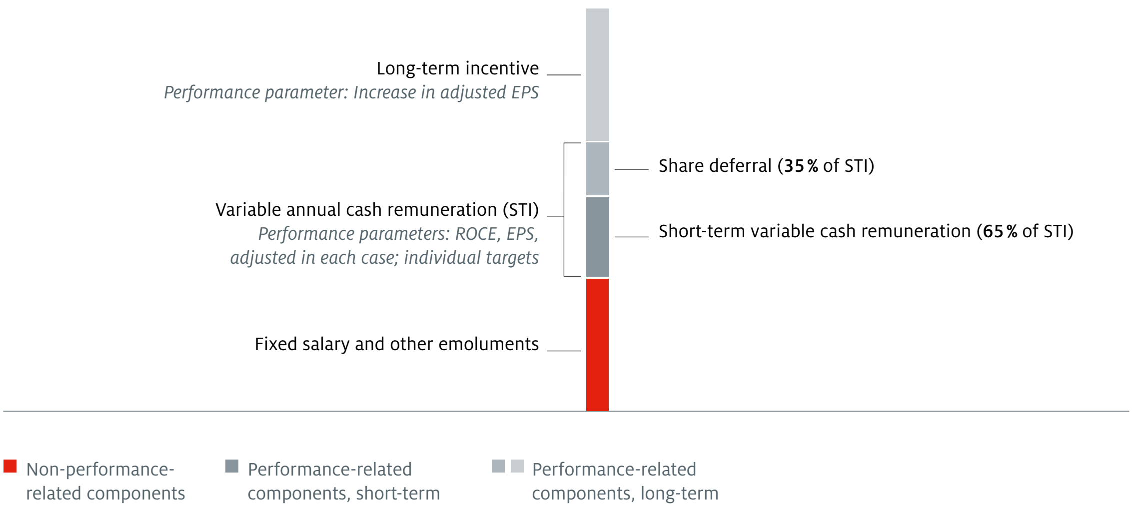
The Supervisory Board of Henkel Management AG regularly reviews the compensation system as well as the appropriateness of the compensation, based on the aforementioned criteria. In doing so, Management Board remuneration is analyzed relative to the compensation paid to senior management and the staff as a whole, both overall and over time, whereby the Supervisory Board of Henkel Management AG determines the boundaries between senior management and relevant staff members.

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

If all performance targets are met in full ("at target"), around 21 percent of the remuneration (excluding

Remuneration structure

10



other emoluments and pension benefits) is paid as the fixed component, while the STI and share deferral account for around 56 percent, and the LTI for around 23 percent.

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

The components in detail:

Non-performance-related compensation

Fixed salary

The fixed remuneration takes into account the assigned function and responsibility and the market conditions. It is paid out monthly as salary and amounts to 1,200,000 euros per year for the Chairman of the Management Board and 750,000 euros per year for the other Management Board members.

Other emoluments

The members of the Management Board also receive other emoluments, primarily in the form of costs associated with, or the cash value of, in-kind benefits and other fringe benefits such as standard commercial insurance policies, reimbursement of accommodation/moving costs, provision of a company car or use of a car service, including any taxes on same, and the costs of preventive medical examinations. All members of the Management Board are entitled, in principle, to the same emoluments, whereby the amounts vary depending on personal situation.

Performance-related compensation

Variable annual cash remuneration

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

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

Thresholds have been defined for both key financials; payment is withheld if the minimum targets are not met. If adjusted EPS in the year of payment is more than 25 percent above or below the comparable prior-year figure as a result of extraordinary events, the Supervisory Board of Henkel Management AG may, at its discretion and after due consideration, decide to adjust the target within this corridor, or may determine a new reference value for measuring performance in the following year.

The STI is calculated on the basis of a 40-percent weighting each of ROCE and EPS performance in the year of payment, and a 20-percent weighting of individual targets. The following factors play a key role in measuring individual performance: the Group results and the results of the relevant business unit, the quality of management demonstrated in those business units, and the individual contribution made by the Management Board member concerned. The application of these performance parameters ensures that profitable growth is duly rewarded by Henkel.

In determining the STI, the Supervisory Board of Henkel Management AG also takes into account the apparent sustainability of the economic performance delivered in the course of the year, and the performance levels of the Management Board members.

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

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

The STI is paid annually in arrears in the full amount in cash once the corporation's annual financial statements have been approved by the Annual General Meeting. The recipients can dispose of around 65 percent of this payment as they wish. This constitutes their short-term variable cash remuneration. The members of the Management Board invest the remainder of the relevant payment amount, corresponding to around 35 percent, in Henkel preferred shares. This constitutes their long-term variable cash remuneration, known as the share deferral. These shares are placed in a blocked custody account with a drawing restriction. The company transfers the relevant investment amount of each individual directly to the bank responsible for settling the investment transactions and managing the blocked custody account. On the first trading day of the month following payout, this bank invests the relevant investment amount on behalf and for the account of the relevant member of the Management Board on the stock exchange in Henkel preferred shares at the price prevailing at the time of purchase, and credits the acquired shares to the blocked custody account. The lock-up period in each case expires on December 31 of the fourth year following the year of payment. This share deferral ensures that the members of the Management Board participate through a portion of their compensation in the long-term performance of the corporation.

Long-term incentive (LTI)

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

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

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

Special payments

In addition to the remuneration components described above, the Supervisory Board of Henkel Management AG may, at its discretion and after due consideration, grant a special payment in recognition of exceptional achievements. Such special payment is limited to an amount equating to the respective Management Board member's fixed salary; the maximum compensation level – as determined by remuneration for a fiscal year if the caps on STI and LTI are reached – may not be exceeded as a result of such payment.

Caps on remuneration

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

Caps on remuneration* 11

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

* At January 2017.

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

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

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

In the event that a member's position on the Management Board is terminated prematurely by mutual agreement, the executive contract provides for a severance settlement amounting to the remuneration for the remaining contractual term (fixed remuneration plus variable annual remuneration) in the form of a discounted lump-sum payment. These severance payments are limited to a maximum of two years' compensation (severance payment cap) and may not extend over a period that exceeds the residual term of the executive contract. Members are not entitled to severance payment if an executive contract is terminated by mutual agreement at the request of the member or because that member has been dismissed by the corporation for good cause or reason. In the event that the sphere of responsibility/executive function is altered or restricted to such an extent that it is no longer comparable to the position prior to the change or restriction, the affected members of the Management Board are entitled to resign from office and request premature termination of their contract. In such case, members are entitled to severance payments amounting to not more than two years' compensation.

Upon an executive's departure from the Management Board, the STI is paid on a time-proportion basis on the ordinary payment date after the end of the fiscal year in which the appointment ends. If not already expired, lock-up periods for the share deferral end six months after departure. This applies accordingly to entitlements under the LTI. However, entitlements from any tranche whose performance period has not yet ended at the date of departure are forfeited without replacement if the departure is based on good cause or reason that would have justified revocation of the appointment or termination of the employment contract.

In addition, the executive contracts include a post-contractual non-competition clause with a term of two years. Members of the Management Board are entitled to a discretionary payment totaling 50 percent of the annual compensation after allowing for any severance payments, which is payable in 24 monthly installments unless the Supervisory Board of Henkel Management AG waives the non-competition clause. Similarly, any earnings from new extra-contractual activities during the non-competition period shall be offset against this discretionary payment to the extent that such earnings and discretionary payment together exceed the actual compensation paid in the last fully ended fiscal year by 10 percent or more. No entitlements exist in the event of premature termination of executive duties resulting from a change in control.

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

Remuneration of the members of the Management Board for fiscal 2016
Excluding pension entitlements, the total compensation paid to members of the Management Board for the performance of their duties for and on behalf of Henkel AG & Co. KGaA and its subsidiaries during the year under review amounted to 26,503,197 euros (previous year: 25,804,019 euros). Fixed salaries accounted for 5,075,000 euros (previous year: 4,950,000 euros), other emoluments for 422,137 euros (previous year: 360,477 euros), short-term variable cash remuneration for 10,143,939 euros (previous year: 9,810,801 euros), long-term variable cash remuneration – share deferral – for 5,462,121 euros (previous year: 5,282,741 euros), and the long-term incentive for 5,400,000 euros (previous year: 5,400,000 euros). In accordance with

legal regulations, the value of the long-term incentive granted for 2016, which is payable in 2019 contingent on the achievement of performance objectives, is recognized here based on the target amount that would be paid assuming a 30-percent increase in EPS within the performance period.

Compensation for the reporting period granted to members of the Management Board serving in 2016, separated into the above-mentioned components, is shown in the following table.

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

Remuneration of Management Board members who served in 2016

12

in euros		1. Fixed salary [1]	2. Other emoluments [1]	3. Short-term variable cash remuneration [1]	Single-year remuneration (Total of 1 to 3)	4. Long-term variable cash remuneration (share deferral) [1]	5. Long-term incentive [2]	Multi-year remuneration (Total of 4 and 5)	Total remuneration (Total of 1 to 5)
Hans Van Bylen (Chairman) (since 5/1/2016)	**2016**	**1,050,000**	**119,576**	**2,046,007**	**3,215,583**	**1,101,696**	**1,066,667**	**2,168,363**	**5,383,946**
Member of the Management Board since 7/1/2005	2015	750,000	43,786	1,494,121	2,287,907	804,527	800,000	1,604,527	3,892,434
Kasper Rorsted (Chairman) (until 4/30/2016)	**2016**	**400,000**	**32,173**	**806,282**	**1,238,455**	**434,152**	**466,667**	**900,819**	**2,139,274**
Member of the Management Board 4/1/2005 – 4/30/2016	2015	1,200,000	79,206	2,418,846	3,698,052	1,302,456	1,400,000	2,702,456	6,400,508
Jan-Dirk Auris (Adhesive Technologies)	**2016**	**750,000**	**45,208**	**1,511,755**	**2,306,963**	**814,022**	**800,000**	**1,614,022**	**3,920,985**
Member of the Management Board since 1/1/2011	2015	750,000	47,361	1,375,171	2,172,532	740,477	800,000	1,540,477	3,713,009
Pascal Houdayer (Beauty Care)	**2016**	**625,000**	**90,504**	**1,192,629**	**1,908,134**	**642,185**	**666,667**	**1,308,852**	**3,216,985**
Member of the Management Board since 3/1/2016	2015	–	–	–	–	–	–	–	–
Carsten Knobel (Finance)	**2016**	**750,000**	**53,903**	**1,563,755**	**2,367,658**	**842,022**	**800,000**	**1,642,022**	**4,009,680**
Member of the Management Board since 7/1/2012	2015	750,000	50,806	1,527,921	2,328,727	822,727	800,000	1,622,727	3,951,454
Kathrin Menges (Human Resources)	**2016**	**750,000**	**36,151**	**1,459,755**	**2,245,906**	**786,022**	**800,000**	**1,586,022**	**3,831,928**
Member of the Management Board since 10/1/2011	2015	750,000	40,285	1,466,821	2,257,106	789,827	800,000	1,589,827	3,846,933
Bruno Piacenza (Laundry & Home Care)	**2016**	**750,000**	**44,622**	**1,563,755**	**2,358,377**	**842,022**	**800,000**	**1,642,022**	**4,000,399**
Member of the Management Board since 1/1/2011	2015	750,000	99,033	1,527,921	2,376,954	822,727	800,000	1,622,727	3,999,681
Total	**2016**	**5,075,000**	**422,137**	**10,143,939**	**15,641,075**	**5,462,121**	**5,400,000**	**10,862,121**	**26,503,197**
	2015	4,950,000	360,477	9,810,801	15,121,278	5,282,741	5,400,000	10,682,741	25,804,019

[1] The payout is reported pursuant to HGB/IFRS.
[2] Target amount pursuant to HGB/IFRS, based on a 30-percent increase in adjusted earnings per preferred share within the performance period of three years. LTI payout for 2016 occurs in 2019; LTI payout for 2015 occurs in 2018.

As contractually agreed, Kasper Rorsted, who left the company at his own request effective April 30, 2016, was paid 1,240,434 euros gross in consideration of his entitlements under the Short Term Incentive 2016 (pro rata) and a further total amount of 2,266,167 euros gross representing the target amounts of his vested entitlements under the Long Term Incentive in 2014, 2015 and 2016 (pro rata). In addition, compensation of 413,910 euros gross was paid to Kasper Rorsted for the period from May 1, 2016, until July 31, 2016, under the contractually agreed non-competition clause (with a term of two years).

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

Structure of Management Board remuneration

13

		Components of single-year remuneration			Components of multi-year remuneration		
in euros		Fixed salary	Other emoluments	Short-term variable cash remuneration	Long-term variable cash remuneration (share deferral)	Long-term incentive	Total remuneration
Total	**2016**	**5,075,000**	**422,137**	**10,143,939**	**5,462,121**	**5,400,000**	**26,503,197**
		19.1%	**1.6%**	**38.3%**	**20.6%**	**20.4%**	**100%**
Total	2015	4,950,000	360,477	9,810,801	5,282,741	5,400,000	25,804,019
		19.2%	1.4%	38.0%	20.5%	20.9%	100%

Pension benefits

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

Service cost / Present value of pension benefits 14

		HGB		IAS	
in euros		Service cost for pension benefits in the reporting year	Present value of pension benefits as of December 31	Service cost for pension benefits in the reporting year	Present value of pension benefits as of December 31
Hans Van Bylen	**2016**	**664,026**	**6,319,207**	**664,043**	**6,958,733**
	2015	460,637	5,506,250	460,637	5,937,632
Kasper Rorsted (until 4/30/2016)	**2016**	**302,133**	**7,138,814**	**306,093**	**7,295,824**
	2015	791,760	7,057,239	798,237	7,116,328
Jan-Dirk Auris	**2016**	**458,482**	**3,147,578**	**458,996**	**3,325,032**
	2015	456,041	2,628,382	456,927	2,746,697
Pascal Houdayer (since 3/1/2016)	**2016**	**379,457**	**623,140**	**379,457**	**623,496**
	2015	–	–	–	–
Carsten Knobel	**2016**	**457,974**	**2,492,714**	**459,243**	**2,658,267**
	2015	455,659	1,994,619	457,887	2,103,255
Kathrin Menges	**2016**	**457,067**	**2,557,853**	**457,533**	**2,652,810**
	2015	454,902	2,051,174	455,704	2,113,541
Bruno Piacenza	**2016**	**456,353**	**2,555,923**	**456,400**	**2,562,467**
	2015	454,174	2,045,361	454,174	2,049,561
Total	**2016**	**3,175,492**	**24,835,229**	**3,181,765**	**26,076,629**
	2015	3,073,173	21,283,025	3,083,566	22,067,014

For pension obligations to former members of the Management Board and the former management of Henkel KGaA, as well as the former management of its legal predecessor and surviving dependents, 100,771,135 euros (previous year: 98,729,434 euros) is deferred. Amounts paid to such recipients during the year under review totaled 7,127,205 euros (previous year: 7,163,382 euros).

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

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

a) the benefits granted for fiscal 2016, including the maximum and minimum achievable compensation for variable remuneration components, and
b) the allocation for fiscal 2016.

Pursuant to DCGK, payments / benefits granted for the reporting year to members of the Management Board serving in 2016

15

in euros		1. Fixed salary[1]	2. Other emoluments[1]	Total (1 and 2)	3. Short-term variable cash remuneration[2]	4. Long-term variable cash remuneration (share deferral)[2]	5. Long-term incentive[3]	Total (1 to 5)	6. Service cost[4]	Total remuneration pursuant to DCGK (Total of 1 to 6)
Hans Van Bylen (Chairman) (since 5/1/2016)	**2016**	**1,050,000**	**119,576**	**1,169,576**	**1,944,260**	**1,046,909**	**1,066,667**	**5,227,413**	**664,043**	**5,891,456**
	2016 (min)	**1,050,000**	**119,576**	**1,169,576**	**0**	**0**	**0**	**1,169,576**	**664,043**	**1,833,619**
Member of the Management Board since 7/1/2005	**2016 (max)**	**1,050,000**	**119,576**	**1,169,576**	**2,600,000**	**1,400,000**	**1,600,000**	**6,769,576**	**664,043**	**7,433,619**
	2015	750,000	43,786	793,786	1,461,449	786,934	800,000	3,842,169	460,637	4,302,806
Kasper Rorsted[5] (Chairman) (until 4/30/2016)	**2016**	**400,000**	**32,173**	**432,173**	**807,894**	**435,020**	**466,667**	**2,141,753**	**306,093**	**2,447,846**
	2016 (min)	**400,000**	**32,173**	**432,173**	**0**	**0**	**0**	**432,173**	**306,093**	**738,266**
Member of the Management Board from 4/1/2005 to 4/30/2016	**2016 (max)**	**400,000**	**32,173**	**432,173**	**1,105,000**	**595,000**	**700,000**	**2,832,173**	**306,093**	**3,138,266**
	2015	1,200,000	79,206	1,279,206	2,484,464	1,337,788	1,400,000	6,501,458	798,237	7,299,695
Jan-Dirk Auris (Adhesive Technologies)	**2016**	**750,000**	**45,208**	**795,208**	**1,425,695**	**767,682**	**800,000**	**3,788,585**	**458,996**	**4,247,581**
	2016 (min)	**750,000**	**45,208**	**795,208**	**0**	**0**	**0**	**795,208**	**458,996**	**1,254,204**
Member of the Management Board since 1/1/2011	**2016 (max)**	**750,000**	**45,208**	**795,208**	**1,950,000**	**1,050,000**	**1,200,000**	**4,995,208**	**458,996**	**5,454,204**
	2015	750,000	47,361	797,361	1,461,449	786,934	800,000	3,845,744	456,927	4,302,671
Pascal Houdayer (Beauty Care)	**2016**	**625,000**	**90,504**	**715,504**	**1,188,079**	**639,735**	**666,667**	**3,209,985**	**379,457**	**3,589,442**
Member of the Management Board since 3/1/2016	**2016 (min)**	**625,000**	**90,504**	**715,504**	**0**	**0**	**0**	**715,504**	**379,457**	**1,094,961**
	2016 (max)	**625,000**	**90,504**	**715,504**	**1,625,000**	**875,000**	**1,000,000**	**4,215,504**	**379,457**	**4,594,961**
	2015	–	–	–	–	–	–	–	–	–
Carsten Knobel (Finance)	**2016**	**750,000**	**53,903**	**803,903**	**1,425,695**	**767,682**	**800,000**	**3,797,280**	**459,243**	**4,256,523**
Member of the Management Board since 7/1/2012	**2016 (min)**	**750,000**	**53,903**	**803,903**	**0**	**0**	**0**	**803,903**	**459,243**	**1,263,146**
	2016 (max)	**750,000**	**53,903**	**803,903**	**1,950,000**	**1,050,000**	**1,200,000**	**5,003,903**	**459,243**	**5,463,146**
	2015	750,000	50,806	800,806	1,461,449	786,934	800,000	3,849,189	457,887	4,307,076
Kathrin Menges (Human Resources)	**2016**	**750,000**	**36,151**	**786,151**	**1,425,695**	**767,682**	**800,000**	**3,779,528**	**457,533**	**4,237,061**
Member of the Management Board since 10/1/2011	**2016 (min)**	**750,000**	**36,151**	**786,151**	**0**	**0**	**0**	**786,151**	**457,533**	**1,243,684**
	2016 (max)	**750,000**	**36,151**	**786,151**	**1,950,000**	**1,050,000**	**1,200,000**	**4,986,151**	**457,533**	**5,443,684**
	2015	750,000	40,285	790,285	1,461,449	786,934	800,000	3,838,668	455,704	4,294,372
Bruno Piacenza (Laundry & Home Care)	**2016**	**750,000**	**44,622**	**794,622**	**1,425,695**	**767,682**	**800,000**	**3,787,999**	**456,400**	**4,244,399**
	2016 (min)	**750,000**	**44,622**	**794,622**	**0**	**0**	**0**	**794,622**	**456,400**	**1,251,022**
Member of the Management Board since 1/1/2011	**2016 (max)**	**750,000**	**44,622**	**794,622**	**1,950,000**	**1,050,000**	**1,200,000**	**4,994,622**	**456,400**	**5,451,022**
	2015	750,000	99,033	849,033	1,461,449	786,934	800,000	3,897,416	454,174	4,351,590

[1] Payment amount.
[2] Pursuant to DCGK, expected amount based on an average probability scenario (not the actual amount paid out).
[3] Target amount pursuant to DCGK, based on a 30-percent increase in adjusted earnings per preferred share within the performance period of three years. LTI payout for 2016 occurs in 2019; LTI payout for 2015 occurs in 2018.
[4] Pursuant to DCGK, service cost determined in accordance with IAS.
[5] As contractually agreed, Kasper Rorsted, who left the company at his own request effective April 30, 2016, was paid 1,240,434 euros gross in consideration of his entitlements under the Short Term Incentive 2016 (pro rata) and a further total amount of 2,266,167 euros gross representing the target amounts of his vested entitlements under the Long Term Incentive in 2014, 2015 and 2016 (pro rata). In addition, compensation of 413,910 euros gross was paid to Kasper Rorsted for the period from May 1, 2016, until July 31, 2016, under the contractually agreed non-competition clause (with a term of two years).

Pursuant to DCGK, payments / benefits made for the reporting year to members of the Management Board serving in 2016

16

in euros		1. Fixed salary[1]	2. Other emoluments[1]	Total (1 and 2)	3. Short-term variable cash remuneration[2]	4. Long-term variable cash remuneration (share deferral)[2]	5. Long-term incentive[3] 2014 tranche (term 1/1/2014 – 12/31/2016)	5. Long-term incentive[3] 2013 tranche (term 1/1/2013 – 12/31/2015)	Total (1 to 5)	6. Service cost[4]	Total remuneration pursuant to DCGK (Total of 1 to 6)
Hans Van Bylen (Chairman) (since 5/1/2016)	**2016**	**1,050,000**	**119,576**	**1,169,576**	**2,046,007**	**1,101,696**	**249,410**		**4,566,690**	**664,043**	**5,230,733**
Member of the Management Board since 7/1/2005	2015	750,000	43,786	793,786	1,494,121	804,527		251,081	3,343,515	460,637	3,804,152
Kasper Rorsted[5] (Chairman) (until 4/30/2016)	**2016**	**400,000**	**32,173**	**432,173**	**806,282**	**434,152**	**399,500**		**2,072,107**	**306,093**	**2,378,200**
Member of the Management Board from 4/1/2005 to 4/30/2016	2015	1,200,000	79,206	1,279,206	2,418,846	1,302,456		426,838	5,427,346	798,237	6,225,583
Jan-Dirk Auris (Adhesive Technologies)	**2016**	**750,000**	**45,208**	**795,208**	**1,511,755**	**814,022**	**249,410**		**3,370,395**	**458,996**	**3,829,391**
Member of the Management Board since 1/1/2011	2015	750,000	47,361	797,361	1,375,171	740,477		251,081	3,164,090	456,927	3,621,017
Pascal Houdayer (Beauty Care)	**2016**	**625,000**	**90,504**	**715,504**	**1,192,629**	**642,185**	**–**		**2,550,319**	**379,457**	**2,929,776**
Member of the Management Board since 3/1/2016	2015	–	–	–	–	–		–	–	–	–
Carsten Knobel (Finance)	**2016**	**750,000**	**53,903**	**803,903**	**1,563,755**	**842,022**	**249,410**		**3,459,090**	**459,243**	**3,918,333**
Member of the Management Board since 7/1/2012	2015	750,000	50,806	800,806	1,527,921	822,727		251,081	3,402,535	457,887	3,860,422
Kathrin Menges (Human Resources)	**2016**	**750,000**	**36,151**	**786,151**	**1,459,755**	**786,022**	**249,410**		**3,281,338**	**457,533**	**3,738,871**
Member of the Management Board since 10/1/2011	2015	750,000	40,285	790,285	1,466,821	789,827		251,081	3,298,014	455,704	3,753,718
Bruno Piacenza (Laundry & Home Care)	**2016**	**750,000**	**44,622**	**794,622**	**1,563,755**	**842,022**	**249,410**		**3,449,809**	**456,400**	**3,906,209**
Member of the Management Board since 1/1/2011	2015	750,000	99,033	849,033	1,527,921	822,727		251,081	3,450,762	454,174	3,904,936

[1] Payment amount.
[2] Pursuant to DCGK, based on the payment amount of the remuneration components granted for the relevant fiscal year; actual allocation occurs in the following year.
[3] Pursuant to DCGK, based on the payment amount of those tranches for which the plan term of three years ended in the relevant fiscal year; actual allocation occurs in the following year.
[4] Pursuant to DCGK, service cost determined in accordance with IAS.
[5] As contractually agreed, Kasper Rorsted, who left the company at his own request effective April 30, 2016, was paid 1,240,434 euros gross in consideration of his entitlements under the Short Term Incentive 2016 (pro rata) and a further total amount of 2,266,167 euros gross representing the target amounts of his vested entitlements under the Long Term Incentive in 2014, 2015 and 2016 (pro rata). In addition, compensation of 413,910 euros gross was paid to Kasper Rorsted for the period from May 1, 2016, until July 31, 2016, under the contractually agreed non-competition clause (with a term of two years).

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

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

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

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

Regulation, structure and amounts

The remuneration for the Supervisory Board and the Shareholders' Committee is determined by the Annual General Meeting; the corresponding provisions are contained in Articles 17 and 33 of the Articles of Association.

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

Members of the 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.

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.

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

Other provisions

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

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

Remuneration of members of the Supervisory Board and of the Shareholders' Committee for fiscal 2016

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 1,572,896 euros plus VAT (previous year: 1,546,000 euros plus VAT). Of this amount, fixed fees accounted for 1,222,896 euros, attendance fees for 85,000 euros, and remuneration for committee activity (including associated attendance fees) for 265,000 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). 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 or intermediation services.

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

Supervisory Board remuneration

17

in euros		Fixed fee	Attendance fee	Fee for committee activity[1]	Total remuneration[2]
		Components of total remuneration			
Dr. Simone Bagel-Trah[3], Chair	**2016**	**140,000**	**5,000**	**39,000**	**184,000**
	2015	140,000	4,000	38,000	182,000
Winfried Zander[3], Vice Chair	**2016**	**105,000**	**5,000**	**39,000**	**149,000**
	2015	105,000	4,000	38,000	147,000
Jutta Bernicke	**2016**	**70,000**	**5,000**	**–**	**75,000**
	2015	70,000	3,000	–	73,000
Dr. Kaspar von Braun	**2016**	**70,000**	**6,000**	**–**	**76,000**
	2015	70,000	4,000	–	74,000
Boris Canessa (until 4/11/2016)	**2016**	**19,508**	**2,000**	**–**	**21,508**
	2015	70,000	4,000	–	74,000
Johann-Christoph Frey (since 4/11/2016)	**2016**	**50,492**	**4,000**	**–**	**54,492**
	2015	–	–	–	–
Ferdinand Groos (until 4/11/2016)	**2016**	**19,508**	**2,000**	**–**	**21,508**
	2015	70,000	4,000	–	74,000
Béatrice Guillaume-Grabisch (until 3/31/2016)	**2016**	**17,404**	**0**	**–**	**17,404**
	2015	70,000	2,000	–	72,000
Peter Hausmann[3]	**2016**	**70,000**	**5,000**	**37,000**	**112,000**
	2015	70,000	3,000	37,000	110,000
Birgit Helten-Kindlein[3]	**2016**	**70,000**	**5,000**	**39,000**	**114,000**
	2015	70,000	4,000	38,000	112,000
Benedikt-Richard Freiherr von Herman (since 4/11/2016)	**2016**	**50,492**	**4,000**	**–**	**54,492**
	2015	–	–	–	–
Timotheus Höttges (since 4/11/2016)	**2016**	**50,492**	**3,000**	**–**	**53,492**
	2015	–	–	–	–
Prof. Dr. Michael Kaschke[3]	**2016**	**70,000**	**4,000**	**37,000**	**111,000**
	2015	70,000	3,000	38,000	111,000
Barbara Kux	**2016**	**70,000**	**6,000**	**–**	**76,000**
	2015	70,000	4,000	–	74,000
Mayc Nienhaus	**2016**	**70,000**	**6,000**	**–**	**76,000**
	2015	70,000	4,000	–	74,000
Andrea Pichottka	**2016**	**70,000**	**6,000**	**–**	**76,000**
	2015	70,000	4,000	–	74,000
Dr. Martina Seiler	**2016**	**70,000**	**6,000**	**–**	**76,000**
	2015	70,000	4,000	–	74,000
Prof. Dr. Theo Siegert[3]	**2016**	**70,000**	**5,000**	**74,000**	**149,000**
	2015	70,000	4,000	73,000	147,000
Edgar Topsch	**2016**	**70,000**	**6,000**	**–**	**76,000**
	2015	70,000	4,000	–	74,000
Total	**2016**	**1,222,896**	**85,000**	**265,000**	**1,572,896**
	2015	1,225,000	59,000	262,000	1,546,000

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

Shareholders' Committee remuneration

18

in euros		Components of total remuneration: Fixed fee	Components of total remuneration: Fee for subcommittee activity	Total remuneration
Dr. Simone Bagel-Trah, Chair (Chair Human Resources Subcommittee)	**2016**	**200,000**	**200,000**	**400,000**
	2015	200,000	200,000	400,000
Dr. Christoph Henkel, Vice Chair (Chair Finance Subcommittee)	**2016**	**150,000**	**200,000**	**350,000**
	2015	150,000	200,000	350,000
Prof. Dr. Paul Achleitner (Member Finance Subcommittee)	**2016**	**100,000**	**100,000**	**200,000**
	2015	100,000	100,000	200,000
Boris Canessa (Member HR Subcommittee) (since 4/11/2016)	**2016**	**72,131**	**72,131**	**144,262**
	2015	–	–	–
Johann-Christoph Frey (Member HR Subcommittee) (until 4/11/2016)	**2016**	**27,869**	**27,869**	**55,738**
	2015	100,000	100,000	200,000
Stefan Hamelmann (Vice Chair Finance Subcommittee)	**2016**	**100,000**	**100,000**	**200,000**
	2015	100,000	100,000	200,000
Prof. Dr. Ulrich Lehner (Member Finance Subcommittee)	**2016**	**100,000**	**100,000**	**200,000**
	2015	100,000	100,000	200,000
Dr. Dr. Norbert Reithofer (Member Finance Subcommittee)	**2016**	**100,000**	**100,000**	**200,000**
	2015	100,000	100,000	200,000
Konstantin von Unger (Vice Chair HR Subcommittee)	**2016**	**100,000**	**100,000**	**200,000**
	2015	100,000	100,000	200,000
Jean-François van Boxmeer (Member HR Subcommittee)	**2016**	**100,000**	**100,000**	**200,000**
	2015	100,000	100,000	200,000
Werner Wenning (Member HR Subcommittee)	**2016**	**100,000**	**100,000**	**200,000**
	2015	100,000	100,000	200,000
Total	**2016**	**1,150,000**	**1,200,000**	**2,350,000**
	2015	1,150,000	1,200,000	2,350,000

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

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

As the Supervisory Board of Henkel Management AG is only comprised of members who also belong to the Shareholders' Committee, no remuneration was paid in respect of this Supervisory Board in the year under review.

+ 9.7 %

increase in Henkel preferred share price.

+ 11.7 %

increase in Henkel ordinary share price.

€ 45.9 bn

market capitalization.

Shares and bonds

Henkel shares posted a positive price performance in 2016. The price of Henkel preferred shares increased by 9.7 percent to 113.25 euros. The gain recorded by the ordinary shares was even greater. These closed at 98.98 euros, 11.7 percent higher year on year. Over the course of the year, the DAX rose by 6.9 percent to 11,481 points. The EURO STOXX® Consumer Goods Index closed at 633 points, down 0.1 percent. Henkel shares therefore significantly outperformed the DAX and other shares representing the consumer goods sector.

Henkel shares largely tracked the overall market in the course of the year, although their performance in the third quarter and at the start of the fourth quarter was much better than their benchmarks. Within this environment, Henkel preferred shares reached an all-time high on October 4, 2016, of 122.90 euros. On the same day, the ordinary shares also recorded their highest price ever, 105.45 euros. Prices of Henkel shares initially decreased at the start of the fourth quarter, as did other shares representing the consumer goods sector, while the DAX lost scarcely any ground in this environment. Over the course of December, prices of Henkel shares increased significantly again, as did their benchmarks. The preferred shares traded at an average premium of 14.8 percent over the ordinary shares in 2016.

Year on year, the trading volume (Xetra) of preferred shares declined. Each trading day saw an average of around 473,000 preferred shares changing hands (2015: around 571,000). The average volume for our ordinary shares also decreased to around 89,000 shares per trading day (2015: 104,000). Due to positive share price developments, the market capitalization of our ordinary and preferred shares increased from 41.4 billion euros to 45.9 billion euros.

Henkel shares remain an attractive investment for long-term investors. Shareholders who invested the equivalent of 1,000 euros when Henkel preferred shares were issued in 1985, and re-invested the dividends received (before tax deduction) in the stock, had a portfolio value of 37,499 euros at the end of 2016. This represents an increase in value of 3,650 percent or an average yield of 12.3 percent per year. Over the same period, the DAX provided an annual yield of 7.7 percent. Over the last five and ten years, the Henkel preferred share has shown an average yield of 20.5 percent and 11.8 percent per year respectively, offering a significantly higher return than the average DAX returns of 14.2 percent and 5.7 percent per year for the same periods.

Key data on Henkel shares 2012 to 2016

19

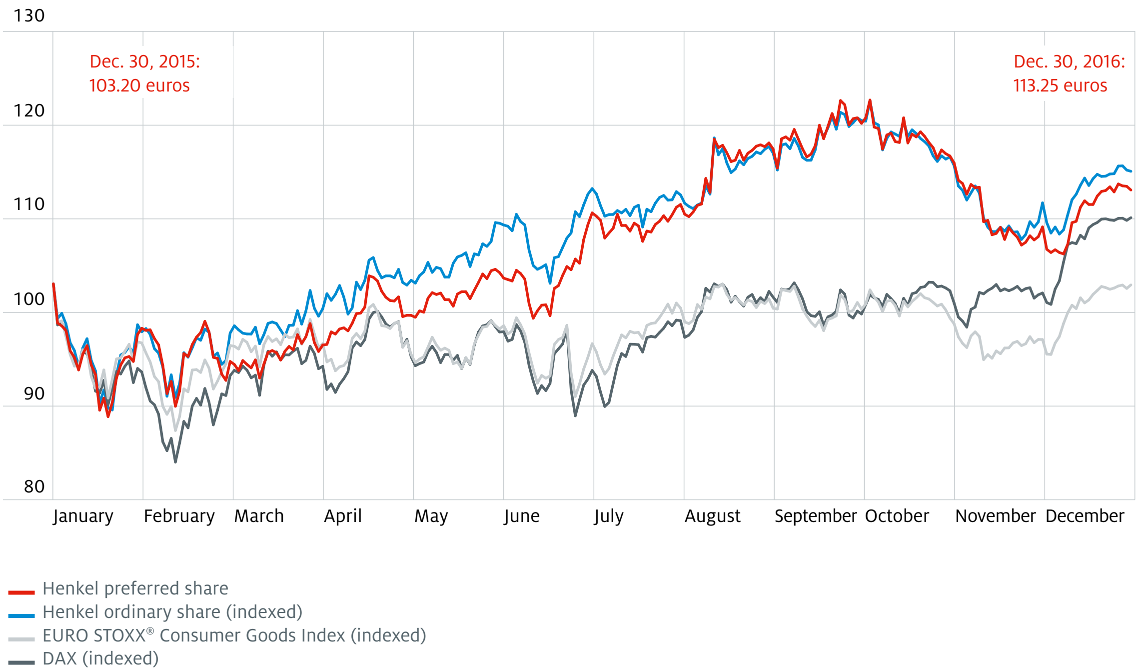
in euros	2012	2013	2014	2015	2016
Earnings per share					
Ordinary share	3.40	3.65	3.74	4.42	**4.72**
Preferred share	3.42	3.67	3.76	4.44	**4.74**
Share price at year-end [1]					
Ordinary share	51.93	75.64	80.44	88.62	**98.98**
Preferred share	62.20	84.31	89.42	103.20	**113.25**
High for the year [1]					
Ordinary share	52.78	75.81	80.44	99.26	**105.45**
Preferred share	64.61	84.48	90.45	115.20	**122.90**
Low for the year [1]					
Ordinary share	37.25	50.28	67.00	76.32	**77.00**
Preferred share	44.31	59.82	72.64	87.75	**88.95**
Dividends					
Ordinary share	0.93	1.20	1.29	1.45	**1.60 [2]**
Preferred share	0.95	1.22	1.31	1.47	**1.62 [2]**
Market capitalization [1] in bn euros	**24.6**	**34.7**	**36.8**	**41.4**	**45.9**
Ordinary shares in bn euros	13.5	19.7	20.9	23.0	**25.7**
Preferred shares in bn euros	11.1	15.0	15.9	18.4	**20.2**

[1] Closing share prices, Xetra trading system.
[2] Proposal to shareholders for the Annual General Meeting on April 6, 2017.

Performance of Henkel shares versus market January through December 2016

20

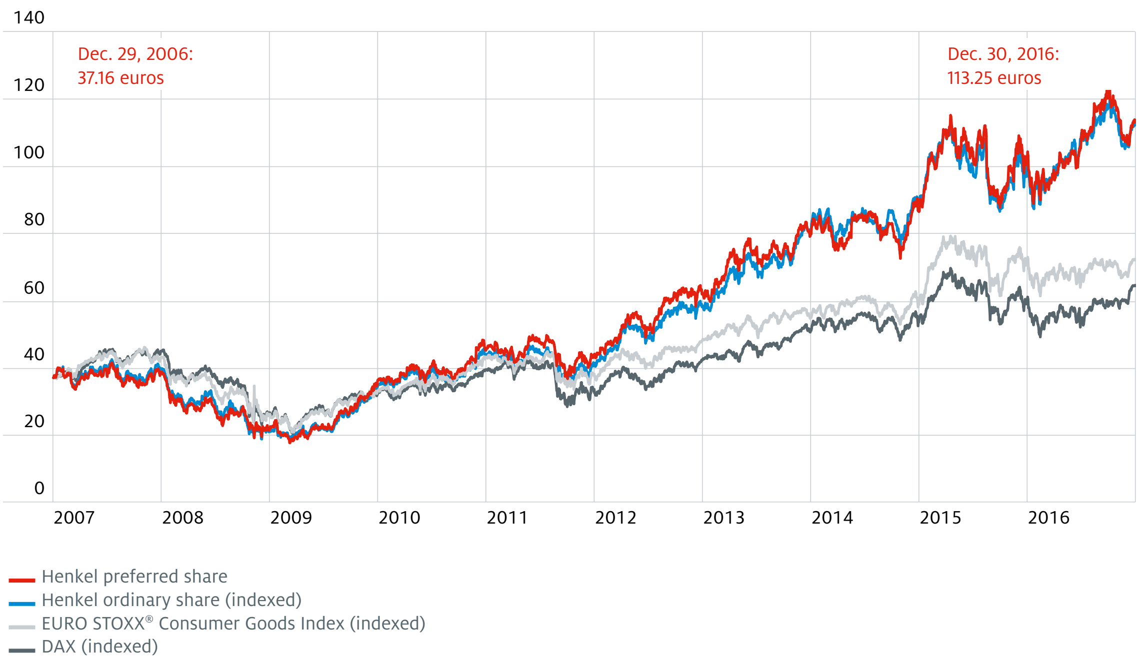
in euros



Performance of Henkel shares versus market 2007 through 2016

21

in euros



Henkel represented in all major indices

Henkel shares are traded on the Frankfurt Stock Exchange, predominantly on the Xetra electronic trading platform. Henkel is also listed on all regional stock exchanges in Germany. In the USA, investors are able to invest in Henkel preferred and ordinary shares by way of stock ownership certificates obtained through the Sponsored Level I ADR (American Depositary Receipt) program. The number of ADRs outstanding for ordinary and preferred shares at the end of the year was approximately 1.5 million (2015: 1.7 million).

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

61.02%

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

Share data 22

	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 23

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

Once again our advances and achievements in sustainable management earned recognition from external experts in 2016. Henkel's standing was confirmed in a variety of national and international sustainability ratings and indices. Henkel has been represented in the ethics index FTSE4Good since 2001, and in the STOXX® Global ESG Leaders index family since its launch by Deutsche Börse in 2011. Our membership in the Ethibel Pioneer Investment Register and the sustainability indices Euronext Vigeo World 120, Europe 120, and Eurozone 120 was also confirmed, as was our membership in the MSCI Global Sustainability Index series. Henkel is also included in the Dow Jones Sustainability Index World, and in the Global Challenges Index as one of only 50 companies worldwide.

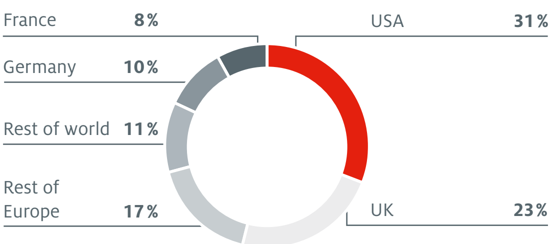
At year-end 2016, the market capitalization of the preferred shares included in the DAX index was 20.2 billion euros. Henkel thus again ranked 18th, or 22nd in terms of trading volume (2015: 23rd). Our DAX weighting increased to 2.10 percent (2015: 2.05 percent)

International shareholder structure

Our preferred shares are the significantly more liquid class of Henkel stock. Apart from the treasury shares, they are entirely in free float. A large majority are owned by institutional investors whose portfolios are usually broadly distributed internationally.

According to notices received by the company, members of the Henkel family share-pooling agreement owned a majority of the ordinary shares amounting to 61.02 percent as of December 17, 2015. We have received no other notices indicating that a shareholder holds more than 3 percent of the voting rights (notifiable ownership). As of December 31, 2016, treasury stock amounted to 3.7 million shares.

Shareholder structure: Institutional investors holding Henkel shares 24



At November 30, 2016
Source: Nasdaq.

Employee share program

Since 2001, Henkel has offered an employee share program (ESP). For each euro invested in 2016 by an employee (limited to 4 percent of salary up to a maximum of 4,992 euros per year), Henkel added 33 eurocents. Around 11,500 employees in 53 countries purchased Henkel preferred shares under this program in 2016. At year-end, some 14,800 employees held a total of around 2.5 million shares, representing approximately 1.4 percent of total preferred shares outstanding. The lock-up period for newly acquired ESP shares is three years.

Investing in Henkel shares through participation in our share program has proven to be very beneficial for our employees in the past. Employees who invested 100 euros each month in Henkel shares since the program was first launched, and waived interim payouts, held portfolios valued at 92,866 euros at the end of 2016. This represents an increase in value of around 416 percent or an average yield of around 12.4 percent per year.

Henkel bonds

Henkel successfully issued four fixed-rate bonds in three different currencies with a total volume of 2.2 billion euros in 2016. One of the bonds with a volume of 500 million euros has a term of two years, and a coupon rate of 0 percent per year with a negative yield of –0.05 percent. A second bond with a volume of 700 million euros has a term of five years. Both its coupon rate and yield are 0 percent per year. A further eurodollar bond with a volume of 750 million US dollars was placed with a coupon rate of 1.5 percent per year and a term of three years, together with a 300 million British pound bond issue with a term of six years and a coupon rate of 0.875 percent per year. The bonds are being used to refinance the short-term bank loan for acquiring The Sun Products Corporation. The bonds were oversubscribed to a considerable extent and aroused great interest among international investors.

Further information can be found on the website:
www.henkel.com/creditor-relations

Bond data

25

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

Pro-active capital market communication

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

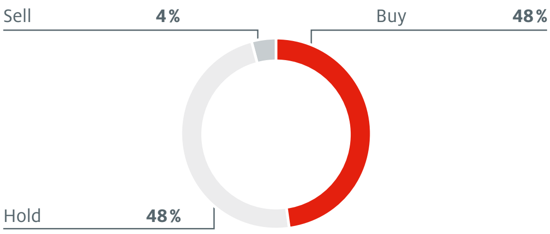
Henkel places great importance on dialog with investors and analysts. At 21 capital market conferences and roadshows held in Europe and North America, institutional investors and financial analysts had an opportunity to engage with the company and, in many instances, directly with senior management. We also conducted regular telephone conferences and numerous one-on-one meetings.

One highlight was our Investor and Analyst Day for the Adhesive Technologies business unit, held on June 6 and 7, 2016. Under the theme "Lead to Outperform," the business unit provided information about its strategy and financial performance, and also spotlighted its engineering and commercial potential at its facility in Heidelberg.

Retail investors can obtain all relevant information on request or via the Investor Relations website 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 AGM offers all shareholders the opportunity to obtain extensive information about the company directly.

Analyst recommendations

26



At December 31, 2016
Basis: 27 equity analysts.

The quality of our capital market communication was again evaluated in 2016 by various independent rankings. Once again, our Investor Relations team gained leading positions compared to other European corporations in the Home & Personal Care sector and other DAX companies, including third place in the Household Products & Personal Care sector in the Extel 2016 Awards. In the Institutional Investor ranking, Henkel was chosen by financial analysts as having the best Investor Relations team in the European Household & Personal Care Products sector.

The quality of our communication and our performance with respect to non-financial indicators (environmental, social and governance themes) was reflected in regular positive assessments by various rating agencies and further confirmed by our inclusion in major sustainability indices as described above.

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

Fundamental principles of the Group

Operational activities

Overview

Henkel was founded in 1876. Therefore, the year under review marks the 140th in our corporate history. Today, Henkel employs around 51,350 people worldwide, and we occupy globally leading market positions in our consumer and industrial businesses.

Our purpose is to create sustainable value – for our customers and consumers, for our people, 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 corporate functions.

Henkel is organized into three business units: Adhesive Technologies, Beauty Care and Laundry & Home Care.

The Adhesive Technologies business unit provides customer-specific solutions worldwide with adhesives, sealants and functional coatings in two business areas: Industry, and Consumers, Craftsmen and Building. The portfolio of the Beauty Care business unit encompasses hair cosmetics, products for body, skin and oral care, and products for the hair salon business. Our product range in the Laundry & Home Care business unit comprises primarily heavy-duty and specialty detergents, and dishwashing and cleaning products. We also offer air fresheners and insect control products for household applications.

1876
Year of foundation.

Henkel leads the global market in the field of Adhesive Technologies. In our consumer businesses, we also hold top positions in numerous markets and categories.

Adhesive Technologies, Beauty Care and Laundry & Home Care are managed on the basis of globally responsible strategic business units. These are supported by the corporate functions of Henkel AG & Co. KGaA, our shared services, and our globally integrated supply chain organization in order to ensure optimum utilization of corporate network synergies. Implementation of the strategies at the country and regional level is the responsibility of the national affiliated companies whose operations are supported and coordinated by regional centers. The executive bodies of these national affiliates manage their businesses in line with the relevant statutory regulations, supplemented by their own articles of association,

Henkel around the world: Regional Centers 27

internal procedural rules and the principles incorporated in our globally applicable management standards, codes and guidelines.

Strategy and financial targets 2016

The past four years have been very successful for Henkel. This success was founded on our strategy and financial targets for 2013 through 2016, which we consistently advanced under challenging conditions.

Over the four-year strategy cycle from 2013 through 2016, Henkel continuously increased its organic sales, growing by 3.3 percent on average. Emerging markets contributed to this solid performance with organic growth of 7.2 percent on average. Due to negative foreign exchange effects, however, we did not fully meet our absolute sales targets for 2016.

Over the course of the strategy cycle, adjusted earnings per preferred share developed very well, growing by an annual average (CAGR) of 9.7 percent. Despite the difficult environment, we thus nearly achieved our target of 10 percent.

+9.7%

average annual growth in adjusted earnings per preferred share (CAGR 2012 – 2016).

Achievement of financial targets 2016

28

		Target	Achievement
Sales	in bn euros	20.0	**18.7**
Sales in emerging markets	in bn euros	10.0	**7.8**
Average annual growth in adjusted earnings per preferred share[1]		10%	**9.7%**

[1] Compound annual growth rate/CAGR 2012 – 2016.

The implementation of our four strategic priorities – Outperform, Globalize, Simplify, Inspire – has enabled us to successfully move the corporation forward and to strengthen our position in the global competitive and market environment.

Our “Outperform” priority focused on leveraging the growth potential in our product categories even further. One key objective in this respect was to strengthen our 10 top brands, which we achieved by increasing their share of sales from 44 percent in 2012 to 61 percent in 2016.

In pursuing our “Globalize” priority, we drove the further globalization of the corporation and grasped opportunities for growth in both emerging and mature markets. Above-average organic sales growth has enabled us to expand our position in emerging markets. In addition, we have strengthened our portfolio worldwide through attractive acquisitions (for details of acquisitions in 2016, please refer to table 29 below). Our most important acquisition was The Sun Products Corporation, which elevated Henkel to 2nd place in the North American laundry market.

As part of our priority “Simplify,” we significantly improved our operational excellence, enabling us to effectively respond to the increasing speed and persisting volatility of our markets. We have successfully expanded our shared service centers, with more than 3,000 employees now working at seven sites. We are also integrating our production, logistics and purchasing activities across all business units in one integrated Global Supply Chain organization.

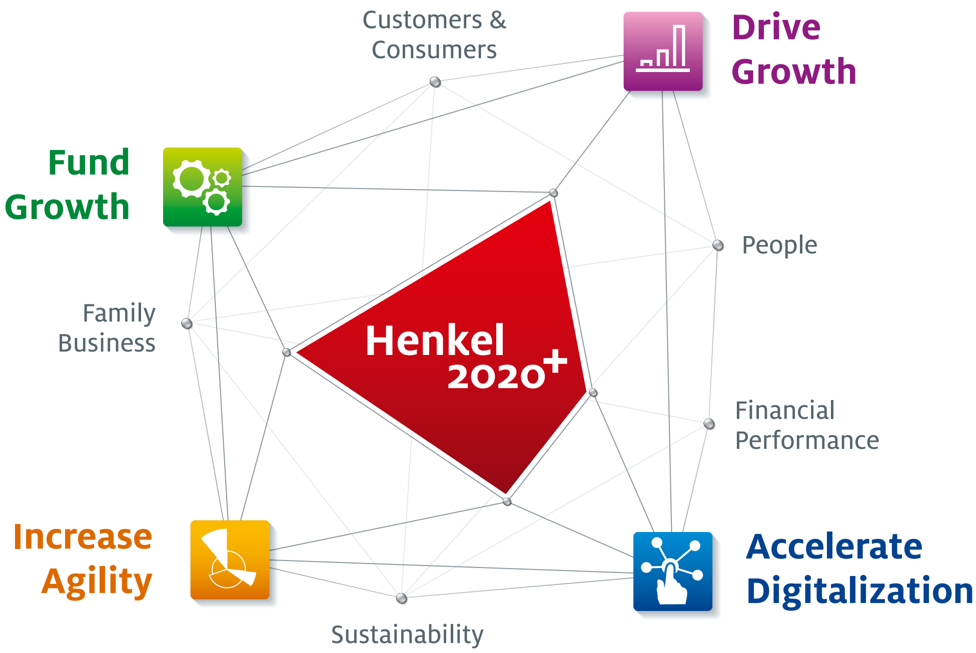
We advanced the development of our global team through our “Inspire” priority: by strengthening our leadership team and encouraging high potentials, and through our clear performance orientation and greater diversity in all areas of the corporation. Within our globally standardized system of annual management assessment, we are increasingly aligning career plans to individual interests.

Acquisitions signed and closed in fiscal 2016

29

Business	Key brands	Key countries	Contract signed on	Completion on	Annual sales in million euros	Purchase price[1] in million euros	For further information, see pages
57.5% of the shares in Expand Global Industries UK Ltd. (Detergents)	Waw, Nittol	Nigeria	5/31/2016	5/31/2016	~ 50	110	69, 80, 123 – 126
Hair care business in Africa/Middle East & Eastern Europe	Pert, Shamtu, Blendax	Russia / Saudi Arabia / Turkey	3/2/2016	6/1/2016	~ 75	212	69, 93, 123 – 126
Tile adhesive business in Colombia	Alfalisto, Pegalisto	Colombia	4/4/2016	6/30/2016	~ 10	17	69, 90, 91, 123 – 126
Detergent business in Iran	Tage	Iran	4/30/2016	8/21/2016	~ 70	141[2]	69, 80, 123 – 126
The Sun Products Corporation	All, Sun, Snuggle	USA, Canada	6/24/2016	9/1/2016	~ 1,450	~ 3,200	69, 80, 97, 123 – 126

[1] Excluding contingent purchase price components.
[2] Provisional purchase price.



Henkel 2020+ – our ambition and strategic priorities

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

Building on its strong foundation, Henkel intends to continue its path of profitable growth. On November 17, 2016, we presented the ambition and strategic priorities that will drive the company through to 2020 and beyond.

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

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

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

Financial ambition 2020 30

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

[1] Compound annual growth rate.

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

Strategic priorities in summary

Drive growth

Driving growth in mature and emerging markets will be a key strategic priority for Henkel. In order to achieve this, we will focus on targeted initiatives to create superior customer and consumer engagement, strengthen our leading brands and technologies, develop exciting innovations and services, and capture new sources of growth.

Accelerate digitalization

Accelerating digitalization will help us to successfully grow our business, strengthen the relationships with our customers and consumers, optimize our processes and transform the entire company. By 2020, we will implement a range of initiatives to drive our digital business, leverage Industry 4.0, and eTransform the organization.

Increase agility

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

Fund growth

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

Sustainability strategy

Sustainability as one of our corporate values

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

Our focal areas

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

Key drivers for the coming years

We are convinced that our focus on sustainability is more important than ever before, and that it supports our growth, improves our cost efficiency, and reduces risks. We already have a strong foundation on which to build, and can demonstrate a successful track record. To reflect the growing importance of sustainability for our stakeholders and our long-term economic success, we defined three key drivers in 2016 that will help us to advance sustainability at Henkel over the coming years.

Strengthen foundation

In order to reconcile people's desire to live well with the resource limits of the planet, and to allow us to build on our economic success, we will have to significantly improve our efficiency. In light of the global challenges of sustainable development, Henkel has set itself a long-term goal: Taking 2010 as the base year, our aim by 2030 is to triple the value we create through our business operations in relation to the environmental footprint of our products and services. We call this goal "Factor 3."

To reach this goal by 2030, we will have to improve our efficiency by an average of 5 to 6 percent each year. We managed to meet and even exceed some of the interim targets for the first five years through to

2015. On the road to our long-term goal of "Factor 3," we intend to improve our performance in these areas still further over the coming years. To this end, we have defined medium-term targets through to 2020 (see chart below). For the period up to 2020, we intend to improve the relationship between the value we create and our environmental footprint by 75 percent overall, taking 2010 as the base year.

At the same time, we are going to further improve our reporting and measurement systems to enable an integrated approach to assessing and managing progress toward our 20-year target for 2030 across our entire company and value chain. Our ongoing dialog with stakeholders and experts, as well as performance benchmarking, are part of the underlying basis of our work.

Boost engagement

When it comes to implementing our sustainability strategy, our people play a key role – through their dedication, skills and knowledge. They make their own contributions to sustainable development, both in their daily business lives and as members of society. They interface with our customers and drive innovation – and give Henkel its unique identity.

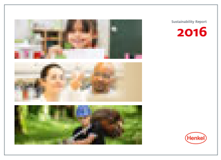
This is why we have set ourselves the goal of engaging all of our employees as sustainability ambassadors. The program was launched in 2012 to encourage our employees to become even more involved in the issue of sustainability. Since then, Henkel has trained more than 10,000 sustainability ambassadors in 79 countries. At the same time, we want to encourage our people to make a contribution as ambassadors at our sites, as well as by engaging with our customers, in schools and in our communities.

Maximize impact

We want to strengthen our contribution toward overcoming major global challenges, and to maximize the impact we can achieve through our operations, our brands, and our technologies.

In light of the Paris agreement on climate change from December 2015 and the clear need to reduce emissions, Henkel is striving to become a climate-positive company. As a first step, we are aiming – by 2030 – to reduce the CO_2 footprint of our production by 75 percent, and to help our customers and consumers save 50 million metric tons of CO_2 by 2020.

Equally, Henkel is striving to encourage social progress and work with partners to create shared value

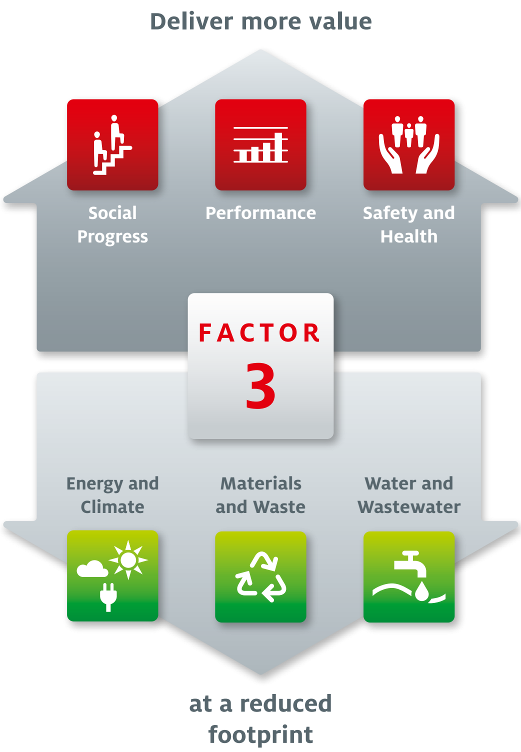


More details and background reading on the subject of sustainability can be found in our Sustainability Report on the internet.

www.henkel.com/sustainabilityreport

Our focal areas and targets

31



	Achieved 2016[1]	Targets 2020[1]
more net sales per ton of product	+ 8 %	+ 22 %
safer per million hours worked	+ 17 %	+ 40 %
less energy / CO_2 emissions per ton of product	– 22 %	– 30 %
less waste per ton of product	– 26 %[2]	– 30 %
less water per ton of product	– 23 %	– 30 %
overall efficiency	+ 42 %	+ 75 %

[1] Compared to 2010 as the base year.
[2] Waste generated by our production sites, excluding construction and demolition waste.

along the entire value chain. This includes improving income opportunities, chances for development for girls and women, and labor standards for the workforce in our supply chains.

Our brands and technologies are used a million times over, every day, in households and industrial processes. For this reason, we want to expand their contributions to sustainability by focusing more strongly on pioneering innovations and engaging our customers and consumers.

Management system and performance indicators

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

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

8.25%

Group WACC before tax in fiscal 2016.

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

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

Moreover, we report further key performance indicators, such as net working capital as a percentage of sales, return on capital employed (ROCE) and free cash flow, which we are aiming to further expand, as described in our financial ambition for 2020.

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

32

	2016	2017
Adhesive Technologies	10.75%	10.25%
Beauty Care	9.00%	9.00%
Laundry & Home Care	9.00%	9.00%
Henkel Group	**8.25%**	**7.75%**

WACC after tax by business unit

33

	2016	2017
Adhesive Technologies	7.50%	7.00%
Beauty Care	6.25%	6.25%
Laundry & Home Care	6.25%	6.25%
Henkel Group	**5.75%**	**5.50%**

Economic report

Macroeconomic and industry-related conditions

The general economic conditions described here are based on data published by IHS Global Insight.

Overview: moderate growth under persistently difficult underlying conditions

In 2016, the global economy achieved only moderate growth. Gross domestic product expanded by approximately 2.5 percent worldwide. The mature markets grew by approximately 1.5 percent, while the emerging markets achieved an increase of approximately 4 percent.

Industry and consumption: expansion at prior-year level

In 2016, private consumption increased by approximately 2.5 percent, while industrial production expanded by around 2 percent. Growth was stronger in export-dependent industries in particular and more subdued in consumer-related sectors.

Regions: emerging markets at prior-year level

Over the year as a whole, the North American economy grew by 1.5 percent. Western Europe showed moderate growth of around 2 percent, while the economy in Japan exhibited weaker growth of approximately 1 percent. Economic growth in Asia (excluding Japan) was approximately 5.5 percent, with China coming in slightly higher. The Africa/Middle East region recorded growth of approximately 2.5 percent. Growth in Eastern Europe was only moderate, at around 1 percent, impacted by the persisting difficult conditions in Russia. Economic performance in Latin America was negative, declining by around 1 percent.

Unemployment: global level unchanged year on year

Global unemployment was on a par with the prior year at around 7 percent. The unemployment rates in North America and Western Europe improved slightly year on year, coming in at approximately 5 percent and around 9 percent respectively. At approximately 6 percent, the unemployment rate in Germany was slightly lower than in the previous year. In Latin America, it rose to approximately 8.5 percent. The unemployment rate in Eastern Europe, Africa/Middle East and Asia (excluding Japan) declined slightly year on year.

Inflation: significant rise in global price levels

Global inflation was approximately 5 percent and thus higher year on year. Consumer prices increased by around 11 percent in the emerging markets, with only a slight rise being registered in the mature markets. The overall trend differed by region and country. Inflation rose slightly in Western Europe – including Germany – and in North America, but decreased slightly in Japan. Prices rose moderately in Asia, and significantly in Eastern Europe and Africa/Middle East. In Latin America, inflation was well into the double digits, due to developments in Venezuela.

Direct materials: slightly below prior-year level

In 2016, prices for direct materials (raw materials, packaging, and purchased goods and services) were slightly below the level of the prior year. This development was driven by lower prices for relevant input materials, particularly crude oil. In contrast, the price of palm kernel oil increased significantly in 2016 versus prior year. In our expectations for 2016, we had assumed that prices for direct materials would be more or less on a par with the prior-year level.

Currencies: devaluation in emerging markets

Currencies in the emerging markets of relevance to Henkel trended downward on average for the year, as expected. The US dollar remained relatively stable over the first nine months of the year, before appreciating toward the end of the fourth quarter. It closed at 1.05 US dollars to the euro at year-end. On average for the year as a whole, the US dollar remained stable against the euro, as expected.

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

Average rates of exchange versus the euro 34

	2015	2016
Chinese yuan	6.97	**7.36**
Mexican peso	17.61	**20.67**
Polish zloty	4.18	**4.36**
Russian ruble	68.05	**74.07**
Turkish lira	3.02	**3.34**
US dollar	1.11	**1.11**

Source: ECB daily foreign exchange reference rates.

Development by sector: moderate rise in global consumption

Private consumer spending grew moderately at a rate of approximately 2.5 percent. Consumer spending in mature markets increased by approximately 2 percent year on year. Consumers in North America increased their spending by around 3 percent. In Western Europe, consumer spending grew by approximately 2 percent compared to the previous year. Consumers in emerging markets spent around 3 percent more.

Industrial production increase at prior year level

Industrial production grew by around 2 percent in 2016 and was thus more or less on a par with the previous year.

A particularly important customer sector for Henkel, the transport industry, saw production expand by around 3 percent. Output in the electronics sector rose by around 4 percent and in the metal industry by around 2 percent. Growth was subdued in consumer-related sectors, such as the global packaging industry which recorded an increase of around 1 percent. The construction industry grew by approximately 3 percent.

Developments in industrial production differed from one region to the next. Manufacturing increased in North America and Western Europe by approximately 1 percent. At approximately 4 percent, growth in industrial production in the emerging markets was slightly higher year on year. Industrial production increased by approximately 3 percent in Africa/Middle East and by approximately 5 percent in Asia (excluding Japan), while continuing to decline in Latin America. Eastern Europe recorded an increase of around 2 percent in industrial production.

Review of overall business performance

In a challenging economic environment, Henkel continued the success of the previous year with a solid business performance and increased sales to 18,714 million euros.

+3.1%

organic sales growth.

Organically we achieved a sales increase of 3.1 percent. Our businesses in the emerging markets showed strong organic growth, with sales increasing by 6.8 percent. Organic sales growth in the mature markets was positive.

We increased adjusted[1] gross margin by 0.1 percentage points to 48.4 percent. Savings from cost reduction measures and efficiency improvements, selective price increases and slightly lower prices for direct materials (raw materials, packaging, and purchased goods and services) more than offset the negative impact of foreign exchange rate movements and acquisition effects.

As a result of our cost discipline and the adjustment of our structures to our markets and customers, we were able to further improve our profitability once again year on year. Adjusted return on sales increased by 0.7 percentage points in 2016, reaching a new all-time high of 16.9 percent (2015: 16.2 percent).

Adjusted earnings per preferred share grew to 5.36 euros, a significant increase of 9.8 percent over the 2015 figure of 4.88 euros.

We were able to improve net working capital as a percentage of sales by 0.3 percentage points to 3.5 percent.

We generated free cash flow of 2,205 million euros. We closed the year with a net financial position of −2,301 million euros (2015: 335 million euros).

Results of operations

Sales and profits

Sales in fiscal 2016 increased year on year to 18,714 million euros. The development of currency movements had a negative effect on sales of 3.6 percent. Adjusted for foreign exchange effects, sales grew by 7.1 percent. Acquisitions/divestments contributed to this performance with a 4.0-percent increase in sales, mainly as a result of our purchase of The Sun Products Corporation.

With growth of 3.1 percent, organic sales, i.e. sales adjusted for foreign exchange and acquisitions/divestments, showed a solid increase. This was mainly driven by volume.

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

Key financials by region[1]

35

in million euros	Western Europe	Eastern Europe	Africa/ Middle East	North America	Latin America	Asia-Pacific	Total Regions	Corporate	Henkel Group
Sales[2] 2016	**5,999**	**2,713**	**1,378**	**4,202**	**1,055**	**3,246**	**18,593**	**121**	**18,714**
Sales[2] 2015	6,045	2,695	1,329	3,648	1,110	3,134	**17,961**	128	**18,089**
Change from previous year	– 0.8 %	0.7 %	3.7 %	15.2 %	– 5.0 %	3.6 %	**3.5 %**	–	**3.5 %**
Adjusted for foreign exchange	0.1 %	7.4 %	12.2 %	15.2 %	15.9 %	6.0 %	**7.2 %**	–	**7.1 %**
Organic	– 0.1 %	7.0 %	5.6 %	1.7 %	13.8 %	3.2 %	**3.2 %**	–	**3.1 %**
Proportion of Group sales 2016	**32 %**	**15 %**	**7 %**	**22 %**	**6 %**	**17 %**	**99 %**	**1 %**	**100 %**
Proportion of Group sales 2015	34 %	15 %	7 %	20 %	6 %	17 %	**99 %**	1 %	**100 %**
Operating profit (EBIT) 2016	**1,335**	**328**	**111**	**505**	**126**	**485**	**2,890**	**– 115**	**2,775**
Operating profit (EBIT) 2015	1,223	356	141	544	110	434	**2,809**	– 164	**2,645**
Change from previous year	9.2 %	– 7.9 %	– 21.2 %	– 7.1 %	14.2 %	11.5 %	**2.9 %**	–	**4.9 %**
Adjusted for foreign exchange	9.9 %	– 0.8 %	– 14.0 %	– 7.1 %	66.9 %	15.0 %	**7.1 %**	–	**8.2 %**
Return on sales (EBIT) 2016	**22.3 %**	**12.1 %**	**8.1 %**	**12.0 %**	**11.9 %**	**14.9 %**	**15.5 %**	**–**	**14.8 %**
Return on sales (EBIT) 2015	20.2 %	13.2 %	10.6 %	14.9 %	9.9 %	13.9 %	**15.6 %**	–	**14.6 %**

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

Sales development[1]

36

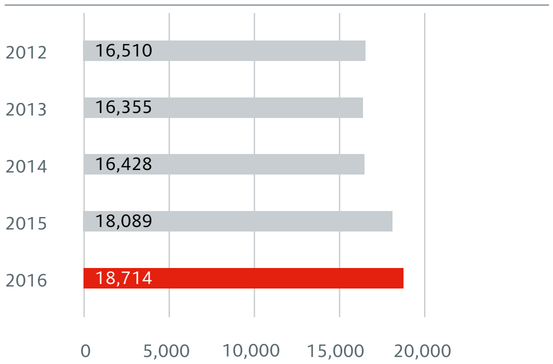
in percent	2016
Change versus previous year	**3.5**
Foreign exchange	**– 3.6**
Adjusted for foreign exchange	**7.1**
Acquisitions/divestments	**4.0**
Organic	**3.1**
of which price	**0.2**
of which volume	**2.9**

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

Sales

37

in million euros



We achieved a solid increase in organic sales in each of our business units. Organic sales grew by 2.8 percent in the Adhesive Technologies business unit, by 2.1 percent in Beauty Care, and by 4.7 percent in Laundry & Home Care.

Price and volume effects

38

in percent	Organic sales growth	of which price	of which volume
Adhesive Technologies	**2.8**	0.3	2.5
Beauty Care	**2.1**	0.4	1.7
Laundry & Home Care	**4.7**	0.0	4.7
Henkel Group	**3.1**	0.2	2.9

In a market environment that continues to be highly competitive, sales in the Western Europe region, at 5,999 million euros, were slightly down year on year. Organic sales were on a par with the previous year. The positive performance in Southern Europe did not entirely compensate for the decline in Germany and France. The share of sales from the region decreased to 32 percent.

We were able to increase sales in Eastern Europe by 0.7 percent to 2,713 million euros. Organically, sales grew by 7.0 percent. This very strong organic sales growth was primarily driven by the performance of our businesses in Russia and Turkey. The share of sales from the region remained unchanged at 15 percent.

Our sales in the Africa/Middle East region increased nominally by 3.7 percent to 1,378 million euros. Despite the political and social unrest in some countries, we were able to grow organic sales by 5.6 percent. The share of sales from the region remained unchanged at 7 percent.

Sales in the North America region increased substantially by 15.2 percent to 4,202 million euros. Organically, the region posted sales growth of 1.7 percent. In addition, the acquisition of The Sun Products Corporation also contributed substantially to the increase in nominal sales. The share of sales from the region increased to 22 percent.

Year on year, sales in Latin America declined by –5.0 percent to 1,055 million euros due to foreign exchange effects. Organically, sales grew by 13.8 percent. Double-digit organic sales growth by our businesses in Mexico made an especially important contribution to this performance. The share of sales from the region remained unchanged at 6 percent.

Sales in the Asia-Pacific region increased year on year by 3.6 percent to 3,246 million euros. Organically, we were able to increase regional sales by 3.2 percent. The share of sales from the Asia-Pacific region remained stable at 17 percent.

16.9%

adjusted return on sales, up 0.7 percentage points.

Sales in the emerging markets of Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan) were slightly higher year on year at 7,814 million euros. Organically, we increased sales by 6.8 percent, driven by all business units. Thus the emerging markets again made an above-average contribution to organic sales growth. The share of sales from emerging markets was 42 percent, which was slightly lower year on year due to foreign exchange and acquisition effects.

In order to adapt our structures to our markets and customers, we spent 277 million euros on restructuring (previous year: 193 million euros). A substantial portion of this amount was used to reorganize our business in North America following the acquisition of The Sun Products Corporation. We also progressed with the combination of our supply chain and sourcing activities into one integrated Global Supply Chain organization, and continued to integrate newly acquired entities and brands.

The following explanations relate to results adjusted for one-time charges/gains and restructuring expenses, in order to provide a more transparent presentation of operational performance.

Adjusted operating profit (EBIT)

39

in million euros	2015	2016	+/–
EBIT (as reported)	**2,645**	**2,775**	**4.9%**
One-time gains	–15	**–1**	
One-time charges	100	**121**	
Restructuring expenses	193	**277**	
Adjusted EBIT	**2,923**	**3,172**	**8.5%**

We were able to increase adjusted operating profit (adjusted EBIT) to 3,172 million euros, a rise of 8.5 percent on the prior-year figure of 2,923 million euros. All three business units contributed to this positive development. We improved adjusted return on sales (adjusted EBIT margin) for the Group by 0.7 percentage points to 16.9 percent.

Adjusted return on sales in the Adhesive Technologies business unit showed an increase of 1.1 percentage points, reaching a new all-time high of 18.2 percent for the year. The Beauty Care business unit was also again able to increase its adjusted return on sales, reaching 16.9 percent for the first time (2015: 15.9 percent). Adjusted return on sales of the Laundry & Home Care business unit, excluding the acquisitions completed in 2016, showed a very strong increase. Taking the acquisitions in 2016 into account, adjusted return on sales showed a solid increase, reaching a new all-time annual high of 17.3 percent (previous year: 17.1 percent).

In all business units, we benefited from our successful innovations together with ongoing measures to reduce costs and improve efficiency. Slightly lower prices for direct materials also had a positive impact.

Further explanations relating to our business performance can be found in the description of the business units starting on page 88.

Guidance versus performance 2016

40

	Guidance for 2016	Updated guidance for 2016*	Performance in 2016
Organic sales growth	Henkel Group: 2–4 percent All business units within this range	Henkel Group: 2–4 percent All business units within this range	Henkel Group: 3.1 percent Adhesive Technologies: 2.8 percent Beauty Care: 2.1 percent Laundry & Home Care: 4.7 percent
Percentage of sales from emerging markets	Slight increase compared to prior-year level	Slight decrease compared to prior-year level	Slight decrease compared to prior-year level
Adjusted return on sales (EBIT)	Increase to around 16.5 percent	Increase to more than 16.5 percent	Increase to 16.9 percent
Adjusted earnings per preferred share	Increase of 8–11 percent	Increase of 8–11 percent	Increase of 9.8 percent

* Updated on August 11, 2016.

Comparison between actual business performance and guidance

We updated our guidance for fiscal 2016 in August 2016: We expected Henkel Group to generate organic sales growth of 2 to 4 percent. We also anticipated a slight decrease in the share of sales from our emerging markets due to foreign exchange effects. For adjusted return on sales (EBIT), we forecasted an increase to more than 16.5 percent for fiscal 2016 and anticipated that the adjusted return on sales of each individual business unit would be above the level of the previous year. We expected an increase in adjusted earnings per preferred share of between 8 and 11 percent.

With organic growth of 3.1 percent, we achieved our sales growth forecast of 2 to 4 percent. Organic sales growth in the Adhesive Technologies and Beauty Care business units was within this range, as expected. The Laundry & Home Care business unit achieved organic sales growth of 4.7 percent, not least due to a solid fourth quarter. This was somewhat stronger than forecasted.

As anticipated, the share of sales from emerging markets was slightly lower year on year at 42 percent, due to both the effect of exchange rate movements and the acquisition of The Sun Products Corporation.

Adjusted return on sales of the Henkel Group increased by 0.7 percentage points to 16.9 percent. This growth was in line with our updated guidance of more than 16.5 percent.

The significant increase in adjusted earnings per preferred share of 9.8 percent to 5.36 euros (2015: 4.88 euros) is consistent with our forecast of growth expected in a range of 8 to 11 percent.

Our restructuring expenses totaled 277 million euros and were thus within the expected bandwidth that we revised to 250 million to 300 million euros in November 2016. Capital expenditures on property, plant and equipment and intangible assets totaled 543 million euros in fiscal 2016. In November 2016, we had expected capital expenditures of between 550 million and 600 million euros.

42 %
of our sales generated in emerging markets.

€ 5.36
adjusted earnings per preferred share.

41

Reconciliation from sales to adjusted operating profit[1]

in million euros	2015	%	2016	%	Change
Sales	**18,089**	**100.0**	**18,714**	**100.0**	**3.5 %**
Cost of sales	– 9,350	– 51.7	**– 9,665**	**– 51.6**	3.4 %
Gross profit	**8,739**	**48.3**	**9,049**	**48.4**	**3.5 %**
Marketing, selling and distribution expenses	– 4,521	– 25.0	**– 4,543**	**– 24.4**	0.5 %
Research and development expenses	– 464	– 2.6	**– 460**	**– 2.5**	– 0.9 %
Administrative expenses	– 878	– 4.8	**– 868**	**– 4.6**	– 1.1 %
Other operating income/expenses	47	0.3	**– 6**	**0.0**	–
Adjusted operating profit (EBIT)	**2,923**	**16.2**	**3,172**	**16.9**	**8.5 %**

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

Expense items

The following explanations relate to our operating expenses adjusted for one-time charges/gains and restructuring expenses. The reconciliation statement and the allocation of the restructuring expenses between the various expense items of the consolidated statement of income can be found on page 171.

The cost of sales increased by 3.4 percent to 9,665 million euros. Gross profit increased by 3.5 percent to 9,049 million euros. Savings from cost reduction measures and efficiency improvements, selective price increases and slightly lower prices for direct materials (raw materials, packaging, and purchased goods and services) more than offset the negative impact of foreign exchange rate movements as well as acquisition effects, and enabled us to improve gross margin by 0.1 percentage points to 48.4 percent.

€2,093m
net income.

At 4,543 million euros, marketing, selling and distribution expenses slightly exceeded the prior-year figure of 4,521 million euros. Compared to fiscal 2015, the ratio to sales decreased to 24.4 percent. We spent a total of 460 million euros for research and development. The ratio to sales, at 2.5 percent, was on a par with the prior year. Administrative expenses decreased to 868 million euros (2015: 878 million euros). At 4.6 percent, administrative expenses as a percentage of sales were slightly lower year on year.

Other operating income and expenses

At –6 million euros, the balance of adjusted other operating income and expenses decreased year on year (2015: 47 million euros), arising mainly from lower gains on disposals of non-current assets.

Financial result

The financial result improved from –42 million euros to –33 million euros. The financing costs relating to the acquisition of The Sun Products Corporation were more than offset by the positive effects from redeeming the hybrid bond.

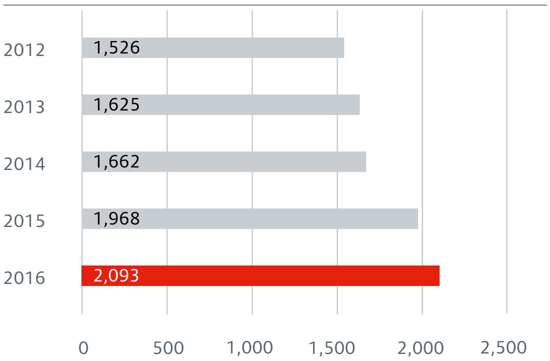
Net income and earnings per share (EPS)

Income before tax increased by 139 million euros to 2,742 million euros. Taxes on income amounted to 649 million euros. The tax rate of 23.7 percent was slightly lower year on year (2015: 24.4 percent). The adjusted tax rate decreased year on year by 0.3 percentage points to 24.7 percent. Net income increased by 6.4 percent from 1,968 million euros to 2,093 million euros. After taking into account 40 million euros attributable to non-controlling interests, net income attributable to shareholders of Henkel AG & Co. KGaA amounted to 2,053 million euros, 6.9 percent higher than the prior-year figure (2015: 1,921 million euros). Adjusted net income after deducting non-controlling interests was 2,323 million euros compared to 2,112 million euros in fiscal 2015. 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 100 to 103.

42

Net income

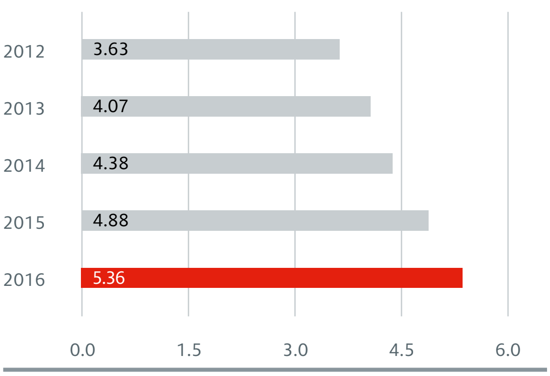
in million euros



Earnings per preferred share rose from 4.44 euros to 4.74 euros. Earnings per ordinary share increased from 4.42 euros to 4.72 euros. Adjusted earnings per preferred share rose by 9.8 percent to 5.36 euros (2015: 4.88 euros).

Adjusted earnings per preferred share 43

in euros

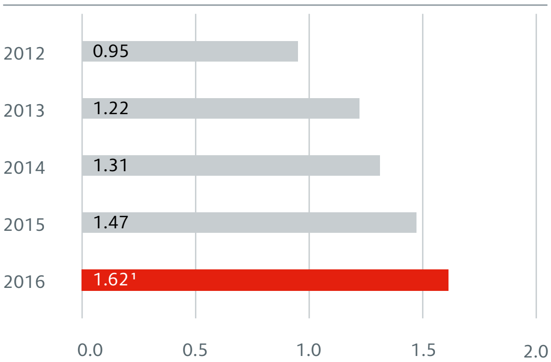


Dividends

According to our dividend policy, dividend payouts of Henkel AG & Co. KGaA shall, depending on the company's asset and profit positions as well as its financial requirements, amount to 25 percent to 35 percent of net income after non-controlling interests and adjusted for exceptional items. We will propose to the Annual General Meeting an increased dividend compared to the previous year: 1.62 euros per preferred share and 1.60 euros per ordinary share. The payout ratio would then be 30.3 percent.

Preferred share dividend 44

in euros



[1] Proposal to shareholders for the Annual General Meeting on April 6, 2017.

Return on capital employed (ROCE)

At 17.5 percent, return on capital employed (ROCE) decreased year on year, mainly due to the capital effect of acquisitions.

+9.8%

increase in adjusted earnings per preferred share.

Economic Value Added (EVA®)

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

Net assets and financial position

Acquisitions and divestments

Effective May 31, 2016, we acquired 57.5 percent of the shares of Expand Global Industries UK Limited, London, UK. Expand Global Industries UK Limited holds nearly 100 percent of the shares of Expand Global Industries Ltd. headquartered in Ibadan, Nigeria, which has a strong presence in the detergent market in Nigeria. With this acquisition, the Laundry & Home Care business unit has expanded its detergent business.

Effective June 1, 2016, we completed the acquisition of a range of hair care brands and the associated hair care business of Procter & Gamble in the Africa/Middle East and Eastern Europe regions.

Effective June 30, 2016, we acquired the tile adhesives business and the associated brands of the Colombian company Alfagres S.A. With this, the Adhesive Technologies business unit has expanded its business in the segment Adhesives for Consumers, Craftsmen and Building.

30.3%

proposed dividend payout ratio.

Effective August 15, 2016, we completed the acquisition of all shares of Zhejiang Golden Roc Chemicals JSC, China, expanding our superglue business in the Adhesive Technologies business unit.

Effective August 21, 2016, we completed the acquisition of the detergent business and the associated brands of Behdad Chemical Company PJSC in Iran.

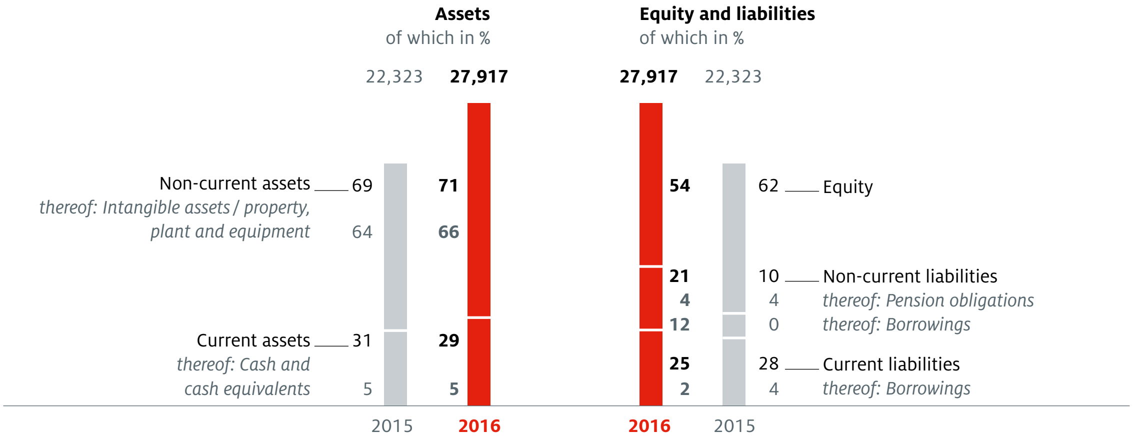
Effective September 1, 2016, we completed the acquisition of all shares of The Sun Products Corporation, a laundry and home care company based in Wilton, Connecticut, USA.

Effective December 8, 2016, we completed the acquisition of all shares of Jeyes Group Limited, UK.

Additional disclosures relating to the acquisitions and divestments can be found on pages 123 to 126 of the notes to the consolidated financial statements.

45

Financial structure
in million euros



€ 543 m

investments in property, plant and equipment and intangible assets.

Neither the acquisitions and divestments nor other measures undertaken resulted in any material changes in our business and organizational structure. For detailed information on our organization and business activities, please refer to the disclosures on pages 57 and 58.

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

Capital expenditures
In the reporting period, capital expenditures (excluding acquisitions) amounted to 543 million euros. Investments in property, plant and equipment for existing operations totaled 460 million euros, following 514 million euros in 2015. We invested 83 million euros in intangible assets (2015: 111 million euros). Around two-thirds of the expenditures were channeled into expansion projects, innovations and streamlining measures, which included increasing our production capacity, introducing innovative product lines, and optimizing our production structure and business processes.

The major projects of 2016 were as follows:
- Consolidation of our production footprint and expansion of production capacities in China (Adhesive Technologies)
- Expansion of warehousing and logistics capacities in Germany (Laundry & Home Care)
- Expansion of production capacity and optimization of the logistics structure in Russia (Laundry & Home Care)
- Global optimization of our supply chain and consolidation and optimization of our IT system architecture for managing business processes

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

The acquisitions resulted in additions to intangible assets and property, plant and equipment in the amount of 3,866 million euros. Details of these additions can be found on pages 131 to 136 of the notes to the consolidated financial statements.

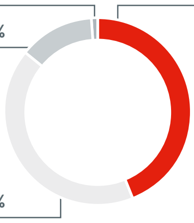
Capital expenditures 2016

46

in million euros	Existing operations	Acquisitions	Total
Intangible assets	83	3,589	**3,672**
Property, plant and equipment	460	277	**737**
Total	**543**	**3,866**	**4,409**

Capital expenditures by business unit[1]

47



Corporate = sales and services not assignable to the individual business units.
[1] Existing operations.

Net assets

Compared to year-end 2015, total assets rose by 5.6 billion euros to 27.9 billion euros.

Under **non-current assets,** intangible assets increased by 3,861 million euros, and property, plant and equipment by 226 million euros. The increase was mainly due to acquisitions. Capital expenditures of 460 million euros on assets in property, plant and equipment were partially offset by depreciation of 364 million euros.

Current assets increased from 6.9 billion euros to 8.2 billion euros. This was attributable in particular to higher trade accounts receivable and an increase in inventories. Cash and cash equivalents also increased by 213 million euros in the reporting period.

Compared to year-end 2015, **equity** including non-controlling interests increased by 1.4 billion euros to 15.2 billion euros. The individual components influencing equity development are shown in the consolidated statement of changes in equity on page 119. Equity rose with the addition of net income amounting to 2,093 million euros. The dividend distribution in April 2016 and the adjustment of –138 million euros resulting from the remeasurement of the net liability from defined benefit pension plans led to a reduction in equity. Compared to year-end 2015, the equity ratio decreased by 7.5 percentage points to 54.4 percent due to the debt-financed acquisition of the shares of The Sun Products Corporation.

Non-current liabilities increased by 3.5 billion euros to 5.7 billion euros, mainly as a result of higher borrowings following the acquisition of the shares of The Sun Products Corporation, and a rise in other financial liabilities.

Current liabilities increased by 0.7 billion euros to 7.0 billion euros. The increase was substantially attributable to higher trade accounts payable and other provisions, partially offset by lower borrowings.

Effective December 31, 2016, our **net financial position**[1] amounted to –2,301 million euros (December 31, 2015: 335 million euros). The change compared to the end of the previous year was primarily due to payments for acquisitions.

€–2,301 m net financial position.

Net financial position

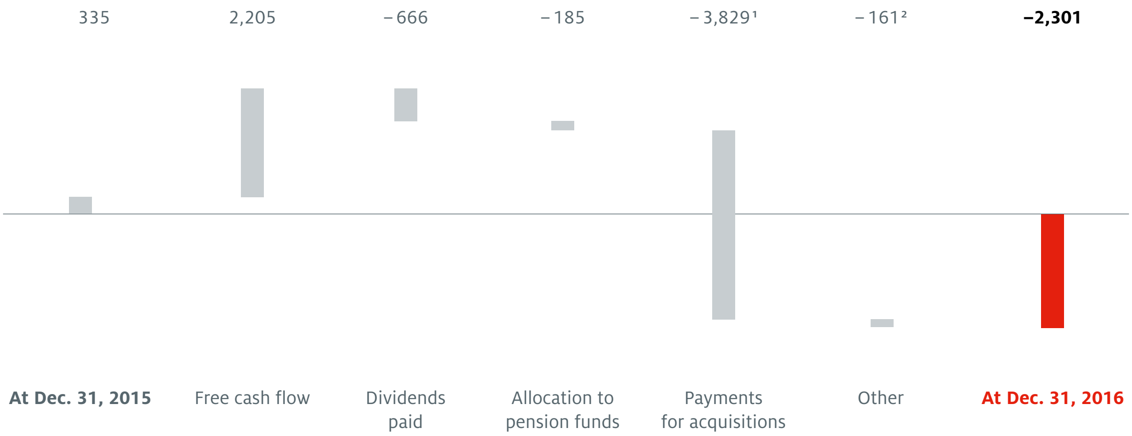
48

in million euros	
2012	–85
2013	959
2014	–153
2015	335
2016	**–2,301**

[1] Cash and cash equivalents plus readily monetizable financial instruments classified as “available for sale” or using the “fair value option,” less borrowings, plus positive and less negative fair values of hedging transactions.

49

Net financial position
in million euros



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

€ 2,205 m
free cash flow.

Financial position
At 2,850 million euros, **cash flow from operating activities** in 2016 was significantly higher versus the previous year (2,384 million euros). Apart from the higher operating profit, this increase was due to higher inflows from trade accounts payable and other liabilities, and provisions compared to 2015.

Net working capital[1] as a percentage of sales improved by 0.3 percentage points to 3.5 percent year on year, despite acquisitions.

The cash outflow in **cash flow from investing activities** (–4,250 million euros) was substantially higher compared to prior year (–893 million euros). The increase is primarily attributable to acquisitions resulting in higher investments in subsidiaries and other business units compared to 2015.

The cash inflow in **cash flow from financing activities** of 1,678 million euros (2015: –1,555 million euros) resulted mainly from the debt capital obtained to fund acquisitions. Higher dividend payments and allocation to pension funds reduced this figure.

Cash and cash equivalents rose compared to December 31, 2015 by 213 million euros to 1,389 million euros.

The increase in **free cash flow** to 2,205 million euros in 2016 (2015: 1,690 million euros) resulted from higher cash flow from operating activities.

Financing and capital management
Financing of the Group is centrally managed by Henkel AG & Co. KGaA. Funds are, as a general rule, obtained centrally and distributed within the Group. Our financial management is based on the financial ratios defined in our financial strategy (see table of key financial ratios on page 73). We pursue a conservative and flexible investment and borrowings policy with a balanced investment and financing portfolio. The primary goals of our financial management are to secure the liquidity and creditworthiness of the Group, together with ensuring access at all times to the capital market, and to generate a sustainable increase in shareholder value. Measures deployed in order to achieve these aims include optimization of our capital structure, adoption of an appropriate dividend policy, equity management and debt reduction. Our capital needs and capital procurement activities are coordinated to ensure that requirements with respect to earnings, liquidity, security and independence are taken into account and properly balanced.

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

In fiscal 2016, Henkel paid a higher dividend for both ordinary and preferred shares compared to 2015. Cash flows not required for capital expenditures, dividends and interest payments were used for allocations to pension funds and to finance acquisitions. We covered our short-term financing requirement primarily through commercial paper. Our multi-currency commercial paper program is additionally secured by a syndicated credit facility.

Our credit rating is regularly assessed by the rating agencies Standard & Poor's and Moody's. As in the previous year, our ratings remain within the "single A" target corridor, at "A"/"A–1" (Standard & Poor's) and "A2"/"P1" (Moody's). Even after the acquisition of The Sun Products Corporation, both Standard & Poor's and Moody's continue to rate Henkel as investment grade, which is the best possible category.

Credit ratings 50

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

At December 31, 2016

We financed the acquisition of The Sun Products Corporation by taking out a three-year syndicated bank loan of 1.1 billion US dollars and issuing four fixed-rate bonds in September 2016 with a total volume of 2.2 billion euros.

As of December 31, 2016, our borrowings totaled 3,725 million euros and mainly comprised the bonds we had issued, the syndicated bank loan and commercial paper.

Henkel's financial risk management activities are explained in the risks and opportunities report on pages 104 to 111. Further detailed information on our financial instruments can be found in the financial instruments report on pages 153 to 165 of the notes to the consolidated financial statements.

Key financial ratios

Our operating debt coverage in the reporting period was above the minimum of 50 percent, as it was at year-end 2015. The reduction in operating debt coverage is primarily due to the lower net financial position following the financing of the acquisitions made in the current year. The interest coverage ratio improved further in 2016.

Key financial ratios 51

	2015	2016
Operating debt coverage (net income + amortization and depreciation, impairment and write-ups + interest element of pension obligations) / net borrowings and pension obligations	375.2 %	**80.8 %**
Interest coverage ratio EBITDA / interest result including interest element of pension obligations	75.7	**107.9**
Equity ratio equity / total assets	61.9 %	**54.4 %**

Left: HR management is supporting the digital transformation process and strengthening digital forms of learning and cooperation. Right: Internships and shadowing allow refugees to learn more about professions and career opportunities – here at Henkel's "Forscherwelt" young researcher facility in Düsseldorf.

Employees

At the end of 2016, Henkel employed around 51,350 people worldwide (annual average: around 49,950). The headcount as of December 31, 2016, was above the figure at year-end 2015 (around 49,450). The increase was primarily due to the acquisitions in our Laundry & Home Care business unit. Personnel expenses amounted to 3,001 million euros.

The commitment, skills and experience of all of our employees are the foundations on which we build our international success. We focused on the following areas to strengthen our global team in fiscal 2016:

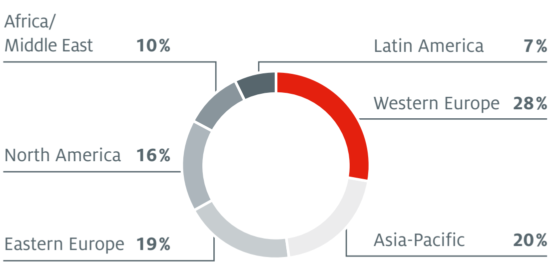
- We further strengthened our performance culture. One of the characteristics of our globally standardized management assessment system is a feedback culture that is specifically tailored to the personal development of each individual.
- We actively promote work-life flexibility. We encourage our managers to set an example and promote flexible work models.
- We support the digital transformation of our entire organization and are strengthening digital forms of learning and cooperation. We make it possible for our employees to access various in-house and external sources of knowledge on a flexible basis, and support their ongoing personal development.
- The diversity of our team is a key driver of our business success. We increased the share of women in management versus the previous year by more than 1 percentage point to around 34 percent.
- We have successfully expanded the channels of communication we use to recruit new members of staff. Increasingly, we actively approach potential candidates through digital networks and on the basis of staff recommendations.
- In 2016, as part of our social engagement activities, we continued to provide comprehensive support for the volunteering activities of our employees and assistance to people facing challenging circumstances.

Promoting and committing to our performance culture

We hold regular assessment meetings and provide open and fair feedback to specifically promote the development of our people. Our Development Round Table forms the basis for the annual assessment and development meetings for about 11,000 managers and around 1,300 selected non-managerial talents.

Employees by region

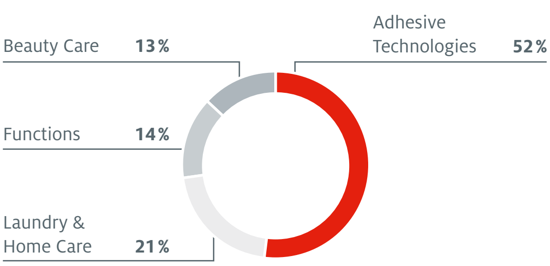
52



At December 31, 2016

Employees by organizational unit

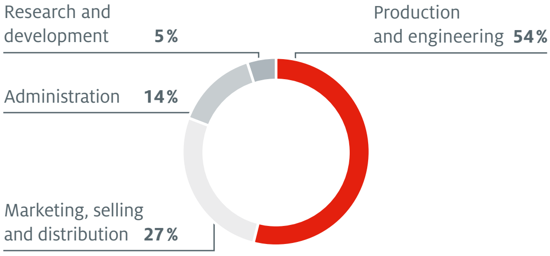
53



At December 31, 2016

Employees by activity

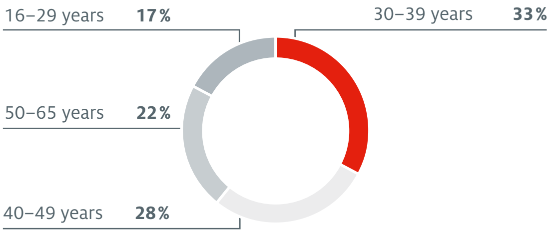
54



At December 31, 2016

Employees by age group

55



At December 31, 2016

Apart from providing feedback on performance and potential, our managers discuss development plans and possible career opportunities with their staff. In addition to this globally established assessment system, we also ensure we pay competitive wages and salaries. We have established an internationally standardized incentive system for managers that takes account of the personal performance of staff and reflects our medium-term financial ambition. It serves to highlight the personal contribution made by each individual and offers incentives for outstanding performance.

In assessing performance, we avoid focusing on employees having to be at a certain place at certain times. For us, it is the result that counts. Supported by digitalization, our employees can approach their work flexibly. We encourage our managers to promote flexible work models and to actively help in the reconciliation of career with a person's private sphere. This not only raises the satisfaction of our existing team; it is also a decisive factor in the competition for future employees.

Digital working environment

We take full advantage of the opportunities offered by digitalization. It starts with our approach to potential job applicants and continues through the company: how we communicate with our employees, how we actively engage them and network them with one another, in the design of flexible work models, and in the automation of processes. Indeed, the entire daily work routine is being increasingly shaped by digital forms of cooperation. Modern communication and network technologies enable us to give our workforce more independence to choose where and when to work, which also makes it easier to virtually manage international teams comprising members from different sites.

Some 24,500 members of staff now use Yammer, our digital network, to learn from and to work with one another on a more efficient basis. There are more than 850 topic-specific groups for staff to exchange ideas, and this has now become part of the everyday routine for many of them. Members of staff from entirely different parts of the company who would not necessarily have any dealings with one another in their everyday work are able to use the network to contact each other. Through this, we encourage an interdisciplinary approach to problem-solving and

Employees

56

(At December 31)	2012	%	2013	%	2014	%	2015	%	2016	%
Western Europe	14,600	31.3	14,400	30.7	14,900	30.0	14,900	30.2	**14,450**	**28.1**
Eastern Europe	9,150	19.7	9,600	20.5	10,000	20.1	9,800	19.8	**9,500**	**18.5**
Africa/Middle East	5,100	11.0	4,800	10.2	4,850	9.7	4,700	9.4	**5,250**	**10.2**
North America	5,200	11.1	5,150	11.0	6,200	12.5	6,250	12.7	**8,300**	**16.2**
Latin America	3,650	7.8	3,750	8.0	3,650	7.3	3,500	7.1	**3,550**	**6.9**
Asia-Pacific	8,900	19.1	9,150	19.6	10,150	20.4	10,300	20.8	**10,300**	**20.1**
Total	**46,600**	**100.0**	**46,850**	**100.0**	**49,750**	**100.0**	**49,450**	**100.0**	**51,350**	**100.0**

Basis: permanent employees excluding apprentices. Figures rounded.

Around **34** %

of our managers are women.

to make better use of existing knowledge by promoting the exchange of ideas throughout the company.

Digital platforms give our employees fast and flexible access to general training content. We encourage our workforce to integrate knowledge-building exercises into their everyday work routines. 2016 marked the first year in which we offered management-related Massive Open Online Courses (MOOCs) and webinars in collaboration with IESE Business School for live attendance by our employees around the globe. More than 200 people took advantage of this service.

Developing employees and providing specific training

Henkel offers 25 apprenticeship and dual-track study programs in Germany. In 2016, we welcomed 159 new apprentices and students. Currently, close to 500 apprentices and students are working toward a professional qualification at Henkel in Germany.

We use different learning formats in providing training opportunities around the world so as to strengthen our global team. Based on their individual needs and development plans, employees can choose general or function-specific seminars. One of the new modules added this year focuses on career orientation, training our staff to assess how they can best leverage their potential. We enhance the Henkel Global Academy with content from external providers to give us more flexibility in offering the training content we need. One pilot project focuses primarily on video-based training sessions covering current digital issues such as digital marketing. Through this approach, we are able to help our employees to navigate the digital world efficiently and to grasp the opportunities associated with it.

Valuing diversity

The success of our business is driven by the diversity and individuality of our people. We are proud of our strong global team. We place great value on encouraging diversity in an inclusive environment. The approach we adopt is holistic, embracing individual characteristics together with personal experience, knowledge and skills.

Promoting women in management is key to strengthening the diversity within our company. In 2016, we were able to increase the share of women in management by more than 1 percentage point versus the previous year.

Women in management 57

	2012	2013	2014	2015	2016
Henkel	32.6 %	32.9 %	33.2 %	33.6 %	**33.1 %**
Managers	30.5 %	31.6 %	32.5 %	33.1 %	**34.3 %**
Top managers[1]	18.6 %	19.8 %	20.6 %	21.1 %	**22.5 %**

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

The inclusive attitude of our staff is key to our successful international and intercultural collaboration. In their everyday dealings with colleagues from all over the world, our employees learn to adapt to one another. Hence Henkel also provides opportunities for international experience along an individual's career path as a means of promoting new ways of thinking and the acceptance and adoption of new perspectives. It also enables us to nurture the performance capabilities of our people.

We place great importance on all employees behaving inclusively and making every personal effort to promote an inclusive work environment. During our global Diversity Weeks, we again organized numerous activities to highlight the diversity of our global team.

Recruiting top talent for Henkel

We compete internationally for the most talented professionals. The established channels of communication used to recruit new members of staff have been successfully extended. We are making more use of digital networks to actively approach potential candidates. We are thus able to reach them directly and inspire them to work for Henkel through fast, personalized communication.

In many countries, we also make successful use of staff recommendations of potential candidates. Our staff know best which sort of people fit us and can enhance the performance capabilities of our company.

We remain in contact with highly qualified students and graduates whom we meet at our university events or whom we get to know during internships. We use our digital platforms to inform selected talents about career opportunities and the latest news at our company. In 2016, our public social media channels focusing on career topics had more than 750,000 fans and followers.

Acting sustainably and responsibly

For Henkel, it is a matter of course that, beyond our business operations, we accept our responsibility toward society around the world. The volunteer work of our employees and retirees in numerous social projects also makes a substantial contribution in this regard. We have been supporting these activities for many years.

Overall, we donated around 8 million euros throughout the world in 2016 to sponsor more than 2,000 projects that reached more than 1.2 million people.

Educational initiatives are a key focus of our social engagement. Education is an essential foundation on which to build both the personal development of each individual and a functioning society. We focus primarily on projects and initiatives that allow the involvement of our employees.

Throughout Europe, helping refugees was a key area of focus in 2016. Henkel's efforts to help in this respect were concentrated on integration in the labor market. We offered some 100 refugees who had fled to Germany the opportunity to prepare for working life in a range of projects which included work-oriented language courses and internships.

We also depend on the commitment of our staff to successfully implement our sustainability strategy. Sustainability issues therefore form a large part of our internal communications and are specifically integrated into our current training and education programs. In 2012, we launched our Sustainability Ambassadors program to offer our people additional qualifications and to give them opportunities for social engagement. By the end of 2016, more than 10,000 employees had successfully taken part in the program, including the entire Management Board. As part of the program, these employees have meanwhile also passed on their knowledge to around 84,000 elementary school children in 47 countries.

Procurement

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

Aside from supply and demand, the prices of direct materials are mainly determined by the prices of the input materials used to manufacture them. At the start of 2016, prices for input materials were much lower by year-on-year comparison, gradually rising as the year progressed. As a result, prices overall were higher in the fourth quarter than in the first quarter. The situation differed by both region and type of input material. Despite increasing over the course of the year, the average price of crude oil – and with it the prices of other petrochemicals such as ethylene – was lower year on year. Prices for corrugated paper and cardboard also declined slightly. In contrast, the price of palm kernel oil increased significantly in 2016 versus the previous year. Overall, prices for direct materials in 2016 were slightly below the level of the prior year.

Direct material expenditures amounted to 8.0 billion euros and were therefore higher than 2015. Savings from cost-reduction measures, improvements in production and supply chain efficiency, and slightly declining prices were offset by foreign exchange and acquisition effects, among others.

€8.0bn
expenditures on direct materials.

Our five most important groups of raw materials within the direct materials category are washing-active substances (surfactants), raw materials for use in hotmelt adhesives, inorganic raw materials, water- and acrylic-based adhesive raw materials, and raw materials for polyurethane-based adhesives. These account for around 38 percent of our total direct material expenditures. Our five largest suppliers account for around 11 percent of purchasing volume in direct materials.

Purchases made in the general category of **indirect materials** and services are not directly used in the production of our finished products. Examples include maintenance materials, and logistics, marketing and IT services. We were able to more than compensate for the marginal increases in gross prices in these areas in 2016 through our global procurement strategy and structural cost-reduction measures. At 4.7 billion euros, expenditure on indirect materials and services in 2016 was lower year on year.

In order to improve efficiency and secure material supplies, we continuously optimize our value chain while ensuring that we maintain 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 purchasing strategy. Together with the three business units, Purchasing works continuously on reducing product complexity, optimizing the raw materials mix and further standardizing packaging and raw materials. We enter into long-term business relationships with selected suppliers to encourage the development of innovations, and to optimize manufacturing costs and logistics processes. At the same time, we ensure the risk of supply shortages is minimized. We also agree on individual targets with our strategic suppliers to strengthen our negotiating position and give us greater flexibility in consolidating our supplier base. In 2016, we succeeded in reducing the number of suppliers by approximately 9 percent.

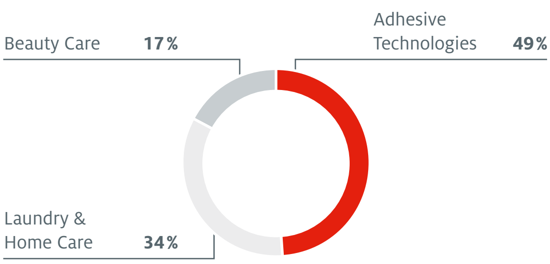
We were able to increase the efficiency of our purchasing activities by further standardizing, automating and centralizing our procurement processes. In addition to again making greater use of eSourcing tools to support our purchasing operations, we have also pooled large portions of our purchasing administration activities such as order processing, price data maintenance, and reporting activities within our shared service centers. We are also integrating our production, logistics and purchasing activities across all business units in one integrated global supply chain organization. This organization is managed from its head office in Amsterdam and from a branch office in Singapore. Following successful completion of the first implementation stage in 2015, we achieved on-schedule introduction in a further 11 European countries in 2016. We also made progress with the digitalization of our purchasing activities. For example, we launched digital communication platforms to optimize collaboration with our strategic suppliers and rolled out new digital applications to raise the transparency of our value chain.

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

We expect our suppliers and contractual partners to conduct themselves in a manner consistent with our own corporate ethics and values. The basic requirements in this regard are set out in our purchasing standards, valid across the Group, and our safety, health and environmental standards, initially formulated in 1997, through which we have long acknowledged our responsibility for the entire supply chain. Consequently, in selecting our suppliers and contractual partners, we take into account their performance in terms of sustainable development. We use the cross-industry Code of Conduct published by the German Federal Association of Materials Management, Purchasing and Logistics (BME) as a globally applicable supplier code, and the basis for our multistage Responsible Supply Chain Process. The objec-

Material expenditures by business unit

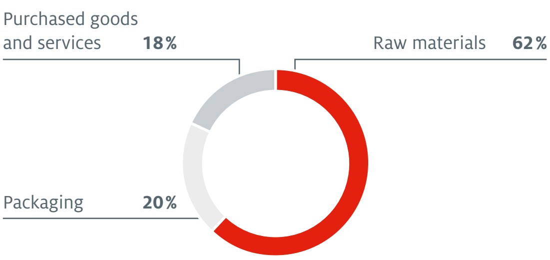
58



At December 31, 2016

Material expenditures by type

59



At December 31, 2016

tive of this process is to ensure supplier compliance with these standards and to improve the sustainability levels of our supply chain in tandem with our strategic suppliers. A global training program ensures that the requirements regarding the sustainability profile of our suppliers are understood and properly applied by our employees in Purchasing.

The evaluation of our suppliers with respect to sustainability is based on a comprehensive assessment and audit program which we developed as a common standard in 2011 together with five other companies in the chemical industry under the initiative "Together for Sustainability." The results of audits and assessments are shared among the members of the initiative, producing valuable synergies when evaluating what are – in many cases – common suppliers. The Together for Sustainability initiative continued to grow in the past year and now includes 19 members. Global implementation of the assessment and audit program was continued through various events including a supplier conference in Mumbai, India, and a supplier training program in Shanghai, China. The initiative again received recognition last year when Together for Sustainability and EcoVadis, which is a partner to the initiative, were awarded the Market Transformation Award 2016 by the Sustainable Purchasing Leadership Council (SPLC).

Production

In 2016, Henkel manufactured products of a total weight of 8.5 million metric tons at 171 sites in 57 countries. Our largest production facility is in Düsseldorf, Germany. Here we manufacture not only laundry detergents and household cleaners but also adhesives for consumers and craftsmen, and products for our industrial customers.

171

production sites.

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

Number of production sites 60

	2015	2016
Adhesive Technologies	135	**134**
Beauty Care	7	**7**
Laundry & Home Care	28	**30**
Total	**170**	**171**

The global production network in the **Adhesive Technologies** business unit spans 134 sites and is strictly aligned to demand in its sales markets. Capital expenditures are used to expand capacities, predominantly in emerging markets. At the same time, we invest in the implementation of customer-specific requirements and continuous production optimization in the mature markets. Other focus areas include the leveraging of cutting-edge manufacturing technologies, exploiting cost and quality advantages in the manufacture of our products, and improving our production and warehousing network to suit our needs.

Our multi-technology sites play a particularly important role as they combine various manufacturing technologies with a shared infrastructure to exploit economies of scale. In addition to expansions in China and the ongoing development of our plant in India, we also further expanded our Eastern European multi-technology site in Hungary and laid the foundation for a further plant in Turkey. These sites help us provide the best possible service within a growing and dynamic market environment. With the opening of our plant in Georgia, we are also driving growth in building material products in Eastern Europe.

Optimized structures and workflows in our plants and the production network are key elements in an integrated and optimized supply chain. Our lean teams have not only put numerous optimization measures in place at our production sites; they have also improved integration into the overall process.

Again in 2016, our focus in the **Beauty Care** business unit was on further enhancing our agility and on delivering excellent customer service. In order to respond more quickly and flexibly to market changes, we are also driving forward implementation of Industry 4.0. The integration of our production, logistics and purchasing activities in our new Global Supply Chain organization has boosted the optimization and further development of our global processes. We have achieved a substantial improvement in our service level through increased integration of the planning processes across the entire supply chain as far as the interface with our customers. We have also focused on complexity control to raise efficiency when managing the product diversity that Beauty Care offers to meet the various needs of its global customer base.

In addition to capital expenditures at European sites, we also invested extensively in emerging markets to support organic growth. In particular, Eastern Europe saw further expansion of the factory in Russia and an increase in production capacities enabling us to supply local markets with even greater speed and efficiency. Another focal point of our activity was the strategic further development of our production network in order to ensure long-term growth in emerging markets.

The motivation of our people, supported by the consistent implementation of our continuous improvement process HPS (Henkel Production System) has led to enhancements in both quality and productivity. Tailored to Henkel's requirements, the "Lean Management Program" is serving to harmonize our cross-business systems with ever-increasing effect.

We further optimized the production network in our **Laundry & Home Care** business unit over the course of the year. This included the sale of our plants at Nemours in France and Ain Temouchent in Algeria. New sites were added through acquisitions in both emerging markets (Qazvin, Iran, and Ibadan, Nigeria) and in mature markets (Salt Lake City and Bowling Green, both USA). As a result, the production network spanned 30 plants in total as of the end of 2016.

Our solid organic growth brought about another increase in production volume. We are responding to this by carefully expanding our manufacturing capacities, with a particular eye on innovations and emerging markets. In 2016, we also continually enhanced the performance capabilities of our plants by rolling out the Henkel Production System to more countries as a means of further improving production organization and efficiency.

We successfully renewed the external certification of Group headquarters and all our existing plants, confirming our compliance with international quality, environmental, safety and energy management standards. Continuous improvements in sustainability enabled us to make significant progress in our focal areas of safety and resource conservation, aided in particular by the further expansion of our centralized real-time system for measuring and evaluating total resource use around the world. The business unit is also investing systematically in expanding the digital infrastructure of its production and warehousing systems.

As an important aspect in our promise of quality, our optimization efforts in **all three business units** aim to reduce the environmental footprint of our production activities. We focus in particular on cutting energy use, thereby contributing to climate protection, on reducing material input and waste volume, and on lowering water usage and wastewater pollution. New warehousing concepts and the production of packaging materials directly on-site where filling takes place reduce transport mileage and thus also contribute to climate protection.

Overall, our global programs in 2016 resulted in 44 percent of our sites reducing their energy use, 53 percent lowering their water usage, and 54 percent decreasing their waste footprint (excluding construction and demolition waste).

Keeping our "Factor 3" goal in mind for the year 2030, we set concrete interim targets for our production sites for the five years from 2011 through 2015, which we managed to exceed. We are continuing our efforts to further improve our performance in these areas over the coming years, as we move toward our long-term goal of "Factor 3." To this end, we have set medium-term targets for completion by 2020: Compared to the base year 2010, we want to raise occupational safety by 40 percent, and to reduce the direct and indirect carbon dioxide emissions of our production sites, the water we use and the waste we generate by 30 percent per ton of product in each case.

Sustainability targets 2020

61

Environmental indicators per ton of production volume	Target	Status
Occupational safety[1]	+40%	+17%
Direct and indirect carbon dioxide emissions	−30%	−22%
Water used	−30%	−23%
Waste generated[2]	−30%	−26%

[1] Fewer occupational accidents per million hours worked.
[2] Waste from our production sites (excluding construction and demolition waste). 4 percent increase in 2016 including construction and demolition waste due to extensive infrastructure projects.
Base year 2010.

We have also defined other areas of program focus, including more concerted efforts to save water in regions where it is scarce, to reduce landfill waste, to increase the use of renewable energies, and to lower carbon dioxide emissions associated with the transportation of our products.

For further details on our sustainability targets, please see pages 60 to 62 and our Sustainability Report on the internet:
www.henkel.com/sustainabilityreport

Our standards for safety, health and the environment, and the Henkel Social Standards, apply to all our sites worldwide. Using a clearly defined process consisting of communication, training and audits, we ensure compliance with these standards, especially at the production level.

We have the environmental management systems at our sites externally certified wherever this is recognized by our partners in the respective markets. By the end of 2016, around 90 percent of our production volume came from sites certified to ISO 14001, the internationally recognized standard for environmental management systems.

Research and development

Expenditures by the Henkel Group for research and development (R&D) in fiscal 2016 amounted to 463 million euros (adjusted for restructuring expenses: 460 million euros), following 478 million euros (adjusted: 464 million euros) in 2015. As a percentage of sales, we spent 2.5 percent (adjusted: 2.5 percent) on research and development (2015: 2.6 percent, adjusted: 2.6 percent).

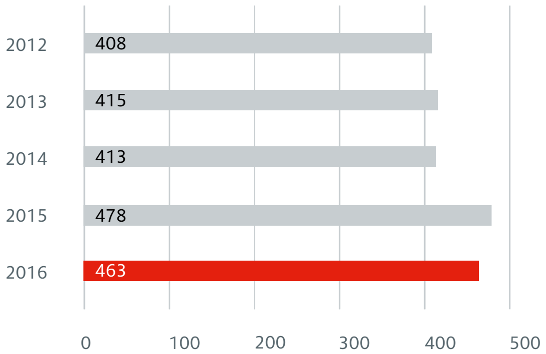
2.5%
R&D expenditures in percent of sales.

In 2016, internal personnel expenses accounted for around 60 percent of total R&D spending. Our research and development costs were fully expensed; no product- or technology-related development costs were capitalized in accordance with International Financial Reporting Standards (IFRS).

R&D expenditures[1]

in million euros

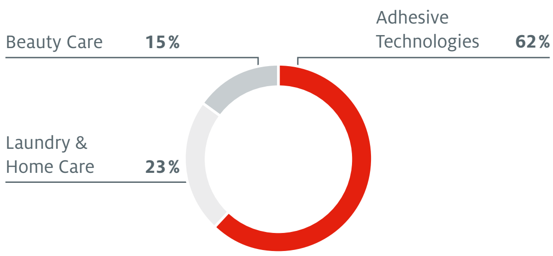
62



[1] Including restructuring expenses of 2 million euros (2012), 1 million euros (2013), 3 million euros (2014), 14 million euros (2015), 3 million euros (2016).

R&D expenditures by business unit

63



Selected research and development sites

64

On an annual average, around 2,700 employees worked in research and development (2015: around 2,800). This corresponds to around 5 percent of the total workforce. Our teams are composed of natural scientists – predominantly chemists – as well as material scientists, engineers and technicians.

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

Key R&D figures

65

	2012	2013	2014	2015	2016
R&D expenditures[1] (in million euros)	406	414	410	464	**460**
R&D expenditures[1] (in % of sales)	2.6	2.6	2.5	2.6	**2.5**
Employees[2] (annual average)	2,650	2,600	2,650	2,800	**2,700**

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

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

One example of the joint approach is our technology scouting and screening procedure for startups. The research experts in the business units update one another regularly about their search criteria, activities, and any technology partners they have identified. This further accelerates the continuous exchange of knowledge and research activities, and increases the likelihood of successful disruptive innovations. The business units also continually update one another on innovations in common areas of knowledge. This is particularly relevant to all surface-modifying technologies such as surfactants, multifunctional polymers and silicones. In a joint initiative, documentation of advances in sustainability made within the development projects is being standardized throughout the Group.

Open Innovation
As our innovations come from both internal and external sources, the concept of Open Innovation continues to hold great significance for us. Accordingly, we have intensified our efforts to involve external partners such as universities, research institutes and suppliers in many of our development projects.

The following examples demonstrate the success achieved with our Open Innovation concept:

- The Adhesive Technologies business unit presented its Supplier Innovation Award 2016 to US company NuSil, which specializes in innovative silicone technologies. NuSil has been a partner for many years, supplying customized polymers for numerous new customer solutions to various strategic business units. These solutions range from thermally-conductive adhesives and gap fillers with a low volatile organic compound content, to transparent liquid adhesives for use in the automotive and electronics sectors and in medical technology.
- The Beauty Care business unit presented its Best Innovation Contributor Award 2016 to Innospec, a partner of many years, for its successful collaboration in the field of innovative shampoos that avoid the use of the standard surfactant, ether sulfate. Optimized combinations of surfactants have made it possible to formulate shampoos with very caring and, at the same time, good foaming properties. This technology was first used in some of our US salon brands before being adapted in 2016 for global use in hair-cleaning products marketed under the Bonacure brand in our Hair Salon business, and the Gliss Kur brand in our Branded Consumer Goods business.
- For the first time ever in 2016, the Laundry & Home Care business unit presented its Best Innovation Contributor Award and its Sustainability Award to one and the same development partner: BASF received both accolades in recognition of its special contribution to substituting phosphates in Somat, Henkel's global brand of automatic dishwashing products. Up to 40 percent of the formulas containing phosphates have been intelligently revised. The innovative formulas combine standard ingredients with new phosphate substitutes and high-performance polymers. The latter have been tailored to specific needs in collaboration with Henkel's research experts and guarantee superior performance in all respects: 100 percent performance and zero percent phosphate.

Research and development worldwide

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

The following examples illustrate the contribution made by our regional research and development laboratories:

- The Adhesive Technologies business unit offers its customers cutting-edge technology development and comprehensive design and application support. A global network of regional research and development centers combined with local development and technology laboratories enables customers to access innovations in a wide range of applications. Building on a broad portfolio of technologies, products are quickly adapted to specific customer applications. Strategic global innovation programs effectively drive future growth.
- The increasing importance of the emerging markets is also reflected in the R&D strategy of the Beauty Care business unit. In the regional testing and development centers in Shanghai, China, in Johannesburg, South Africa, and in Bogotá, Colombia, individual products are developed that take account of local distinctions and specific customer needs. Air pollution caused by particulate matter is a huge problem, especially in emerging mega cities. A range of hair care products under the Extra Care brand was developed specifically for the Asian market to reduce particulate deposits on hair and protect affected hair from damage.
- The Innovation Center of the Laundry & Home Care business unit in Dubai has succeeded in developing, for the first time, innovative liquid detergents with particularly effective, thermally stable enzymes for the Africa/Middle East region. Transport and storage in extreme temperatures cause classic enzymes to lose some of their performance capability, making them less effective at removing stains. The patent-pending, unique high-performance formulas contain tailored enzymes that remain stable, even at the higher temperatures that are common in the region. Our consumers thus benefit from superior effectiveness and optimum stain removal.

Contributing to sustainability

Worldwide, growth and quality of life need to be decoupled from resource use and emissions. Our contribution here lies in the development of innovative products and processes that consume less resources while offering the same or better performance. It is therefore both our duty and our desire to ensure that all new products contribute to sustainable development in at least one of our six defined focal areas. These are systematically integrated within our innovation process. Early on, our researchers must demonstrate the specific advantages of their project in regard to product performance, added value for our customers, resource efficiency, and social progress. We thus aim to combine product performance and quality with social and environmental responsibility. Our focus in this respect is on two goals. The first is to continuously improve the sustainability profile of the raw materials we use, in collaboration with our suppliers. The second is to help our customers and consumers reduce energy use and carbon dioxide emissions through our innovations.

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

Our scientists again made valuable contributions to the company's success through their innovations in 2016. A selection of particularly outstanding research projects is provided in the examples below:

- For Adhesive Technologies, a leading role in sustainability constitutes a strategic competitive advantage: Groundbreaking product innovations and high-impact solutions offer our customers added value. Automotive manufacturers, for example, use our sprayable sound deadeners. The liquid material is sprayed onto the floor, doors or roof of a car body and weighs as much as 20 percent less than the bitumen mats otherwise used to dampen noise and vibrations. As robotic automation allows pinpoint precision when applying the material, the technology accelerates production processes and reduces waste. Our portfolio of sprayable sound deadeners also includes materials based on renewable oils, and has been extended to include a water-based acrylate system that is currently being developed through to series production on a pilot system operated by BMW Group for the new BMW 3 series.
- In 1987, the first hairspray to be manufactured without chlorofluorocarbons (CFCs) was introduced on the German market under the Drei Wetter Taft brand. Since then, we have been striving continuously to further improve the sustainability profile of such products. The tinplate used to make our Taft aerosol spray cans is derived from steel. A new method of manufacturing the cans, which we developed in partnership with our supplier Ardagh, now enables the manufacture of a stiffer type of tinplate which has made it possible to reduce the wall thickness and thus the weight of the cans by 18 percent. The new tin cans are thus bringing us considerably closer to our sustainability targets: They allow us to save up to 3,500 metric tons of CO_2 and to use around 900,000 cubic meters less water each year. We plan to successively translate the resulting reduction in material and water usage during the production phase to other formats in the future. Ardagh was nominated for the Sustainability Award 2016 for this contribution to sustainability.
- The use of renewable raw materials is a key aspect of sustainable laundry detergents and household cleaners. In an exclusive cooperation project between Henkel and Aachen University – the Henkel Innovation Campus for Advanced Sustainable Technologies, or HICAST for short –, we were able to make promising progress in the field of sustainable base raw materials. This work builds on cellulose, which is the most common organic compound on Earth. Intermediate products made from biomass serve as basic modules from which to develop innovative and sustainable ingredients for laundry detergents and household cleaners. We have managed to convert these intermediate products into innovative surfactants with property profiles that can be put to good commercial use. We have already applied for patent protection of several substances. This constitutes a key contribution toward ensuring that the laundry detergents and household cleaners of the future use less resources and are properly sustainable.

Fritz Henkel Award for Innovation 2016

www.henkel-adhesives.com/aluminum-wheels

www.glisskur.de
www.schwarzkopf-professional.de

www.persilproclean.com

Fritz Henkel Award for Innovation
Each year we select a number of outstanding developments for our Fritz Henkel Award for Innovation. In 2016, the innovation award went to three international, interdisciplinary project teams for the realization and successful commercialization of the following concepts:

- The trend toward lightweight construction in the automobile industry is leading to increasing usage of light metals. Aluminum, particularly, offers manufacturers and suppliers new scope for functionality and design, as well as saving weight. Adhesive Technologies has developed a new generation of coatings for aluminum applications under its Bonderite brand. Pre-treating aluminum wheels – which are increasingly becoming standard even in smaller vehicle classes – is hugely important to ensuring optimum corrosion protection. Bonderite M-NT 4595 is a tailored chrome-free hybrid coating offering optimum adhesion to the light metal. With improved process characteristics, it also reduces the overall process cost and the quantity of waste products. Bonderite M-NT 4595 thus enables the development of new aluminum wheels with improved properties and less weight, and is used by the world's leading manufacturers.
- Many years of researching the structure of the hair matrix and hair keratins provided the basis for developing our patent-pending pH4.5 technology combining dual metal ions with specific organic acids to strengthen the keratin in the hair matrix. As a result, color pigments are locked inside the hair, giving users particularly long-lasting coloration. In our Hair Care business, this technology was first used in the Bonacure Color Freeze salon range before being successfully launched onto the retail market in the Gliss Kur Ultimate Color range. Users benefit from outstanding hair care combined with long-lasting glossy color.
- Persil ProClean has successfully established the Persil brand in the North American market. A special cold wash formula was developed to cater to the American preference for short cycles and low temperatures. The product is built around an innovative and unique blend of enzymes and surfactants that guarantees superior stain removal, even in these special conditions. Together with its specific scent, the overall formula – which has also been tailored to American preferences – guarantees fiber-deep clean, brilliantly white and noticeably fresh laundry. Persil's superior performance has also been confirmed by external sources: On the first-time inclusion of the top variant, Persil ProClean Liquid 2in1, in annual assessments conducted by a leading US test journal – which was in 2015 following the product's launch – it was ranked the best laundry detergent ever trialed in the USA.

We hold nearly 8,100 patents to protect our technologies around the world. Approximately 5,400 patents are currently pending. And we have registered just over 1,450 design patents to protect our intellectual property.

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

Marketing and distribution

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

As a market leader, **Adhesive Technologies** creates high-impact solutions worldwide through groundbreaking innovations and close partnerships with its customers. The portfolio is aligned to the globally specialized markets for adhesives, sealants and functional coatings.

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

Around
130,000
direct industry and retail customers.

Around
6,500
specialists serving our Adhesive Technologies customers.

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

We foster long-term relationships with our customers through our team of around 6,500 technical experts. We therefore have an in-depth understanding of the various applications. In light of the significant complexity of many of our solutions and technologies, technical customer service and thorough user training are of key importance. Our global presence enables us to provide technical services to customers worldwide as well as in-depth product training on site.

As part of our worldwide digitalization strategy, we have rolled out a global process for further improving the efficiency of our digital customer relationship management. This lead management system enables us to reach existing and potential customers very quickly to provide them with relevant technical and commercial information. In addition, we already offer our industrial customers a successful eCommerce platform in the shape of our Henkel POD. In future, we plan to further develop this approach, based on an integrated concept that focuses on our customers.

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

Within the **Beauty Care** business unit, our focused portfolio of brands with unique, distinct brand equities forms the basis for leading, consumer-relevant innovations in our Branded Consumer Goods and Hair Salon business. We develop new products and launch strategies with as much global synergy as is possible, while implementing them as locally as is necessary. Through our customer and consumer proximity, we are able to identify global trends at an early stage and quickly respond to these on an individual basis with innovative products. In consumer marketing, advancing digitalization alongside classic advertising and point of sale activities enables a significant increase in media efficiency. With personalized 1:1 experiences, we target the right consumer group with the right message in the right environment and also accelerate efficient re-targeting.

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

Having hosted more than 200 customer visits in our “Beauty Care Lighthouse,” which opened in Düsseldorf in 2012, we have been able to consistently intensify our customer focus. The Lighthouse was thoroughly revamped in 2016 and now offers our customers from around the world an interactive experience of all our beauty competences with stronger focus on digitalization.

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

In the **Laundry & Home Care** business unit, we develop our marketing strategies and product innovations for our strong brands on a global scale, adapting them to regional consumer needs and market conditions, and implementing them at the local level. We thus ensure central, efficient management of our brands and an innovation process that enables us to both recognize global consumer trends early on and implement new products quickly while at the same time remaining closely attuned to local needs. We are steadily increasing the use of digital media communication – particularly social media – to develop our media strategies and engage our consumers in the most effective way possible.

More than 150 customers have already visited our Global Experience Center, which opened in 2015, keen to learn more about the latest Laundry & Home Care concepts. Offering a basis for future partnerships, the innovative platform brings together customers from a wide range of global and local spheres. Customized solutions are developed to match specific partner requirements and to identify opportunities to create value together. Offering various experience stations, this customer center showcases the business unit's expertise and innovative concepts – from new product offerings and digitalization to sustainability and shopper marketing. Each station is designed to be interactive, allowing visitors to explore the world of laundry and home care with all of their senses. The business unit uses its 360 Degree Customer Collaboration concept to ensure each customer relationship develops in as many areas as possible.

We have continued to expand our expertise in the areas of shopper intelligence and shopper marketing as a key strength in both traditional sales and eCommerce.

The importance of sustainability in our relationships with customers and consumers continues to grow in **all three business units**. Our customers expect their suppliers to ensure compliance with global environmental, safety, and social standards. Our standards and management systems, our many years of experience in sustainability reporting, and excellent appraisals by external rating agencies all help us to convince our audience of our credentials in this domain. Moreover, the credible implementation of our sustainability strategy strengthens both our brands and the reputation of our company in the marketplace.

With decades of experience in aligning our activities to sustainable development, we are able to position ourselves as a leader in the field and as a partner able to offer our customers future-capable solutions. And we cooperate closely with our customers in trade and industry in the development and implementation of viable concepts.

In order to convey to our customers and consumers the added value of our innovations – best possible performance combined with responsibility toward people and the environment – we use direct product communication supported by more detailed information provided in new media such as electronic newspapers and online platforms, as well as events and campaigns implemented together with our partners.

We have combined these approaches in a joint program for our three business units: "Say yes! to the future" provides sales training for our employees and strengthens our cooperation with our trade customers.

We intend to increase our involvement in the development of appropriate measurement and assessment methods in order to facilitate effective, credible communication of our contributions to sustainability. To this end, we have developed a variety of tools, which are integrated within our Henkel Sustainability#Master®. We have launched various projects in collaboration with selected partners to improve and standardize measurement and assessment methods.

For further information on the products and brands of our three business units, please go to our website
www.henkel.com/brands-and-businesses

Adhesive Technologies

Highlights

Sales growth	Adjusted[1] operating profit	Adjusted[1] return on sales
+2.8 %	€ 1,629 m	18.2 %
organic sales growth	adjusted[1] operating profit (EBIT): up 6.2 percent	adjusted[1] return on sales (EBIT): up 1.1 percentage points

Pattex Re-New

Pattex Re-New makes bathroom joints look as good as new – without any need to replace the old sealant. The innovative special silicone comes in a practical tube with an integrated smoothing tool for quick and easy single-step application on top of the old joints. It also stops mildew spreading.

www.pattex.de

Automotive electronics

Our broad portfolio of products under the Loctite brand supports a wide range of digital innovations in automotive construction. Manufacturers and suppliers around the world rely on our high-performance solutions to overcome their network, eMobility and autonomous driving challenges – whether in sensors for assistance systems, camera modules, digital instruments, battery technologies or printed electronics.

Metal packaging

Our new lubricants and cooling agents in the Bonderite L-FM series enable our Metal Packaging customers to raise both their productivity and sustainability. With an improved biostable formulation, the products increase machine capacities to as many as 3,000 cans per minute. At the same time, their use reduces scrap rates, which means less waste.

www.henkel-adhesives.com/metal-packaging-solutions

Key financials *

66

in million euros	2015	2016	+/–
Sales	8,992	**8,961**	– 0.3 %
Proportion of Henkel sales	50 %	**48 %**	–
Operating profit (EBIT)	1,462	**1,561**	6.8 %
Adjusted operating profit (EBIT)	1,534	**1,629**	6.2 %
Return on sales (EBIT)	16.3 %	**17.4 %**	1.1 pp
Adjusted return on sales (EBIT)	17.1 %	**18.2 %**	1.1 pp
Return on capital employed (ROCE)	18.4 %	**19.9 %**	1.5 pp
Economic Value Added (EVA®)	626	**719**	15.0 %

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

Sales development *

67

in percent	2016
Change versus previous year	**– 0.3**
Foreign exchange	**– 3.5**
Adjusted for foreign exchange	**3.2**
Acquisitions/divestments	**0.4**
Organic	**2.8**
of which price	**0.3**
of which volume	**2.5**

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

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

Economic environment

The economic environment for the Adhesive Technologies business unit was characterized by subdued growth in the relevant markets, with expansion in the key industrial sectors lower than initially forecasted due to continuing political and economic uncertainties. Although growth in emerging markets was only moderate, it continued to drive global economic development.

Despite this difficult market environment, the Adhesive Technologies business unit continued to grow, with overall sales outperforming market expansion, supported by its globally leading positions, active portfolio management and innovative product solutions.

Business activity and strategy

As a market leader, the Adhesive Technologies business unit creates high-impact solutions worldwide through groundbreaking innovations and close partnerships with its customers. With our leading technologies, strong brands and the competence of our global expert teams, we supply tailor-made products that create competitive advantages and sustainable value for our customers.

Our market leadership and global presence enable us to offer solutions and systems across all business areas and regions for adhesives, sealants and functional coatings. Our products are an essential part of industrial products and consumer goods, and make them better, safer and more sustainable. The acquisition of leading technologies that complement our portfolio and offer synergy potential represents an additional attractive option for further profitable business expansion. Our acquisitions to date demonstrate our ability to consistently integrate newly acquired businesses quickly and successfully on the basis of our standardized business processes.

In the Packaging and Consumer Goods Adhesives business area, we work with major brand manufacturers and international customers to develop innovative and sustainable solutions for food packaging and consumer goods. Our technical customer service makes comprehensive applications expertise globally available. Strategically cooperating with partners along the value chain also makes a significant contribution to creating more value and helping our customers to both satisfy the manifold needs of consumers and comply with regulations.

In the Transport and Metal business area, we provide our customers in the automotive, aircraft and aerospace, and metal processing industries with outstanding system solutions, a comprehensive technology portfolio, and specialized technical services. We work closely with major international manufacturers and their suppliers. Through our early involvement in design and development processes, we are able to create innovative, customized solutions to new challenges – for example, in lightweight construction or eMobility.

In the General Industry business area, we offer our customers a comprehensive portfolio of products for the manufacture and maintenance of durable goods. Our customers range from household appliance manufacturers through to operators of large-scale industrial plants, and service specialists operating in all branches of industry. In addition to providing direct support for our customers from industry, we can also tap into a global network of trained distribution partners. We raise the value added for our customers while securing competitive advantages and growth by working with industrial clients on the development of high-impact adhesive solutions, and by regularly and systematically training users.

Our Electronics business area offers customers from the electronics industry a specialized portfolio of innovative high-technology adhesives and materials for the manufacture of microchips, electronic assemblies and thermal management systems. We combine our expertise with targeted investments in our technology portfolio to develop new solutions for the growing challenges encountered in the fields of digital networking and the Internet of Things. Our global presence enables us to collaborate closely with development centers of major electronics firms and provide support for their production processes.

Our Adhesives for Consumers, Craftsmen and Building business area markets an extensive range of brand-name products for private, trade and construction users. We offer innovative products and specific system solutions based on our globally strong brands, and secure competitive advantages by quickly and efficiently translating the latest technological developments from our industrial business

Top brands

LOCTITE

TECHNOMELT

BONDERITE

into corresponding products for consumers, craftsmen and the building industry. Our distribution networks are aligned to the different target groups.

Active portfolio management plays a central role in continuing our profitable and sustainable growth. We manage our businesses guided by specific business plans to take the best possible advantage of market opportunities, and we invest our resources with a targeted, differentiated approach. We aim primarily to strengthen organic growth and therefore invest in attractive growth markets and advancing our technology expertise.

Around 30% innovation rate[1].

+2.8% organic sales growth.

The ongoing expansion of our innovation leadership is a further key component of our growth strategy. In 2016, the proportion of sales from products successfully launched onto the market in the last five years was around 30 percent. This is achieved through consistent implementation of our innovation strategy that uses especially developed programs, innovation processes and employee initiatives to drive our profitable growth. We focus our research and development activities on top innovation programs, and on tailor-made high-impact customer solutions in attractive markets. We further focus on strategic innovations by systematically searching for profitable new technologies and business opportunities in promising adjacent markets. To further develop new business ideas, we cooperate with innovative start-ups and invest in venture capital funds with specific expertise in material sciences and digitalization. Collaborating with strategic suppliers and focusing strictly on sustainability are further key drivers of innovation and growth.

We invest continually in expanding and strengthening our top brands. In 2016, we generated more than 80 percent of all sales with our five technology cluster brands in the industrial business, and four strong brand platforms in the consumer business. We are focusing on expanding the leading position of Loctite as the world's largest adhesive brand through a regular flow of innovations and high-performance solutions for both industrial customers and consumers.

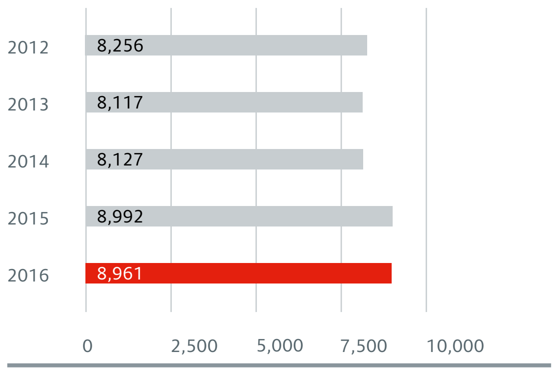
In line with our acquisition strategy, we strengthened our portfolio in 2016 with the acquisition of the tile adhesives business and associated brands of Colombian company Alfagres S.A. We also completed the acquisition of all shares in Zhejiang Golden Roc Chemicals JSC, thus expanding our portfolio of superglues in China.

[1] Percentage share of sales generated with new products launched onto the market within the last five years.

Sales and profits

Sales Adhesive Technologies
in million euros

68



In 2016, the Adhesive Technologies business unit recorded solid organic growth while raising adjusted return on sales to 18.2 percent.

Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales grew by 2.8 percent, thus outperforming the market. Growth was driven primarily by increased volumes.

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

Year on year, sales growth was strong in the emerging markets, with double-digit increases in the Latin America region and strong growth in the Eastern Europe region. The Asia (excluding Japan) region recorded a solid increase in sales. Sales performance in the Africa/Middle East region was positive, despite the difficult ongoing political situation and subsequent deterioration in the economic conditions prevailing in parts of the region.

Our sales in the mature markets were on a par with the previous year. Sales performance in North America was positive, while sales in the Western Europe region reached the prior-year level. The mature markets in the Asia-Pacific region recorded lower sales growth year on year.

Adjusted operating profit increased to 1,629 million euros, its highest level ever. Adjusted return on sales, at 18.2 percent, was higher year on year. The Adhesive Technologies business unit was again able to increase gross margin and offset negative transactional currency effects through ongoing measures to optimize organizational and administrative structures and by enhancing production and supply chain efficiency. Lower prices for direct materials also had a positive impact.

At 11.0 percent, net working capital as a percentage of sales was below the already low level of the prior year. Return on capital employed (ROCE) increased year on year to 19.9 percent. Economic Value Added (EVA®) increased by 93 million euros versus the previous year, to 719 million euros.

Business areas

In the following, we comment on the organic sales performance of our business areas.

Industrial Adhesives
Sales in the Packaging and Consumer Goods Adhesives business area showed positive performance versus the previous year. Packaging adhesives for use in the food and beverage industries, and especially our leading food safety products, were an important contributor to this growth. We work closely in this field with international customers, globally active brand manufacturers, institutes and the authorities to enhance consumer safety around the globe. Our innovations are always tailored to growing consumer needs – for more convenience, for example – thereby strengthening the products and brands of our customers. New applications for our structural adhesives for furniture and building components enabled us to tap further growth potential.

We posted a strong increase in sales in our Transport and Metal business area. Our growth in this business area was driven primarily by our business with automotive manufacturers and their suppliers. Our broad product and technology portfolio enables us to provide customized solutions for assemblies such as drive trains. In doing so, we enable our customers to develop lightweight construction, downsizing and eMobility innovations for both conventional and electric drive trains.

The General Industry business area posted a positive sales performance, again mainly due to activities involving customers in various industrial markets and the vehicle repair and maintenance sector. Working closely with our key accounts, we develop customized integrated solutions to reduce noise and improve thermal performance – in household appliances and consumer goods, for example. In addition to the improved performance capabilities of their products, our customers also benefit from greater automation, process efficiency and sustainability.

Sales development in the Electronics business area was positive year on year, driven mainly by our business with consumer electronics manufacturers and by thermal management products for the electronics industry. We are stimulating new growth with our high-impact solutions for the rapidly expanding automotive electronics market, to which we can supply a broad portfolio of products that manufacturers and components suppliers are increasingly using in sensors, assistance systems, displays, and battery technology, enabling the development of new digital networks and driverless vehicle systems.

Adhesives for Consumers, Craftsmen and Building
Sales performance in the Adhesives for Consumers, Craftsmen and Building business area was positive. The increase was based in part on our construction industry business. Here we further strengthened our portfolio with the acquisition of the tile adhesives business and associated brands of Alfagres S.A. in Colombia. We also strengthened our position with respect to DIY products by strategically cooperating with one of our key European retail customers. This is enabling us to tap new local growth potential, especially in Eastern Europe.

Capital expenditures

Investment in property, plant and equipment totaled 187 million euros in 2016 (2015: 227 million euros), with the focus on expanding production capacity, mainly in the emerging markets, and building manufacturing facilities aligned to specific customer requirements.

€187 m
investments in property, plant and equipment.

Beauty Care

Highlights

Sales growth

+2.1 %

organic sales growth

Adjusted[1] operating profit

€ 647 m

adjusted[1] operating profit (EBIT): up 6.1 percent

Adjusted[1] return on sales

16.9 %

adjusted[1] return on sales (EBIT): up 1.0 percentage points

Gliss Kur Magnificent Strength

Innovation from the Hair Repair Expert: Gliss Kur Magnificent Strength for weak, depleted hair. The range featuring powerful Tri-Protein Complex gives the hair an effective protein kick, strengthening hair and protecting the hair cuticle – for beautiful hair that is up to 20 times stronger.

www.gliss.com

Fa Dry Protect

New Fa Dry Protect has been specifically developed for reliable protection to give increased confidence in the face of everyday challenges. Its innovative Micro-Absorber Technology absorbs perspiration for 48 hours of wetness protection. For an immediately fresh feeling accompanied by a delicate, powdery-fresh scent of Cotton Mist or Linen Touch.

www.int.fa.com

Taft Fullness

The first Taft range for up to four times fuller hair: Taft Fullness with Biotin & Boost Complex for tangibly fuller hair and visible texture – developed specifically for women with fine or thinning hair. The innovative formula increases the distance between the individual hair fibers, while guaranteeing long-lasting 48-hour hold.

www.taft.de

Key financials * 69

in million euros	2015	2016	+/–
Sales	3,833	**3,838**	0.1 %
Proportion of Henkel sales	21 %	**20 %**	–
Operating profit (EBIT)	561	**526**	– 6.2 %
Adjusted operating profit (EBIT)	610	**647**	6.1 %
Return on sales (EBIT)	14.6 %	**13.7 %**	– 0.9 pp
Adjusted return on sales (EBIT)	15.9 %	**16.9 %**	1.0 pp
Return on capital employed (ROCE)	20.4 %	**18.2 %**	– 2.2 pp
Economic Value Added (EVA®)	328	**266**	– 18.7 %

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

Sales development * 70

in percent	2016
Change versus previous year	**0.1**
Foreign exchange	**– 3.4**
Adjusted for foreign exchange	**3.5**
Acquisitions / divestments	**1.4**
Organic	**2.1**
of which price	**0.4**
of which volume	**1.7**

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

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

Economic environment

In 2016, growth in the world cosmetics sector continued to slow down in markets of key relevance, with developments in some major markets recessionary. Despite a difficult and highly competitive environment, the Beauty Care business unit was able to outpace market growth.

In our Branded Consumer Goods business, the mature markets in particular showed weak development. In Western Europe especially, the environment was characterized by a further intensification of promotional activities, with rising price pressure and declining average prices. However, the markets in the North America region posted positive growth.

Within the emerging markets, the Africa/Middle East region exhibited continuing growth, although the rate was once again lower year on year. Business growth in Asia (excluding Japan) also slowed due to weaker developments in relevant markets in China. The markets in Latin America showed a positive development. The markets of the Eastern Europe region exhibited moderate growth under persistently difficult trading conditions.

The professional hairdressing market remained under pressure in 2016 as customers continued to exhibit restraint. Despite this difficult market environment overall, we were again able to exceed the sales level of the previous year and to further extend our position as the world number 3 in the hair salon field.

Business activity and strategy

Worldwide, the Beauty Care business unit is successfully 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.

To further drive the growth of our Beauty Care business, we place the customer and the consumer at the center of everything we do. At the focus of our growth strategy are specific choices regarding customers and channels, category prioritization and the central management of our global brands portfolio. This enables us to pursue targeted investments in segments offering above-average growth and profitability.

We strengthen our brand investments on a global scale through strict cost management, an improved portfolio structure, complexity reduction and premiumization.

At the center of our strategy is our drive for organic growth, supported in particular by innovations and our strong brands. Our innovation approach focuses on fewer but bigger, better and more margin-accretive innovations, with early recognition and identification of relevant consumer trends, a conscious commitment to game-changing offerings and rapid international rollouts all key contributors to success. Again in 2016, we achieved an innovation rate of more than 45 percent.

By continuously strengthening our top brands, we were able to further boost the sales generated by our top 10 brands, with disproportionate growth in those segments of most importance to us. In 2016, our top 10 brands again contributed over 90 percent of our sales revenues. In addition to strengthening our brands, we focus particularly on the growth potential available in our key accounts.

We also intend to further leverage the potential of digitalization. With determined acceleration of the digital transformation process across all areas, we can better interact with consumers, transfer our shopper knowledge and category captaincies to digital channels, and organize manufacturing and logistics more efficiently.

We supplement organic growth with carefully selected acquisitions. In line with our strategy, we have expanded our portfolio in attractive categories through the acquisition of a range of leading hair care brands in Africa/Middle East and Eastern Europe.

Top brands

Schwarzkopf

Dial

syoss

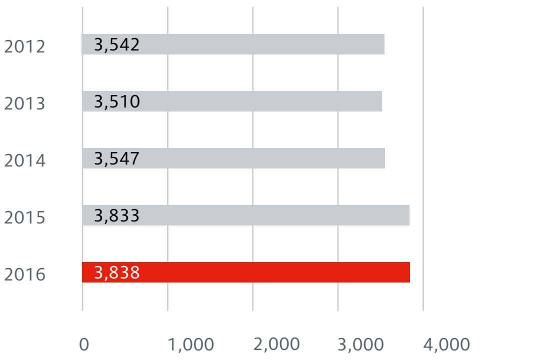
Over **45%** innovation rate[1].

[1] Percentage share of sales generated with new products launched onto the market within the last three years.

Sales and profits

Sales Beauty Care
in million euros

71



The Beauty Care business unit achieved solid organic sales growth and an excellent increase in adjusted return on sales in the reporting period, thus continuing to build on the profitable growth of previous years.

+2.1%

organic sales growth.

Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales increased by 2.1 percent. Organic growth was again higher than the rate of expansion in our relevant markets, with sales being driven by both price and volume.

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

From a regional perspective, business performance was very strong in the emerging markets. The Latin America region posted double-digit sales growth. Sales development in the region of Asia (excluding Japan) was positive. In the Africa/Middle East region the business unit matched its success of previous years, recording a positive growth. Driven by business development in Russia, we achieved double-digit growth in the Eastern Europe region.

The mature markets continue to be impacted by fierce crowding-out competition and intense price and promotional pressures. In this challenging market environment, sales declined slightly year on year. While in the Western Europe region and in the mature markets of the Asia-Pacific region, sales were lower year on year, we were able to increase revenues in the North America region, achieving solid growth there versus the previous year.

Adjusted operating profit increased in the reporting period to 647 million euros. Adjusted return on sales rose by 1.0 percentage points to a new high of 16.9 percent. Our innovation initiatives and ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to extensively offset the effects on gross margin exerted by negative foreign exchange movements and sustained promotional intensity.

Compared to the already low level of the previous year, net working capital as a percentage of sales improved further to 0.6 percent. At 18.2 percent, return on capital employed (ROCE) was lower compared to the 2015 figure. Economic Value Added (EVA®) decreased by 62 million euros to 266 million euros.

Business areas

In the following, we comment on the organic sales performance of our two business areas.

Branded Consumer Goods

Our Branded Consumer Goods business posted another solid increase in sales in 2016. Growth was driven, in particular, by successful innovations under the brands Schwarzkopf, Syoss and Dial, and by the introduction of our Schwarzkopf brand throughout North America. The Hair Cosmetics business performed especially well, with above-average sales growth and success in generating market momentum.

We introduced a number of compelling innovations in the strategically important Hair Colorants business. Syoss Gloss Sensation, the first ammonia-free intensive tint under the Syoss brand, offers a gentle alternative to classic coloring. Schwarzkopf Palette Intensive Color Creme with its intensive, caring hair mask with Keratin Complex provides long-lasting color intensity and healthy looking hair. New Schwarzkopf Brillance contains a highly effective technology for the prevention of colorant fade, ensuring particularly long-lasting color intensity. The formulation with Diamond Gloss Serum also gives the hair up to three times more color gloss compared to untreated hair.

We strengthened our Hair Care business with the launch of new Gliss Kur Magnificent Strength with Tri-Protein Complex. The range with its Express Repair Conditioner provides for beautiful hair that is up to 20 times stronger. Positive momentum was also generated by the Syoss line Ceramide Complex formulated especially for weak and brittle hair. The innovative Ceramide Keratin Complex gives hair up to ten times more strength. With Schauma 7 Blossom Oil, we have launched a new line offering a formula that penetrates deep into the hair structure and repairs the hair at every layer. The Hair Care business was additionally boosted by the innovation Schwarzkopf Men Zinc[PT], an anti-dandruff treatment for the male market. Used regularly, this offers men's hair a reduction in visible dandruff of up to 100 percent combined with an immediate freshness kick.

Within the Hair Styling business, the Taft brand was able to further expand its leading market position. The new line, Taft Fullness, leaves hair noticeably fuller with visible texture and good manageability. The new Taft Power Electro series offers the strongest Taft hold ever. And within our trendsetting brand Got2b, we developed a new line of products under the name Glam Force, which offers 48 hours of ultra-strong, glamorous hold with protection against flyaways.

In Body Care, we profited from the success of the new Fa shower gels Coconut Water and Coconut Milk with coconut extract for a perfect combination of care and a refreshed feeling for the skin. The innovative antiperspirant Fa Dry Protect continued to show positive development. The formula based on Micro-Absorber technology offers an immediate feeling of dryness and 48 hours of protection from underarm wetness. North America saw the launch of the body care series Dial Soothing Care. The body wash with collagen is pH-neutral on the skin and imparts a soothing effect. Also launched onto the market was the deodorant stick Right Guard Xtreme Odor Combat, which successfully combats body odor for up to 96 hours.

The Skin Care business was expanded through the introduction of Diadermine Lift+ Super Corrector, our first anti-aging innovation capable of combating both existing and future pigmentation spots. We also offer a series especially formulated for mature dry skin in the form of the innovation Diadermine Nutrition Expert 3D.

Within the Oral Care business we have strengthened the freshness variants of the Theramed 2in1 line with improved formulations. The new technology creates a three times fresher feel while also ensuring a thorough antibacterial clean. We continue to set new standards for our Denivit brand: After just 10 days, the innovation Pro-Laser White removes up to 90 percent of stains discoloring the teeth.

Hair Salon business

The professional hairdressing market remained under pressure in 2016 as customers continued to exhibit restraint. Nevertheless, our sales figures experienced positive development, with major contributions coming from, in particular, Schwarzkopf Professional and the brands Sexy Hair, Alterna and Kenra that we acquired in North America in 2014.

Within the Hair Care category, Schwarzkopf Professional generated strong momentum with the BC Bonacure brand. New Schwarzkopf Professional BC Bonacure Repair Rescue with patented Reversilane technology durably restores hair fibers while sealing the hair surface with a protective shield. In the Colorants category, Schwarzkopf Professional launched new Igora Royal Highlifts with Fibre Bond technology onto the market. These products minimize hair breakage while producing the coolest blond tones from Igora of all time. In the Styling category, the brand Osis+ with its slogan "Made to Create" offers a complete product range for the creation of uniquely individual hair styles whenever required.

Capital expenditures

Investments focused on efficiency improvements and optimization in our production and distribution processes and the further expansion of our manufacturing capacities, especially the scheduled expansion of our plant in Russia. Further capital expenditures went into the environmental sphere with the refurbishment of the wastewater treatment facilities located at our factories in Slovenia and the USA. In all, we invested 54 million euros in property, plant and equipment compared to 61 million euros in the previous year.

€ 54 m
investments in property, plant and equipment.

Laundry & Home Care

Highlights

Sales growth	Adjusted[1] operating profit	Adjusted[1] return on sales
+4.7 %	€ 1,000 m	17.3 %
organic sales growth	adjusted[1] operating profit (EBIT): up 13.7 percent	adjusted[1] return on sales (EBIT): up 0.2 percentage points

Perwoll Renew 3D

New and unique fine fabric detergent formula with color renewal effect: Perwoll Renew 3D rejuvenates fabric colors in three dimensions – intensity, color accuracy and brightness. The innovative formula has been introduced in more than 25 countries in Eastern and Western Europe and Latin America, and reinforces Perwoll's global leadership in our active markets. www.perwoll.de

Somat Phosphate-free

Henkel's first automatic dishwashing product that is free of phosphates yet offers 100-percent performance. Somat Phosphate-free has a new, patented formula that delivers the ideal combination of environmental compatibility and gleaming clean results. Innovative Somat Phosphate-free has been introduced in Germany and in more than 20 countries in Western and Eastern Europe. www.somat.de

Bref Power Aktiv

Bref Power Aktiv is the global number one in the WC rim block segment of our active markets. Its tried and trusted combination of four active agents is coupled with a longer-lasting fragrance. The formula has been enriched with a "power core." New Bref Power Aktiv with "fragrance boost" has been launched in more than 60 countries across the world. www.breftoiletcare.com.au

Key financials * 72

in million euros	2015	2016	+/–
Sales	5,137	**5,795**	12.8 %
Proportion of Henkel sales	28 %	**31 %**	–
Operating profit (EBIT)	786	**803**	2.2 %
Adjusted operating profit (EBIT)	879	**1,000**	13.7 %
Return on sales (EBIT)	15.3 %	**13.9 %**	– 1.4 pp
Adjusted return on sales (EBIT)	17.1 %	**17.3 %**	0.2 pp
Return on capital employed (ROCE)	21.1 %	**15.7 %**	– 5.4 pp
Economic Value Added (EVA®)	469	**344**	– 26.8 %

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

Sales development * 73

in percent	2016
Change versus previous year	**12.8**
Foreign exchange	**– 4.0**
Adjusted for foreign exchange	**16.8**
Acquisitions/divestments	**12.1**
Organic	**4.7**
of which price	**0.0**
of which volume	**4.7**

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

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

Economic environment

In 2016, the relevant world market for laundry and home care showed moderate growth. Despite renewed fierce price and promotional competition in our relevant markets, our growth again significantly outpaced the relevant global market in 2016. Both the sustained success of our strong brands and the successful global introduction of our innovations contributed to this solid performance.

Market performance in the mature markets was slightly positive. In Western Europe, the relevant market for laundry and home care products remained flat, while growth in North America was moderate.

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

Business activity and strategy

The Laundry & Home Care business unit sells laundry detergents and household cleaners around the globe. The Laundry Care business includes not only heavy-duty and specialty detergents but also, in particular, fabric softeners, laundry additives, and other fabric care products. The product portfolio of our Home Care business encompasses hand and automatic dishwashing products, household cleaners for the bathroom and WC, and surface, glass and specialty cleaners. We also offer air fresheners and insect control products for household applications.

Our aim is to continue generating profitable growth in the future through ongoing expansion of our current business and targeted acquisitions.

Our strategy of profitable growth is supported particularly by our leading brands and technologies, and builds on winning innovations that offer added value for consumers. Key elements of our strategy also include our strategic partnerships with customers and the expansion of our digital business activities.

Prioritizing categories and centrally steering our global brand portfolio helps us to direct our investments specifically toward those segments that offer growth and profitability, enabling us to generate above-average sales increases with our top brands and in our most important market segments. Investments in our brands are also strengthened by further optimizing our use of resources.

In 2016, we generated more than 80 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. By adopting this approach, we generate synergies in our marketing mix.

Our efficient marketing and distribution processes enable us to identify consumer trends at an early stage and bring a number of relevant innovations to market. Accordingly, successful product launches again contributed substantially to our positive financial performance in the year under review. Our innovation rate in 2016 was 43 percent. Looking ahead, we plan to further strengthen our differentiation and increase our agility in a fiercely competitive environment.

Our global strategy builds on both organic growth and acquisitions. Our aim is to invest in attractive category positions so as to accelerate our growth in profitable segments. In 2016, we strengthened our business through attractive acquisitions in both emerging and mature markets, most importantly through that of The Sun Products Corporation, as a result of which we now rank number 2 in the North American laundry and home care market. Integration of our acquired businesses is proceeding successfully and according to plan.

Top brands

Persil

Purex

Pril

43%

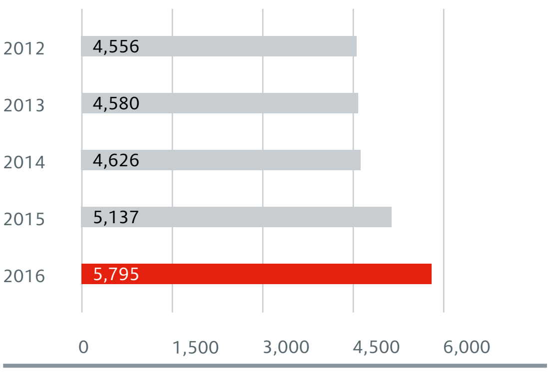
innovation rate[1].

[1] Percentage share of sales generated with new products launched onto the market within the last three years.

Sales and profits

Sales Laundry & Home Care
in million euros

74



The Laundry & Home Care business unit achieved sales of 5,795 million euros in the year under review, while also recording solid organic growth. Adjusted operating profit showed double-digit growth. Excluding acquisitions in 2016, adjusted return on sales increased very strongly. Taking account of the acquisitions, the figure showed a solid increase. The business unit therefore continued its path of profitable growth again in 2016.

+4.7 %
organic sales growth.

Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales increased by 4.7 percent. This was significantly above the growth rate of the relevant markets. Sales performance was driven by volume.

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

The emerging markets registered a very strong increase in sales and were once again the biggest driver of organic growth in Laundry & Home Care. The Asia (excluding Japan) region recorded double-digit growth, and the Africa/Middle East region contributed very strong sales growth. Sales in the Eastern Europe and Latin America regions showed a strong increase.

Performance in the mature markets was solid, with solid sales growth in the North America region. Our sales performance in Western Europe was positive.

Adjusted operating profit (EBIT) rose by 13.7 percent from 879 million euros to 1,000 million euros. Excluding acquisitions in 2016, adjusted return on sales increased very strongly. Taking account of the acquisitions in 2016, adjusted return on sales recorded solid growth, reaching a new all-time annual high of 17.3 percent (previous year: 17.1 percent). Gross margin was lower year on year due to acquisitions.

Excluding the acquisitions in 2016, we were able to significantly improve net working capital as a percentage of sales. Taking the acquisitions into account, net working capital as a percentage of sales was above the previous year's level, but still low at −5.4 percent. Return on capital employed (ROCE) was 15.7 percent. As a result of acquisitions, Economic Value Added (EVA®) decreased by 125 million euros to 344 million euros.

Business areas

In the following, we comment on the organic sales performance of our two business areas.

Laundry Care

The Laundry Care business area posted a strong sales performance, driven mainly by the continued expansion of our leading positions in heavy-duty detergents, especially with our core brand Persil, and by the introduction of successful innovations.

In the premium detergent category, we further strengthened Persil ProClean in North America by expanding distribution. We also enhanced our range by adding a liquid detergent variant with "Fresh Linen" scent. In the Africa/Middle East region, we launched an improved formula for all Persil liquid detergents. The innovative formulation features thermostable enzymes that ensure top performance even in warm conditions and after lengthy product storage. We also launched Persil Black Abaya in further countries in the Africa/Middle East region; this contains a UV-absorbing formula that protects black garments from fading under sunlight. We extended Persil's leadership in the liquid detergents market in South Korea by launching a new variant: Persil Hygiene Gel with the power of eucalyptus removes not only the most stubborn stains but also dust mite residue, which has been known to cause allergies. We also launched an improved formula of Persil Sensitive around the globe.

In the category of value-for-money detergents, we launched the Aromatherapy series in Australia and New Zealand. This new range under the Fab brand features intense, sensual fragrances.

In the fine fabric detergent category, we further strengthened the market leadership position of the Perwoll brand and launched an improved formulation:

Perwoll Renew 3D. The new formula rejuvenates colors in three dimensions: intensity, color accuracy and brightness. New Perwoll Renew 3D has been introduced in more than 30 countries throughout Europe and Latin America.

In the fabric softeners category, we improved the formulations of the variants available under the Vernel and Silan brands. As a result, the concentrates now keep laundry fresh and fragrant for up to ten weeks. The formula and fragrant appeal of the successful Soft & Oils range were further improved. We also added a new variant – Inspiring Orange Oil featuring a seductive fragrance – to the Soft & Oils range.

The pre-wash category provided further growth stimulus. For example, we started marketing Dylon – our internationally leading brand for fabric dyes – in additional countries. We also introduced our Colour Catcher sheets with their new 6 Protect formula in various European countries. Colour Catcher sheets have a water-soluble layer containing active stain removers to enhance washing performance even at 30 degrees Celsius.

Home Care

Sales in the Home Care business area were solid in 2016, driven mainly by the sustained success of our WC products. Hand dishwashing products also made an important contribution.

In WC products, we optimized the formula of our products sold under the Bref Power Aktiv brand. Bref Power Aktiv is number one in the WC rim block segment of our active markets. The products in the range are now available with an innovative “power core” loaded with 40 percent more perfume than the outer layer – for a longer-lasting, fresh fragrance boost. The new formula has been introduced in more than 60 countries worldwide. We also launched a new Power Aktiv variant in Eastern and Western Europe, and in South Korea, with Odor Stop technology. This special technology minimizes unpleasant odors to ensure a fresh, fragrant smell.

Nine months before a corresponding EU Regulation became applicable at the start of 2017, we introduced new Somat Phosphate-free in the automatic dishwashing category throughout Europe – with no phosphates but with the usual top Somat performance. The new, patented formula is remarkable for its optimal combination of environmental compatibility and powerful cleaning performance.

We also introduced a new Somat dishwasher cleaner, the first and only one of its kind in the marketplace that can be used during a dishwashing cycle. This innovation saves both water and energy, thus contributing to sustainability.

In the hand dishwashing category, we launched an improved formula under the Pril brand in Europe. For the first time, new Pril Double Decruster features two enzymes and impressively removes even the most stubborn residue. The product is also fitted with an innovative flip-top cap that can be opened and closed with just one hand.

In the household cleaners category, we launched our successful spray surface cleaners in the countries around the Persian Gulf and in South Korea. Their innovative formulas act immediately on even stubborn stains, removing them effortlessly without leaving any residue. The products also have a pleasantly fresh smell.

In the insect control category, we launched two products under the licensed Vape brand in Italy which are formulated with up to 90-percent natural ingredients: one plug-in and one insect control lotion.

In our air fresheners category, we introduced a new range of sensitive fragrances featuring three different variants and types of product under the Renuzit brand in the USA.

Capital expenditures

In 2016, our capital expenditures for property, plant and equipment amounted to 210 million euros following 217 million euros in 2015. Investments focused on expanding production capacity, enhancing plant safety and quality systems, on innovations, and on optimizing our production processes. The biggest single investment was at our site in Düsseldorf where Henkel expanded its largest automatic high bay warehouse.

€ 210m

investments in property, plant and equipment.

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

The annual financial statements of Henkel AG & Co. KGaA have been prepared in accordance with the rules and regulations of the German Commercial Code [HGB] and the German Stock Corporation Act [AktG]. The provisions of the German Accounting Directive Implementation Act [BilRUG] were applied for the first time in 2016. Deviations from the International Financial Reporting Standards (IFRS) 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 2016, some 8,000 people were employed at Henkel AG & Co. KGaA.

The operating business of Henkel AG & Co. KGaA represents only a portion of the business activity of the entire Henkel Group and is managed across the Group by the business units, particularly on the basis of the performance indicators organic sales growth, adjusted return on sales (EBIT) and adjusted earnings per preferred share. Only the Group approach can provide complete insight into these key financials (see the discussion of the management system and performance indicators applicable to the Henkel Group on page 62).

The net assets, financial position and results of operations of Henkel AG & Co. KGaA are influenced both by its own operating activity and by the operating activity of its subsidiaries on the basis of their dividend distributions. Thus the financial situation of Henkel AG & Co. KGaA generally corresponds to that of the Group as a whole, which is discussed in the section "Review of overall business performance" on page 64.

* 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 profits

Business performance at Henkel AG & Co. KGaA was solid in fiscal 2016, characterized by the reorganization of our supply chain activities within one globally active corporation, and by a high level of competitive intensity.

At 3,676 million euros, sales of Henkel AG & Co. KGaA in 2016 were 8.0 percent lower year on year. As indicated in our guidance, the reorganization of our supply chain activities into one globally active company resulted in a strong decline in sales with Group companies. In addition the sales figure for 2015 included 258 million euros from the sale of inventories to the global supply chain company that was not repeated in 2016. The negative effects on sales were, however, partly offset by application of the BilRUG regulations, which resulted in licensing income of 456 million euros being reclassified from other operating income to sales in 2016. In terms of financial result and unappropriated profit, we exceeded our forecast for 2016 of merely flat development. This improvement was mainly due to the lower interest expense for pension obligations and higher income from the financial assets held in the plan assets.

In fiscal 2016, the **Adhesive Technologies** business unit generated sales of 1,032 million euros, below the figure of the previous year. This decline in sales was driven in particular by the decrease in sales to affiliated companies following the reorganization of the supply chain activities. In addition, the sales figure for 2015 includes a one-time gain of 114 million euros from the sale of inventories to the global supply chain company. The merger with Novamelt GmbH at the start of 2016 resulted in positive external sales growth.

The **Beauty Care** business unit achieved sales of 540 million euros in 2016, representing a decrease versus 2015. The main driver of this decline in sales was the relocation of export business with affiliated companies to the global supply chain company. In addition, the sale of inventories to the global supply chain company accounted for 75 million euros of sales in 2015, while there were no such transactions in fiscal 2016.

The **Laundry & Home Care** business unit generated sales of 928 million euros in 2016, which is below the figure for 2015. Positive domestic sales performance only partially offset the decline in sales relating to the

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

75

in million euros	2015	2016
Sales	3,994	**3,676**
Cost of sales	– 2,770	**– 2,444**
Gross profit	**1,224**	**1,232**
Marketing, selling, distribution and administrative expenses	– 1,121	**– 911**
Research and development expenses	– 327	**– 312**
Other operating income / expenses	353	**154**
Operating profit	**129**	**163**
Financial result	**578**	**911**
Income before tax	**707**	**1,074**
Taxes on income	– 91	**– 179**
Net income	**616**	**895**
Profit brought forward	150	**133**
Unappropriated profit	**766**	**1,028**

reorganization of the supply chain activities. In addition, the figure for 2015 includes 69 million euros for the sale of inventories to the global supply chain company, while there were no such transactions in fiscal 2016.

Sales in the Corporate segment increased from 685 million euros in 2015 to 1,176 million euros in 2016. This figure includes licensing income that has been recognized under sales for the first time following application of the BilRUG regulations. In 2015, the item was included under other operating income.

The operating profit of Henkel AG & Co. KGaA improved by 34 million euros to 163 million euros, mainly due to additional costs charged on to affiliated companies.

Expense items

Cost of sales decreased compared to 2015 by 326 million euros to 2,444 million euros, primarily as a result of reorganizing our supply chain activities into one globally active company. Gross margin increased by 2.8 percentage points to 33.5 percent. Following application of the BilRUG regulations, licensing fees of 206 million euros were recognized under cost of sales for the first time in 2016. In 2015, these fees were included in an amount of 156 million euros under other operating expenses.

At 678 million euros, marketing, selling and distribution expenses were below the prior-year figure of 842 million euros. The ratio to sales was 18.4 percent, which is slightly below the level of 2015.

The expenses attributable to the administrative functions decreased compared to 2015 by 46 million euros to 233 million euros, which mainly reflected lower overheads and payroll costs. Their ratio to sales declined by 0.7 percentage points to 6.3 percent.

Expenditures for research and development in the reporting period decreased by 15 million euros to 312 million euros. At 8.5 percent, the ratio to sales was higher than the figure of 8.2 percent in 2015.

Restructuring expenses of 33 million euros, included in the expense items mentioned, were lower compared to 2015 (44 million euros).

Other operating income / expenses

Other operating result decreased in 2016, by 199 million euros compared to the previous year.

Year on year, other operating income declined in 2016 by 372 million euros to 247 million euros. This was primarily attributable to the reclassification of licensing fees to sales, while higher costs charged on to affiliated companies had a countervailing effect.

At 93 million euros, other operating expenses in 2016 were significantly lower than the prior-year figure of 266 million euros, mainly as a result of changes in recognition of some of the licensing fees following application of the BilRUG.

Financial result

The financial result improved from 578 million euros in 2015 to 911 million euros in 2016.

The increase is mainly attributable to higher unit prices and the resulting higher earnings generated by the financial assets held in the pension fund. The interest expense was, moreover, lower as a result of changes to the discount rate for pension obligations. Pursuant to the legislation implementing the Mortgage Credit Directive and amending commercial regulations, the underlying discount rate increased in 2016.

Taxes on income

In 2016, taxes on income amounted to –179 million euros following –91 million euros in 2015.

Result for the year

Net income amounted to 895 million euros and was therefore above the result for 2015 of 616 million euros. The increase was mainly attributable to the improved financial result in 2016.

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

76

in million euros	December 31, 2015	December 31, 2016
Intangible assets and property, plant and equipment	884	**1,045**
Financial assets	9,171	**11,032**
Non-current assets	**10,055**	**12,077**
Inventories	14	**13**
Receivables and miscellaneous assets	2,043	**3,335**
Marketable securities	4	**4**
Liquid funds	289	**485**
Current assets	**2,350**	**3,837**
Deferred income	22	**19**
Assets arising from the overfunding of pension obligations	**187**	**392**
Total assets	**12,614**	**16,325**
Equity	**6,144**	**6,406**
Special accounts with reserve element	104	**94**
Provisions	694	**781**
Liabilities / deferred charges	5,672	**9,044**
Total equity and liabilities	**12,614**	**16,325**

Net assets and financial position

As of December 31, 2016, the total assets of Henkel AG & Co. KGaA increased compared to year-end 2015 by 3,711 million euros to 16,325 million euros.

Non-current assets increased by 2,022 million euros compared to 2015, to 12,077 million euros. The increase in financial assets is primarily due to our acquisitions and various capital measures involving affiliated companies. In addition, a loan was issued to a US subsidiary in 2016.

Current assets increased in 2016 from 2,350 million euros to 3,837 million euros, primarily as a result of higher receivables from affiliated companies.

At 392 million euros, overfunding from offsetting the plan assets against the pension obligations was significantly higher year on year.

Equity increased from 6,144 million euros to 6,406 million euros. Provisions increased by 87 million euros to 781 million euros. The balance of pension obligations and plan assets is reported in assets due to overfunding.

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

Liabilities and deferred charges rose overall in 2016 by 3,372 million euros compared to 2015, mainly due to increased borrowings used to fund our acquisitions.

For an overview of the financing and capital management of Henkel AG & Co. KGaA, please refer to the information about the Henkel Group on pages 72 and 73.

Risks and opportunities

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

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

Additional information regarding risks and opportunities and the risk management system can be found on the following pages 104 to 111.

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 2017 to be on a par with the figure for 2016. The positive performance reported for the Group also impacts Henkel AG & Co. KGaA through dividend payments from subsidiaries. Assuming continued positive development of the financial result, we expect the unappropriated profit generated in 2017 by Henkel AG & Co. KGaA to be flat or to increase slightly. This will enable our shareholders to participate to a reasonable extent in the Group’s net income, with retained earnings also available for utilization if necessary.

The forecast for the Henkel Group can be found on pages 112 and 113.

Risks and opportunities report

Risks and opportunities

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

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

Risk management system

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

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

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

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

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

The risk reporting process is supported by an intranet-based database which ensures transparent communication throughout the entire Group. Our Internal Audit function regularly reviews the quality and function of our risk management system. Within the framework of the 2016 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) of the German Commercial Code [HGB] and confirmed its compliance.

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

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

Further globally binding procedural instructions affecting our accounting practice are contained in our corporate standards "Treasury" and "Investments." Through appropriate organizational measures in conjunction with restrictive access to our information 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 regularly reviewed with regard to 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 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 the Group, and subsequently presents these documents to the Supervisory Board for approval.

Overview of major risk categories

77

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

Classification of risks in ascending order

78

Probability	
Low	1 – 9 %
Moderate	10 – 24 %
High	≥ 25 %
Potential financial impact	
Minor	1 – 49 million euros
Moderate	50 – 99 million euros
Major	≥ 100 million euros

Major risk categories

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

Operating risks

Procurement market risks

Description of risk: We expect prices for direct materials in our procurement markets to increase moderately overall in 2017 compared to 2016. This increase will be driven primarily by higher anticipated prices for input materials, and especially crude oil and petrochemicals. However, due to geopolitical, global economic, and climatic uncertainties, we expect prices to fluctuate in the course of the year. As a result of this uncertainty as it relates to the development of raw material prices that cannot always be passed on in full, we see risks arising beyond the forecasted moderate increase in relation to important raw materials and packaging materials.

The segments in the industrial goods sector are affected to a greater extent by these price risks than the individual segments in the consumer goods sector. Additional price and supply risks exist due to possible demand- or production-related shortages in the procurement markets. Furthermore, continued major volatility can be expected from global economic, geopolitical and climate risks, which could lead to rising material prices and supply shortages.

Measures: The measures taken include active supplier portfolio management through our globally engaged, cross-divisional sourcing capability, together with strategies aimed at securing price and volume both through contracts and, where appropriate and possible, through financial hedging instruments. Furthermore, we work in interdisciplinary teams within Research and Development, Supply Chain Management and Purchasing on devising alternative formulations and packaging forms so as to be able to respond flexibly to unforeseen fluctuations in raw material prices. We also avoid becoming dependent on individual suppliers to better secure the constant supply of the goods and services that we require. Finally, close collaboration with our strategic suppliers plays an exceptionally important role in our risk management. Further details regarding the assessment of supplier financial stability can be found in the section on "Procurement" on pages 77 to 79. The basis for our risk management approach is a comprehensive procurement information system aimed at ensuring permanent transparency with respect to our purchasing volumes.

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

Production risks

Description of risk: Henkel faces production risks in the event of low capacity utilization due to volume decreases and unplanned operational interruptions, especially at our single-source sites.

Measures: We can offset the negative effects of possible production outages through flexible production control and, where economically viable, insurance policies. Such production risks are minimized by ensuring high employee qualification, clearly defined safety standards, and regular plant and equipment maintenance. Capital expenditure decisions on property, plant and equipment are made in accordance with defined, differentiated responsibility procedures and approval processes. They incorporate all relevant specialist functions and are regulated in an internal corporate standard. Investments are analyzed in advance on the basis of detailed risk aspects. Further audits accompanying projects provide the foundation for project management and risk reduction.

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

Macroeconomic and sector-specific risks

Description of risk: We remain exposed to macroeconomic risks emanating from the uncertainties of the current geopolitical and economic environment. We currently see geopolitical risk arising in connection with the increased number of conflict zones. A decline in the macroeconomic environment poses a risk to the industrial sector in particular. A downturn in consumer spending is relevant for the consumer goods segments. A further significant risk is posed by an increasingly competitive environment, as this could result in stronger price and promotional pressures in the consumer goods sector. As consolidation in the retail sector continues and private labels occupy a growing share of the market, crowding-out competition in the consumer goods sector could intensify. The risk of product substitution inherent in this could, in principle, affect all business units. Technological change associated with digitalization may involve risks for the success of our products and processes.

Measures: We focus on continuously strengthening our brands (see separate risk description on page 110) and consistently developing further innovations. We consider innovative products and processes to be a significant success factor for our company, enabling us to differentiate ourselves from the competition. We also pursue specific sales and marketing initiatives, for example advertising and promotional activities. In addition, we have the capability to react quickly to potential sales declines through flexible production control.

Impact: High probability rating, possible major impact on our sales and earnings guidance.

Functional risks

Financial risks

Description of risk: Henkel is exposed to financial risk in the form of credit risks, liquidity risks, currency risks, interest rate risks, and risks arising from pension obligations.

For the description of credit risks, liquidity risks, currency risks and interest rate risks, please refer to the notes to the consolidated financial statements on pages 160 to 165. For the risks arising from our pension obligations, please see pages 147 to 149.

Measures: Risk-mitigating measures and the management of these risks are also described in the notes to the consolidated financial statements on the pages mentioned.

Impact: We classify financial risks as follows:
- Credit risk with a low probability of a major impact on our earnings guidance
- Liquidity risk with a low probability of a minor impact on our earnings guidance
- Currency risk with a moderate probability of a major impact on our earnings guidance
- Interest rate risk with a moderate probability of a minor impact on our earnings guidance
- Risks arising from our pension obligations with a high probability of a minor impact on our earnings guidance, and with a moderate probability of a major impact on our equity

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 equipment are governed by framework rules and regulations, including those relating to legacy remediation. Violation of such regulations may lead to legal proceedings or compromise our future business activities.

Changes to the regulatory environment in our relevant markets could influence our business activities, and thus adversely affect our assets, financial position and results of operations. Such changes might involve import and export controls, customs or other trade regulations, or pricing and foreign exchange restrictions.

Equally, as a globally active company, we maintain business relations with customers in countries that are subject to export control legislation, embargoes, economic sanctions or other forms of trade restriction. Changes to these regulations, new or extended sanctions, or corresponding initiatives by institutional investors or non-governmental organizations may result in restrictions being imposed on our business activities in these countries or, indirectly, in other countries, or may prevent us from acquiring or keeping customers and suppliers.

Measures: Our internal standards, guidelines, codes of conduct, and training measures are geared to ensuring compliance with the aforementioned statutory requirements and, for example, safeguarding our manufacturing facilities and products. These requirements have also been incorporated into our management systems and are regularly audited. Ensuring compliance with laws and regulations is an integral component of our business processes. This includes the early monitoring and evaluation of relevant statutory and regulatory requirements and changes. Henkel has further established a Group-wide compliance organization with locally and regionally responsible compliance officers led by a globally responsible General Counsel & Chief Compliance Officer (details can be found in the corporate governance report on pages 29 to 38). In addition, our corporate legal department maintains constant contact with local counsel. Current proceedings and potential risks are recorded in a separate reporting system. For certain legal risks, we have concluded insurance policies that are standard for the industry and that we consider to be appropriate. However, the outcome of proceedings is inherently difficult to foresee, especially in cases in which the claimant is seeking substantial or unspecified damages. In view of this, we are unable to predict what obligations may arise from such litigations. Consequently, major losses may result from litigations and proceedings that are not covered by our insurance policies or provisions. Potential damage to our reputation is not covered by insurance, nor is there any guarantee that

Henkel will acquire adequate insurance cover at reasonable terms and conditions in future.

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

Information technology risks

Description of risk: Information technology has strategic significance for Henkel. Our business processes rely to a great extent on internal and external IT services, applications, networks, and infrastructure systems. The failure or disruption of critical IT services and the manipulation or loss of data constitute material risks for Henkel. The failure of computer networks or disruption of important IT applications can impair critical business processes. The loss of confidential data, for example formulations, customer data or price lists, could benefit our competition. Henkel's reputation could also be damaged by such loss.

Measures: The technical and organizational safeguards for protecting information at Henkel are based on the international standards ISO 27001 and 27002. Major components include the classification of information, business processes, IT applications, and IT infrastructure safeguards with respect to confidentiality, availability, integrity, and data protection requirements, as well as measures for avoiding risk. In addition, Henkel has put technical and organizational measures in place to prevent, discover and defeat cyber attacks. As a member of Cyber Security Sharing and Analytics (CSSA) e.V., Henkel also maintains regular contact with other major corporations to enable the early detection of threats and implementation of effective countermeasures.

Our critical business processes operate through redundantly configured systems designed for high availability. Our data backup procedures reflect state-of-the-art technology and practice. We regularly review our restore and disaster recovery processes. We develop our systems using proven project management and program modification procedures.

Access to buildings and areas containing IT systems, access to computer networks and applications, as well as user authorizations for our information systems, are strictly limited to the minimum level necessary. For critical business processes, the required segregation of duties is enforced by technological means.

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

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

The implementation of our security measures is continually reviewed by our Internal Audit function, other internal departments, and independent third parties.

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

Personnel risks

Description of risk: The motivation and the qualification of our employees are key drivers of Henkel's business success. Therefore, it is strategically important to attract highly qualified professionals and executives and ensure they stay with the company. In selecting and employing talent, we compete globally for qualified professionals and executives. In many of our markets, we see clear signs of increasingly tough competition for the most talented professionals and the impacts of demographic change. These developments expose us to the risk of losing valuable employees or of being unable to recruit relevant qualified professionals and executives.

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

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

Further information relating to our employees can be found on pages 74 to 77.

Impact: High probability rating, possible minor impact on our earnings guidance.

Risks in connection with brand image or reputation of the company

Description of risk: As a globally active corporation, Henkel is exposed to potential damage to its image in the event of negative reports in the media – including social media – regarding Henkel's corporate brand or individual product brands, particularly in the consumer goods sector. These could lead to a negative impact on sales.

Measures: We minimize these risks through the measures described under legal and regulatory risks (see pages 108 and 109). These are designed to ensure that our production facilities and products are safe. We also pursue a policy of pro-active public relations management that serves to reinforce the reputation of our corporate brand and individual product brands. These measures are supported by a global communication network, and international and local crisis management systems with regular training sessions and crisis response planning.

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

Environmental and safety risks

Description of risk: Henkel is a global manufacturing corporation and is therefore exposed to risks pertaining to the environment, safety, health, and social standards, manifesting in the form of personal injury, physical damage to goods, and reputational damage. Soil contamination and the associated remediation expense, as well as leakage or other technical failures, could give rise to direct costs for the corporation. Furthermore, indirect costs such as fines, claims for compensation or reputational damage may also be incurred.

Measures: We minimize these risks through the measures described under legal and regulatory risks (see pages 108 and 109), and through our auditing, advisory and training activities. We update these preventive measures continuously 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 that our corporate values – one of which is sustainability – are put into practice.

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

Business strategy risks

Description of risk: Business strategy risks can arise from our expectations for internal projects, acquisitions and strategic alliances failing to materialize. The associated capital expenditures may not generate the originally anticipated value added due to internal or external influences. Individual projects could also be delayed or even halted by unforeseen events.

Measures: We combat these risks through comprehensive project management. We limit exposure through financial viability assessments in the review, decision, and implementation phases. These assessments are performed by specialist departments, assisted by external consultants where appropriate. Project transparency and control are supported by our management systems.

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

Major opportunity categories

Entrepreneurial opportunities are identified and evaluated at Group level and in the individual business units, and duly incorporated into the strategy and planning processes. We understand the opportunities presented in the following as potential future developments or events that could lead to a positive deviation from our guidance. We also assess the probabilities of price-related procurement market and financial opportunities.

Procurement market opportunities

Description of opportunities: Countervailing the procurement market risks listed on pages 106 and 107, opportunities may also arise in which the influencing factors described in this section develop in a direction that is advantageous to Henkel.

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

Macroeconomic and sector-specific opportunities

Description of opportunities: Additional business opportunities would arise if the uncertain geopolitical and macroeconomic situation in some regions, or the economic conditions in individual sectors, develop substantially better than expected.

Impact: The opportunities described could have a major impact on our sales and earnings guidance.

Financial opportunities

Description of opportunities: Countervailing the currency and interest rate risks indicated under financial risks, and the risks arising from pension obligations as described on pages 107 and 108, 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 high probability of a major impact on our earnings guidance
- Interest rate opportunities with a moderate probability of a minor impact on our earnings guidance
- Opportunities arising from our pension obligations with a low probability of a minor impact on our earnings guidance, and with a moderate probability of a major impact on our equity

Acquisition opportunities

Description of opportunities: Acquisitions are a key component of our strategy.

Impact: Large acquisitions could have a major impact on our earnings guidance.

Research and development opportunities

Description of opportunities: Opportunities arising from our largely continuous innovation process are a key component of our strategy and are already accounted for in our guidance. There are additional opportunities in the event of product introductions that exceed our expectations of market acceptance, and in the development of exceptional innovations that have not yet been taken into account.

Impact: Innovations arising from future research and development could have a major impact on our sales and earnings guidance.

Risks and opportunities in summary

At the time this report was prepared, there were no identifiable risks related to future developments that could endanger the existence either of Henkel AG & Co. KGaA, or a material subsidiary included in the consolidation, or the Group, as a going concern. As we have no special-purpose vehicles, there is no risk that might originate from such a source.

Compared to the previous year, our expectation of the likelihood and/or of the possible financial impact of individual risk and opportunity categories has changed slightly. Overall, however, the risk and opportunities situation has not altered to any significant degree.

The system of risk categorization adopted by Henkel continues to indicate that the most significant exposure currently relates to the impact of macroeconomic and sector uncertainty together with financial risks, to which we are responding with the countermeasures described above. The Management Board remains confident that the earning power of the Group forms a solid foundation for future business development and provides the necessary resources to leverage our opportunities.

Forecast

Macroeconomic development

Our assessment of future world economic development is based on data provided by IHS Global Insight.

Overview: moderate gross domestic product growth of approximately 3 percent
Global economic growth is expected to remain no more than moderate in 2017. IHS expects gross domestic product to rise by approximately 3 percent.

The mature markets should grow by approximately 2 percent. The North American economy is expected to grow by approximately 2 percent, while Japan's economy is forecasted to expand by approximately 1 percent. For Western Europe, IHS anticipates growth of approximately 1.5 percent.

The emerging markets are forecasted to achieve robust economic growth of approximately 4.5 percent in 2017, but developments are expected to vary widely between individual regions and countries. Economic output should increase by approximately 5.5 percent in Asia (excluding Japan), and by around 3 percent in the Africa/Middle East region. IHS expects positive performance of approximately 1 percent in Latin America in 2017. An increase of approximately 2 percent is forecasted for the Eastern Europe region.

Inflation: rise in global price levels
Global inflation of approximately 3.5 percent is predicted in 2017. While IHS expects a high degree of price stability for mature markets with a rise of approximately 2 percent, the inflation rate in emerging markets is forecasted to average around 5 percent.

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

Currencies: continued high volatility
We expect continued high volatility in the currency markets. We anticipate a slightly stronger average US dollar rate for 2017 compared to 2016. Conversely, major currencies in emerging markets could weaken.

Sector development

Consumption and the retail sector: growth of around 3 percent
IHS predicts that global private consumption will increase by around 3 percent in 2017. Consumers in mature markets are likely to spend approximately 2 percent more than in the previous year. The emerging markets should again demonstrate a somewhat higher propensity to spend, with a rise of approximately 3.5 percent in 2017.

Industrial production index: growth of approximately 2.5 percent
Starting in fiscal 2017, we will be using the industrial production index (IPX) as a reference for describing the market environment in which our Adhesive Technologies business unit operates. The index covers the manufacturing, mining, utilities and construction sectors and is therefore an appropriate indicator for the market environment in which our industrial business operates.

Year on year, the industrial production index is expected to gain approximately 2.5 percent worldwide, with growth slightly below that of the world economy as a whole. Industrial production is forecasted to expand by approximately 1.5 percent in the mature markets, and by approximately 4 percent in emerging markets.

Outlook for the Henkel Group in 2017

We expect the Henkel Group to generate organic sales growth of 2 to 4 percent in fiscal 2017. Our expectation is that each business unit will generate organic sales growth within this range.

The starting point for our forecasted organic sales growth is our strong competitive position. We have consolidated and further developed this in recent years through our innovative strength, strong brands and leading market positions, as well as the quality of our portfolio.

We expect the contribution to the nominal sales growth of the Henkel Group from our acquisitions in 2016 to be in the mid-single-digit percentage range. The translation of sales in foreign currencies is expected to have a neutral or slightly negative effect.

In recent years we have introduced a number of measures that have had a positive effect on our cost structure. Again this year, we intend to continue adapting our structures to constantly changing market conditions, and to maintain our strict cost discipline. Through optimization and standardization of processes, we can further improve our efficiency while simultaneously enhancing the quality of our customer service. Moreover, the optimization of our production and logistics networks will contribute to improving our cost structures.

These factors, together with the expected increase in sales, will have a positive effect on our earnings performance. For adjusted return on sales (EBIT), we anticipate an increase year on year to more than 17.0 percent. All three business units are expected to contribute to this positive development. We anticipate an increase in adjusted earnings per preferred share of between 7 and 9 percent.

Furthermore, we have the following expectations for 2017:

- Restructuring expenses of 200 to 250 million euros
- Investments in property, plant and equipment and intangible assets of between 750 and 850 million euros

Dividends

In accordance with our dividend policy and depending on the company's asset and profit positions as well as its financial requirements, we expect a dividend payout by Henkel AG & Co. KGaA in the range of 25 percent to 35 percent of net income after non-controlling interests, and adjusted for exceptional items.

Capital expenditures

In fiscal 2017, we plan to increase our investments in property, plant and equipment and intangible assets to approximately 750 to 850 million euros. We intend to allocate our budget to expanding our businesses in emerging markets and mature markets in approximately equal proportions. In line with our strategic priorities, considerable investments are planned in strengthening our innovation capabilities, and in expanding and further streamlining our production. Specific investments in IT infrastructure will drive the digitalization of our processes.

Consolidated financial statements

Consolidated statement of financial position

Assets

79

in million euros	Note	2015	%	2016	%
Intangible assets	1	11,682	52.3	**15,543**	**55.7**
Property, plant and equipment	2	2,661	11.9	**2,887**	**10.3**
Other financial assets	3	63	0.3	**95**	**0.3**
Income tax refund claims		7	–	**7**	**–**
Other assets	4	177	0.8	**155**	**0.7**
Deferred tax assets	5	816	3.7	**1,017**	**3.6**
Non-current assets		**15,406**	**69.0**	**19,704**	**70.6**
Inventories	6	1,721	7.7	**1,938**	**6.9**
Trade accounts receivable	7	2,944	13.2	**3,349**	**12.0**
Other financial assets	3	540	2.4	**734**	**2.6**
Income tax refund claims		196	0.9	**274**	**1.0**
Other assets	4	330	1.5	**434**	**1.6**
Cash and cash equivalents	8	1,176	5.3	**1,389**	**5.0**
Assets held for sale	9	10	–	**95**	**0.3**
Current assets		**6,917**	**31.0**	**8,213**	**29.4**
Total assets		**22,323**	**100.0**	**27,917**	**100.0**

Equity and liabilities

80

in million euros	Note	2015	%	2016	%
Issued capital	10	438	2.0	**438**	**1.6**
Capital reserve	11	652	2.9	**652**	**2.3**
Treasury shares		– 91	– 0.4	**– 91**	**– 0.3**
Retained earnings	12	12,984	58.1	**14,234**	**51.0**
Other components of equity	13	– 322	– 1.4	**– 188**	**– 0.7**
Equity attributable to shareholders of Henkel AG & Co. KGaA		**13,661**	**61.2**	**15,045**	**53.9**
Non-controlling interests	14	150	0.7	**138**	**0.5**
Equity		**13,811**	**61.9**	**15,183**	**54.4**
Provisions for pensions and similar obligations	15	988	4.4	**1,007**	**3.6**
Income tax provisions	16	89	0.4	**106**	**0.4**
Other provisions	16	396	1.8	**347**	**1.2**
Borrowings	17	4	–	**3,300**	**11.8**
Other financial liabilities	18	1	–	**114**	**0.4**
Other liabilities	19	16	0.1	**25**	**0.1**
Deferred tax liabilities	5	670	3.0	**833**	**3.0**
Non-current liabilities		**2,164**	**9.7**	**5,732**	**20.5**
Income tax provisions	16	263	1.2	**358**	**1.3**
Other provisions	16	1,564	7.0	**1,966**	**7.0**
Borrowings	17	880	3.9	**425**	**1.5**
Trade accounts payable	20	3,176	14.2	**3,665**	**13.1**
Other financial liabilities	18	109	0.5	**164**	**0.6**
Other liabilities	19	351	1.6	**395**	**1.5**
Income tax liabilities		5	–	**16**	**0.1**
Liabilities held for sale	9	–	–	**13**	**–**
Current liabilities		**6,348**	**28.4**	**7,002**	**25.1**
Total equity and liabilities		**22,323**	**100.0**	**27,917**	**100.0**

Consolidated statement of income

81

in million euros	Note	2015	%	2016	%	+/–
Sales	22	**18,089**	**100.0**	**18,714**	**100.0**	**3.5 %**
Cost of sales	23	– 9,368	– 51.8	**– 9,742**	**– 52.1**	4.0 %
Gross profit		**8,721**	**48.2**	**8,972**	**47.9**	**2.9 %**
Marketing, selling and distribution expenses	24	– 4,608	– 25.5	**– 4,635**	**– 24.7**	0.6 %
Research and development expenses	25	– 478	– 2.6	**– 463**	**– 2.5**	– 3.1 %
Administrative expenses	26	– 1,012	– 5.6	**– 1,062**	**– 5.7**	4.9 %
Other operating income	27	127	0.7	**109**	**0.6**	– 14.2 %
Other operating expenses	28	– 105	– 0.6	**– 146**	**– 0.8**	39.0 %
Operating profit (EBIT)		**2,645**	**14.6**	**2,775**	**14.8**	**4.9 %**
Interest income		28	0.2	**20**	**0.1**	– 28.6 %
Interest expense		– 45	– 0.2	**– 25**	**– 0.1**	– 44.4 %
Other financial result		– 24	– 0.2	**– 26**	**– 0.2**	8.3 %
Investment result		– 1	–	**– 2**	**–**	–
Financial result	29	**– 42**	**– 0.2**	**– 33**	**– 0.2**	**– 21.4 %**
Income before tax		**2,603**	**14.4**	**2,742**	**14.6**	**5.3 %**
Taxes on income	30	– 635	– 3.5	**– 649**	**– 3.4**	2.2 %
Tax rate in %		24.4		**23.7**		
Net income		**1,968**	**10.9**	**2,093**	**11.2**	**6.4 %**
Attributable to non-controlling interests	31	47	0.3	**40**	**0.2**	– 14.9 %
Attributable to shareholders of Henkel AG & Co. KGaA		1,921	10.6	**2,053**	**11.0**	6.9 %
Earnings per ordinary share – basic and diluted	in euros	4.42		**4.72**		6.8 %
Earnings per preferred share – basic and diluted	in euros	4.44		**4.74**		6.8 %

Consolidated statement of comprehensive income

See Notes 15 and 21 for further explanatory information

82

in million euros	2015	2016
Net income	**1,968**	**2,093**
Components to be reclassified to income:		
Exchange differences on translation of foreign operations	593	**141**
Gains/losses from derivative financial instruments (Hedge reserve per IAS 39)	– 17	**–**
Gains/losses from financial instruments in the available-for-sale category (Available-for-sale reserve)	–	**–**
Components not to be reclassified to income:		
Remeasurement of net liability from defined benefit pension plans (net of taxes)	265	**– 138**
Other comprehensive income (net of taxes)	**841**	**3**
Total comprehensive income for the period	**2,809**	**2,096**
Attributable to non-controlling interests	58	**47**
Attributable to shareholders of Henkel AG & Co. KGaA	2,751	**2,049**

Consolidated statement of changes in equity

See Notes 10 to 14 for further explanatory information

83

in million euros	Issued capital: Ordinary shares	Issued capital: Preferred shares	Capital reserve	Treasury shares	Retained earnings	Other components of equity: Currency translation	Other components of equity: Hedge reserve per IAS 39	Other components of equity: Available for sale	Shareholders of Henkel AG & Co. KGaA	Non-controlling interests	Total
At January 1, 2015	**260**	**178**	**652**	**–91**	**11,396**	**–723**	**–167**	**3**	**11,508**	**136**	**11,644**
Net income	–	–	–	–	1,921	–	–	–	1,921	47	**1,968**
Other comprehensive income	–	–	–	–	265	582	–17	–	830	11	**841**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**2,186**	**582**	**–17**	**0**	**2,751**	**58**	**2,809**
Dividends	–	–	–	–	–564	–	–	–	–564	–33	**–597**
Sale of treasury shares	–	–	–	–	–	–	–	–	–	–	**–**
Changes in ownership interest with no change in control	–	–	–	–	–34	–	–	–	–34	–11	**–45**
Other changes in equity	–	–	–	–	–	–	–	–	–	–	**–**
At Dec. 31, 2015/Jan. 1, 2016	**260**	**178**	**652**	**–91**	**12,984**	**–141**	**–184**	**3**	**13,661**	**150**	**13,811**
Net income	–	–	–	–	2,053	–	–	–	2,053	40	**2,093**
Other comprehensive income	–	–	–	–	–138	134	–	–	–4	7	**3**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**1,915**	**134**	**–**	**–**	**2,049**	**47**	**2,096**
Dividends	–	–	–	–	–633	–	–	–	–633	–33	**–666**
Sale of treasury shares	–	–	–	–	–	–	–	–	–	–	**–**
Changes in ownership interest with no change in control	–	–	–	–	–70	–	–	–	–70	–26	**–96**
Other changes in equity	–	–	–	–	38	–	–	–	38	–	**38**
At December 31, 2016	**260**	**178**	**652**	**–91**	**14,234**	**–7**	**–184**	**3**	**15,045**	**138**	**15,183**

Consolidated statement of cash flows

See Note 37 for further explanatory information

84

in million euros	2015	2016
Operating profit (EBIT)	**2,645**	**2,775**
Income taxes paid	– 715	**– 769**
Amortization/depreciation/impairment/write-ups of intangible assets and property, plant and equipment[1]	460	**570**
Net gains/losses on disposal of intangible assets and property, plant and equipment, and from divestments	– 26	**– 7**
Change in inventories	– 25	**10**
Change in trade accounts receivable	– 140	**– 240**
Change in other assets	– 79	**– 108**
Change in trade accounts payable	77	**341**
Change in other liabilities and provisions	187	**278**
Cash flow from operating activities	**2,384**	**2,850**
Purchase of intangible assets and property, plant and equipment, including payments on account	– 625	**– 557**
Acquisition of subsidiaries and other business units	– 322	**– 3,727**
Purchase of associated companies and joint ventures held at equity	– 6	**–**
Proceeds on disposal of subsidiaries and other business units	25	**–**
Proceeds on disposal of intangible assets and property, plant and equipment	35	**34**
Cash flow from investing activities	**– 893**	**– 4,250**
Dividends paid to shareholders of Henkel AG & Co. KGaA	– 564	**– 633**
Dividends paid to non-controlling shareholders	– 33	**– 33**
Interest received	130	**20**
Interest paid	– 155	**– 26**
Dividends and interest paid and received	– 622	**– 672**
Repayment / Issuance of bonds	– 1,300	**2,221**
Other changes in borrowings	275	**519**
Allocation to pension funds	– 60	**– 185**
Other changes in pension obligations	– 79	**– 116**
Purchase of non-controlling interests with no change of control	– 52	**– 102**
Other financing transactions[2]	283	**13**
Cash flow from financing activities	**– 1,555**	**1,678**
Net change in cash and cash equivalents	– 64	**278**
Effect of exchange rates on cash and cash equivalents	12	**– 65**
Change in cash and cash equivalents	**– 52**	**213**
Cash and cash equivalents at January 1	1,228	**1,176**
Cash and cash equivalents at December 31	**1,176**	**1,389**

[1] Of which: Impairment in fiscal 2016: 68 million euros (fiscal 2015: 16 million euros).
[2] Other financing transactions in fiscal 2016 include payments of –34 million euros for the purchase of short-term securities and time deposits as well as for the provision of financial collateral (fiscal 2015: –472 million euros).

Additional voluntary information
Reconciliation to free cash flow

85

in million euros	2015	2016
Cash flow from operating activities	2,384	**2,850**
Purchase of intangible assets and property, plant and equipment, including payments on account	– 625	**– 557**
Proceeds on disposal of intangible assets and property, plant and equipment	35	**34**
Net interest paid	– 25	**– 6**
Other changes in pension obligations	– 79	**– 116**
Free cash flow	**1,690**	**2,205**

Group segment report by business unit[1]

86

in million euros	Adhesives for Consumers, Craftsmen and Building	Industrial Adhesives	Total Adhesive Technologies	Beauty Care	Laundry & Home Care	Operating business units total	Corporate	Henkel Group
Sales 2016	**1,822**	**7,139**	**8,961**	**3,838**	**5,795**	**18,593**	**121**	**18,714**
Proportion of Henkel sales	10 %	38 %	48 %	20 %	31 %	**99 %**	1 %	**100 %**
Sales 2015	1,869	7,123	8,992	3,833	5,137	**17,961**	128	**18,089**
Change from previous year	– 2.5 %	0.2 %	– 0.3 %	0.1 %	12.8 %	**3.5 %**	– 6.1 %	**3.5 %**
Adjusted for foreign exchange	2.0 %	3.5 %	3.2 %	3.5 %	16.8 %	**7.2 %**	–	**7.1 %**
Organic	1.7 %	3.1 %	2.8 %	2.1 %	4.7 %	**3.2 %**	–	**3.1 %**
EBIT 2016	**278**	**1,284**	**1,561**	**526**	**803**	**2,890**	**– 115**	**2,775**
EBIT 2015	283	1,179	1,462	561	786	**2,809**	– 164	**2,645**
Change from previous year	– 2.1 %	8.9 %	6.8 %	– 6.2 %	2.2 %	**2.9 %**	–	**4.9 %**
Return on sales (EBIT) 2016	**15.2 %**	**18.0 %**	**17.4 %**	**13.7 %**	**13.9 %**	**15.5 %**	**–**	**14.8 %**
Return on sales (EBIT) 2015	15.2 %	16.5 %	16.3 %	14.6 %	15.3 %	**15.6 %**	–	**14.6 %**
Adjusted EBIT 2016	**293**	**1,336**	**1,629**	**647**	**1,000**	**3,276**	**– 104**	**3,172**
Adjusted EBIT 2015	278	1,256	1,534	610	879	**3,023**	– 100	**2,923**
Change from previous year	5.6 %	6.3 %	6.2 %	6.1 %	13.7 %	**8.4 %**	–	**8.5 %**
Adjusted return on sales (EBIT) 2016	**16.1 %**	**18.7 %**	**18.2 %**	**16.9 %**	**17.3 %**	**17.6 %**	**–**	**16.9 %**
Adjusted return on sales (EBIT) 2015	14.9 %	17.6 %	17.1 %	15.9 %	17.1 %	**16.8 %**	–	**16.2 %**
Capital employed 2016[2]	**779**	**7,054**	**7,833**	**2,882**	**5,104**	**15,819**	**77**	**15,895**
Capital employed 2015[2]	898	7,068	7,967	2,743	3,726	**14,436**	75	**14,511**
Change from previous year	– 13.3 %	– 0.2 %	– 1.7 %	5.1 %	37.0 %	**9.6 %**	–	**9.5 %**
Return on capital employed (ROCE) 2016	**35.7 %**	**18.2 %**	**19.9 %**	**18.2 %**	**15.7 %**	**18.3 %**	**–**	**17.5 %**
Return on capital employed (ROCE) 2015	31.6 %	16.7 %	18.4 %	20.4 %	21.1 %	**19.5 %**	–	**18.2 %**
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment 2016	**43**	**223**	**266**	**97**	**194**	**557**	**13**	**570**
of which impairment losses 2016	**1**	**7**	**8**	**23**	**37**	**68**	**–**	**68**
of which write-ups 2016	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment 2015	43	207	250	73	126	**449**	11	**460**
of which impairment losses 2015	–	2	2	–	14	**16**	–	**16**
of which write-ups 2015	–	6	6	–	–	**6**	–	**6**
Capital expenditures (excl. financial assets) 2016	**89**	**191**	**280**	**274**	**3,846**	**4,400**	**9**	**4,409**
Capital expenditures (excl. financial assets) 2015	83	294	377	142	450	**969**	10	**979**
Operating assets 2016[3]	**1,399**	**8,698**	**10,096**	**4,233**	**7,752**	**22,082**	**459**	**22,540**
Operating liabilities 2016	**660**	**2,145**	**2,805**	**1,537**	**2,380**	**6,722**	**382**	**7,104**
Net operating assets 2016[3]	**739**	**6,553**	**7,291**	**2,696**	**5,372**	**15,359**	**77**	**15,436**
Operating assets 2015[3]	1,441	8,535	9,976	4,041	5,928	**19,945**	456	**20,401**
Operating liabilities 2015	585	1,982	2,566	1,484	2,005	**6,055**	381	**6,435**
Net operating assets 2015[3]	856	6,553	7,410	2,557	3,923	**13,890**	75	**13,965**

[1] Calculated on the basis of units of 1,000 euros.
[2] Including goodwill at cost prior to any accumulated impairment in accordance with IFRS 3.79 (b).
[3] Including goodwill at net book value.

Key financials by region[1]

87

in million euros	Western Europe	Eastern Europe	Africa/ Middle East	North America	Latin America	Asia-Pacific	Total Regions	Corporate	Henkel Group
Sales[2] 2016	**5,999**	**2,713**	**1,378**	**4,202**	**1,055**	**3,246**	**18,593**	**121**	**18,714**
Sales[2] 2015	6,045	2,695	1,329	3,648	1,110	3,134	**17,961**	128	**18,089**
Change from previous year	– 0.8 %	0.7 %	3.7 %	15.2 %	– 5.0 %	3.6 %	**3.5 %**	–	**3.5 %**
Adjusted for foreign exchange	0.1 %	7.4 %	12.2 %	15.2 %	15.9 %	6.0 %	**7.2 %**	–	**7.1 %**
Organic	– 0.1 %	7.0 %	5.6 %	1.7 %	13.8 %	3.2 %	**3.2 %**	–	**3.1 %**
Proportion of Group sales 2016	**32 %**	**15 %**	**7 %**	**22 %**	**6 %**	**17 %**	**99 %**	**1 %**	**100 %**
Proportion of Group sales 2015	34 %	15 %	7 %	20 %	6 %	17 %	**99 %**	1 %	**100 %**
Operating profit (EBIT) 2016	**1,335**	**328**	**111**	**505**	**126**	**485**	**2,890**	**– 115**	**2,775**
Operating profit (EBIT) 2015	1,223	356	141	544	110	434	**2,809**	– 164	**2,645**
Change from previous year	9.2 %	– 7.9 %	– 21.2 %	– 7.1 %	14.2 %	11.5 %	**2.9 %**	–	**4.9 %**
Adjusted for foreign exchange	9.9 %	– 0.8 %	– 14.0 %	– 7.1 %	66.9 %	15.0 %	**7.1 %**	–	**8.2 %**
Return on sales (EBIT) 2016	**22.3 %**	**12.1 %**	**8.1 %**	**12.0 %**	**11.9 %**	**14.9 %**	**15.5 %**	**–**	**14.8 %**
Return on sales (EBIT) 2015	20.2 %	13.2 %	10.6 %	14.9 %	9.9 %	13.9 %	**15.6 %**	–	**14.6 %**

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

In 2016, the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA, generated sales of 2,339 million euros (previous year: 2,345 million euros). Sales realized by the affiliated companies domiciled in the USA amounted to 3,943 million euros in 2016 (previous year: 3,422 million euros). In fiscal 2015 and 2016, 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, 2016 (excluding financial instruments and deferred tax assets) amounting to 18,599 million euros (previous year: 14,539 million euros), 1,964 million euros (previous year: 1,842 million euros) was attributable to the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA. The non-current assets (excluding financial instruments and deferred tax assets) recognized in respect of the affiliated companies domiciled in the USA amounted to 10,735 million euros at December 31, 2016 (previous year: 7,308 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, 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted per Regulation number 1606/2002 of the European Parliament and the Council, on the application of international accounting standards, in the European Union, and in compliance with Section 315a of the German Commercial Code [HGB]. The consolidated financial statements are published in the electronic federal gazette.

The individual financial statements of the companies included in the consolidation are drawn up on the same accounting date, December 31, 2016, as that of Henkel AG & Co. KGaA.

Members of the KPMG organization or other independent firms of auditors instructed accordingly have audited the financial statements of the material companies included in the consolidation. The Management Board of Henkel Management AG – which is the Personally Liable Partner of Henkel AG & Co. KGaA – compiled the consolidated financial statements on January 30, 2017, and approved them for forwarding to the Supervisory Board and for publication.

The consolidated financial statements are based on the principle of historical cost with the exception that certain financial instruments are accounted for at their fair values, and pension obligations are measured using the projected unit credit method. The functional currency of Henkel AG & Co. KGaA and the reporting currency of the Group is the euro. Unless otherwise indicated, all amounts are shown in million euros. In order to improve the clarity and informative value of the consolidated financial statements, certain items are combined in the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income, and then shown separately in the notes.

Scope of consolidation

In addition to Henkel AG & Co. KGaA as the ultimate parent company, the consolidated financial statements at December 31, 2016, include eight German and 199 non-German companies in which Henkel AG & Co. KGaA has a dominating influence over financial and operating policies, based on the concept of control. The Group has a dominating influence on a company when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Companies in which the stake held represents less than half of the voting rights are fully consolidated if Henkel AG & Co. KGaA controls them, as defined in IFRS 10, through contractual agreements or the right to appoint corporate bodies.

Henkel AG & Co. KGaA prepares the consolidated financial statements for the largest and the smallest groups of companies to which Henkel AG & Co. KGaA and its subsidiaries belong.

The following table shows the changes to the scope of consolidation in fiscal 2016:

Scope of consolidation 88

At January 1, 2016	**202**
Additions	17
Mergers	– 8
Disposals	– 3
At December 31, 2016	**208**

Further details can be found in the section “Acquisitions and divestments” below.

Subsidiaries which are of secondary importance to the Group and to the presentation of a true and fair view of our net assets, financial position and results of operations due to their inactivity or low level of activity are generally not included in the consolidated financial statements. The total assets of these companies represent less than 1 percent of the Group’s total assets; their total sales and income (net of taxes) are also less than 1 percent of the Group totals.

Acquisitions and divestments

Acquisitions

Effective May 31, 2016, we acquired 57.5 percent of the shares of Expand Global Industries UK Limited, London, UK. Expand Global Industries UK Limited holds nearly 100 percent of the shares of Expand Global Industries Ltd. headquartered in Ibadan, Nigeria, which has a strong presence in the detergent market in Nigeria. With this acquisition, the Laundry & Home Care business unit has expanded its detergent business. The acquisition is part of our strategy to further strengthen our presence in emerging markets. The purchase price was 110 million euros, settled in cash. With regard to the remaining 42.5 percent of shares, put and call contracts have been entered into between Henkel and the seller. Henkel has decided to apply the anticipated acquisition method to account for the acquisition in the financial statements. Accordingly, acquisition of the outstanding non-controlling shares is already included as part of the first-time consolidation in the form of a contingent purchase price liability of 113 million euros. The purchase price of the outstanding non-controlling interests is based on the market value of the shares less net financial debt. Please refer to the details on pages 156 and 157 for Henkel's estimated bandwidth of potential fluctuations arising from changes in valuation parameters. A maximum payment was not agreed. Because the acquisition is recognized using the anticipated acquisition method, non-controlling interests from the acquired business are not disclosed in the statement of comprehensive income. Effects from foreign exchange and measurement of the contingent purchase price liability are recognized directly in equity and disclosed as other changes in the statement of changes in equity. Provisional goodwill was recognized in the amount of 199 million euros. Because the acquisition was completed in the course of the year, the allocation of the purchase price to the acquired assets and liabilities in accordance with IFRS 3 "Business combinations" is provisional. Tax-deductible goodwill is not expected.

Effective June 1, 2016, we completed the acquisition of a range of hair care brands and the associated hair care business of Procter & Gamble in the Africa/Middle East and Eastern Europe regions. The acquisition is part of our strategy to further strengthen our presence in emerging markets. The purchase price was 212 million euros, settled in cash. Provisional goodwill was recognized in the amount of 160 million euros. Because the acquisition was completed in the course of the year, the allocation of the purchase price to the acquired assets and liabilities in accordance with IFRS 3 "Business combinations" is provisional. Goodwill of 54 million euros was recognized for tax purposes.

Effective June 30, 2016, we acquired the tile adhesives business and the associated brands of the Colombian company Alfagres S.A. With this, the Adhesive Technologies business unit has expanded its business in the segment Adhesives for Consumers, Craftsmen and Building. The acquisition is part of our strategy to further strengthen our presence in emerging markets. We do not expect any material impact from this acquisition on the net assets, financial position and results of operations of Henkel.

Effective August 15, 2016, we completed the acquisition of all shares of Zhejiang Golden Roc Chemicals JSC, China, expanding our superglue business in the Adhesive Technologies business unit. The acquisition is part of our strategy to further strengthen our presence in emerging markets. We do not expect any material impact from this acquisition on the net assets, financial position and results of operations of Henkel.

Effective August 21, 2016, we completed the acquisition of the detergent business and the associated brands of Behdad Chemical Company PJSC in Iran. The acquisition is part of our strategy to further strengthen our presence in emerging markets. The provisional purchase price of 5,436 billion Iranian rials (around 141 million euros) was settled in cash. Provisional goodwill was recognized in the amount of 100 million euros. Because the acquisition was recently completed, the allocation of the purchase price to the acquired assets and liabilities in accordance with IFRS 3 "Business combinations" is provisional. We do not expect any material impact from this acquisition on the net assets, financial position and results of operations of Henkel.

Effective September 1, 2016, we completed the acquisition of all shares of The Sun Products Corporation, a laundry and home care company based in Wilton, Connecticut, USA. The transaction had a purchase price of around 3.6 billion US dollars including debt redeemed at closing of 1.7 billion US dollars, and is fully debt-financed. In fiscal 2015, the company generated sales of around 1.6 billion US dollars in the USA and Canada. Acquisition-related costs amounted to 17 million euros. This acquisition is part of our strategy to invest in attractive country category positions in mature markets. Provisional goodwill was recognized in the amount of 2.1 billion euros. This goodwill represents the offensive and defensive synergies that Henkel expects to gain by integrating The Sun Products Corporation into its organization, and reflects the growth potential of the acquired business. Because the acquisition was recently completed, the allocation of the purchase price to the acquired assets and liabilities in accordance with IFRS 3 "Business combinations" is provisional. If the acquired company had been included from January 1, 2016, sales for the Henkel Group for the reporting period January 1 to December 31, 2016, would be higher by 1,457 million euros and income (net of taxes) would be lower by 98 million euros, taking restructuring and integration costs into account. The actual contributions of the company were 475 million euros to sales and –77 million euros to income (net of taxes). Tax-deductible goodwill is not expected.

Effective December 8, 2016, we completed the acquisition of all shares of Jeyes Group Limited, UK, thus expanding our business with WC products and household detergents in the Laundry & Home Care business unit. As specified in IFRS 10 "Consolidated financial statements," the acquired business has not yet been consolidated as control has not yet passed to Henkel. First-time consolidation is expected for the second quarter of 2017. We do not expect any material impact from this acquisition on the net assets, financial position and results of operations of Henkel.

In 2016, we spent around 62 million euros for the acquisition of the outstanding non-controlling shares in Henkel Pakvash PJSC based in Tehran, Iran, increasing our ownership interest to 97.98 percent.

In the third quarter of 2016, we spent around 10 million euros for the acquisition of the outstanding non-controlling shares in Henkel Industrie AG based in Tehran, Iran, increasing our ownership interest to 100 percent.

In the fourth quarter of 2016, we spent around 22 million euros for the acquisition of the outstanding non-controlling shares in Henkel (Siam) Adhesive Technologies Ltd. based in Samut Prakan, Thailand, increasing our ownership interest to 100 percent.

The carrying amounts of the acquired assets and liabilities are determined by the contracts and our opening balances on each respective acquisition date. The recognition and measurement principles adopted by the Henkel Group were applied. If the acquisition of the shares of Expand Global Industries UK Limited and of the range of hair care brands and the associated hair care business of Procter & Gamble – and thus their business activities – had been included from January 1, 2016, sales for the Henkel Group for the reporting period January 1 to December 31, 2016, would be higher by 126 million euros and income (net of taxes) would be higher by 2 million euros, taking acquisition-related costs into account. The actual contributions of the companies were 61 million euros to sales and –2 million euros to income (net of taxes).

Acquisitions

89

in million euros	Detergent business in Nigeria, effective May 31, 2016 Fair value	Hair care business in Africa/Middle East and Eastern Europe, effective June 1, 2016 Fair value	The Sun Products Corporation, effective September 1, 2016 Fair value	Total
Intangible assets	213	205	3,016	**3,434**
Property, plant and equipment	13	1	245	**259**
Other non-current assets	–	11	127	**138**
Non-current assets	**226**	**217**	**3,388**	**3,831**
Inventories	9	3	185	**197**
Trade accounts receivable	1	–	134	**135**
Liquid funds	2	–	11	**13**
Other current assets	2	–	14	**16**
Current assets	**14**	**3**	**344**	**361**
Total assets	**240**	**220**	**3,732**	**4,192**
Net assets	**223**	**219**	**3,200**	**3,642**
Non-current liabilities	**6**	**1**	**308**	**315**
Other current provisions / liabilities	5	–	90	**95**
Trade accounts payable	6	–	134	**140**
Current liabilities	**11**	**–**	**224**	**235**
Total equity and liabilities	**240**	**220**	**3,732**	**4,192**

Reconciliation of the purchase price to provisional goodwill

90

in million euros	2016
Detergent business in Nigeria, effective May 31, 2016	
Purchase price	110
Contingent purchase price	113
Fair value of the acquired assets and liabilities	24
Provisional goodwill	**199**
Hair care business in Africa/Middle East and Eastern Europe, effective June 1, 2016	
Purchase price	212
Contingent purchase price	7
Fair value of the acquired assets and liabilities	59
Provisional goodwill	**160**
The Sun Products Corporation, effective September 1, 2016	
Purchase price	3,197
Adjustment based on purchase agreement	3
Fair value of the acquired assets and liabilities	1,137
Provisional goodwill	**2,063**

Divestments

We did not conclude the sale of any businesses in fiscal 2016.

Consolidation methods

The financial statements of Henkel AG & Co. KGaA and of the subsidiaries included in the consolidated financial statements were prepared on the basis of uniformly valid principles of recognition and measurement, applying the standardized year-end date adopted by the Group. Such entities are included in the consolidated financial statements as of the date on which the Group acquired control.

All receivables and liabilities, sales, income and expenses, as well as intra-group profits on transfers of non-current assets or inventories, are eliminated on consolidation.

The purchase method is used for capital consolidation. With business combinations, therefore, all hidden reserves and hidden charges in the entity acquired are revalued at the time of acquisition, and all identifiable intangible assets are separately disclosed if they are clearly separable or if their recognition arises from a contractual or other legal right. Any difference arising between the acquisition cost and the (share of) net assets after purchase price allocation is recognized as goodwill. The goodwill of subsidiaries is measured in the functional currency of the subsidiary.

Entities acquired are included in the consolidation for the first time as subsidiaries by offsetting the carrying amount of the respective parent company's investment in them against their assets and liabilities. Contingent consideration is recognized at fair value as of the date of first-time consolidation. Subsequent changes in value do not result in an adjustment to the valuation at the time of acquisition. Acquisition-related costs are not included in the purchase price. Instead, they are recognized through profit or loss in the period in which they occur.

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

In subsequent years, the carrying amount of the Henkel AG & Co. KGaA investment is eliminated against the current (share of) equity in the subsidiary entities concerned.

Changes in the shareholdings of subsidiary companies resulting in a decrease or an increase in the participating interests of the Group without loss of control are recognized within equity as changes in ownership without loss of control.

As soon as the control of a subsidiary is relinquished, all the assets and liabilities and the non-controlling interests, and also the accumulated currency translation gains or losses, are derecognized. In the event that Henkel continues to own non-controlling interests in the non-consolidated entity, these are measured at fair value. The result of deconsolidation is recognized under other operating income or expenses.

Companies recognized by the equity method

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

An associated company is a company over which the Group can exercise material influence on the financial and operating policies without controlling it. Material influence is generally assumed when the Group holds 20 percent or more of the voting rights. Where a Group company conducts transactions with an associated company or a joint venture, the resulting profits or losses are eliminated in accordance with the share of the Group in that company.

The Group consolidates Dekel Investment Holdings Ltd. and Vitriflex, Inc. using the equity method. The carrying amount of the shareholdings recognized using the equity method as of December 31, 2016, was 7 million euros (previous year: 12 million euros).

Associated companies that are less relevant for the Group and for the presentation of a fair view of its net assets, financial position and results of operation, are never recognized using the equity method. They are always recognized at amortized cost.

Currency translation

The annual financial statements of the consolidated companies, including the hidden reserves and hidden charges of Group companies recognized by the purchase method, goodwill arising on consolidation, and the consolidated statement of cash flows, are translated into euros using the functional currency method outlined in International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates." The functional currency is the currency in which a foreign company predominantly generates funds and makes payments. As the functional currency for all the companies included in the consolidation is generally the local currency of the company concerned, assets and liabilities are translated at closing rates, while income and expenses are translated at the average rates for the year as an approximation of the actual rates at the date of the transaction. Equity items are recognized at historical exchange rates. The differences arising from using average rather than closing rates are taken to equity and shown as other components of equity or non-controlling interests, and remain neutral in respect of net income until the shares are divested.

In the subsidiaries' annual financial statements, transactions in foreign currencies are converted at the rates prevailing at the time of the transaction. Financial assets and liabilities in foreign currencies are measured at closing rates through profit or loss. For the main currencies in the Group, the following exchange rates have been used based on 1 euro:

Currencies

91

		Average exchange rate		Exchange rate on December 31	
	ISO code	2015	2016	2015	2016
Chinese yuan	CNY	6.97	**7.36**	7.06	**7.32**
Mexican peso	MXN	17.61	**20.67**	18.91	**21.77**
Polish zloty	PLN	4.18	**4.36**	4.26	**4.41**
Russian ruble	RUB	68.05	**74.07**	80.67	**64.30**
Turkish lira	TRY	3.02	**3.34**	3.18	**3.71**
US dollar	USD	1.11	**1.11**	1.09	**1.05**

Recognition and measurement methods

Summary of selected measurement methods

92

Financial statement figures	Measurement method
Assets	
Goodwill	Lower of carrying amount and recoverable amount (“impairment only” method)
Other intangible assets	
with indefinite useful lives	Lower of carrying amount and recoverable amount (“impairment only” method)
with definite useful lives	(Amortized) cost less any impairment losses
Property, plant and equipment	(Depreciated) cost less any impairment losses
Financial assets (categories per IAS 39)	
“Loans and receivables”	(Amortized) cost using the effective interest method
“Available for sale”	Fair value with gains or losses recognized directly in equity [1]
“Held for trading”	Fair value through profit or loss
“Fair value option”	Fair value through profit or loss
Other assets	(Amortized) cost
Inventories	Lower of cost and fair value less costs to sell
Assets held for sale	Lower of cost and fair value less costs to sell

[1] Apart from permanent impairment losses and effects arising from measurement in a foreign currency.

Liabilities	
Provisions for pensions and similar obligations	Present value of future obligations (projected unit credit method)
Other provisions	Settlement amount
Financial liabilities (categories per IAS 39)	
“Measured at amortized cost”	(Amortized) cost using the effective interest method
“Held for trading”	Fair value through profit or loss
Other liabilities	Settlement amount

The methods of recognition and measurement, which are basically unchanged from the previous year, are described in detail in the notes relating to the individual items of the statement of financial position on these pages. Also provided as part of the report on our financial instruments (Note 21 on pages 153 to 165) are the disclosures relevant to International Financial Reporting Standard (IFRS) 7 showing the breakdown of our financial instruments by category, our methods for fair value measurement, and the derivative financial instruments that we use.

Changes in the methods of recognition and measurement arising from revised and new standards are applied retrospectively, provided that the effect is material and there are no alternative regulations that supersede the standard concerned. The consolidated statement of income from the previous year and the opening balance of the consolidated statement of financial position for this comparative period are adjusted as if the new methods of recognition and measurement had always been applied.

Accounting estimates, assumptions and discretionary judgments

Preparation of the consolidated financial statements is based on a number of accounting estimates and assumptions. These have an impact on the reported amounts of assets, liabilities and contingent liabilities at the reporting date and the disclosure of income and expenses for the reporting period. The actual amounts may differ from these estimates.

The accounting estimates and their underlying assumptions are based on past experience and are continually reviewed. Changes in accounting estimates are recognized in the period in which the change takes place where such change exclusively affects that period. A change is recognized in the period in which it occurs and in later periods where such change affects both the reporting period and subsequent periods. The judgments of the Management Board regarding the application of those IFRSs which have a significant impact on the consolidated financial statements are presented in particular in the explanatory notes on taxes on income (Note 30 on pages 168 to 170), intangible assets (Note 1 on pages 131 to 134), provisions for pensions and similar obligations (Note 15 on pages 141 to 149), income tax provisions and other provisions (Note 16 on pages 149 and 150), financial instruments (Note 21 on pages 153 to 165) and share-based payment plans (Note 34 on page 172).

Material discretionary judgments are made in respect of the demarcation of the cash-generating units as explained in Note 1 on pages 131 to 134 and the segment reporting as explained in Note 35 on pages 172 to 174. Contingent forward contracts for acquired minority interests are recognized using the anticipated acquisition method.

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

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

93

	Mandatory for fiscal years beginning on or after
IFRS 11 (Amendment) “Acquisition of an Interest in a Joint Operation”	January 1, 2016
IAS 1 (Amendment) “Notes”	January 1, 2016
IAS 16 and IAS 38 (Amendment) “Clarification of Acceptable Methods of Depreciation and Amortisation”	January 1, 2016
IAS 19 (Amendment) “Defined Benefit Plans: Employee Contributions”	February 1, 2015
General standard “Improvements to IFRS 2010 – 2012”	February 1, 2015
General standard “Improvements to IFRS 2012 – 2014”	January 1, 2016
IFRS 10, IFRS 12 and IAS 28 (Amendment) “Investment Entities: Applying the Consolidation Exception”	January 1, 2016

- IFRS 11 governs the procedure for recognizing joint ventures and joint operations in both the statement of financial position and in profit or loss. Joint ventures must be recognized using the equity method, whereas the treatment of joint operations is comparable to proportionate consolidation, pursuant to IFRS 11. With its amendment of IFRS 11, the International Accounting Standards Board (IASB) has regulated the accounting procedure for acquisitions of interests in joint operations in which the activity constitutes a business, as defined in IFRS 3 “Business Combinations.” In the case of such operations, the acquirer is required to apply the principles of business combinations accounting in IFRS 3. The disclosure requirements specified in IFRS 3 also apply in such instances.
- The amendments relating to IAS 1 affect various reporting issues. The standard now clarifies that disclosures in the notes are only necessary if their content is not immaterial, which is explicitly the case if an IFRS specifies a list of minimum disclosures. Explanations on the procedure for aggregating and disaggregating items on the statements of financial position and comprehensive income have also been included. The standard further requires contributions to other comprehensive income by companies that are recognized using the equity method to be reported in the statement of comprehensive income.
- In its amendments of IAS 16 and IAS 38, the IASB has provided further guidance for determining acceptable methods of depreciation and amortization.
- The amendments to IAS 19 clarify the requirements governing the allocation of contributions by employees or third parties to periods of service if the contributions are linked to the period of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.

- As part of the annual improvement project “Improvements to IFRS 2010 – 2012,” amendments were made to seven standards. Adjustments to the wording of individual IFRSs are intended to clarify existing regulations. Amendments affecting disclosures in the notes have also been implemented. The following standards are affected: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
- As part of the annual improvement project “Improvements to IFRS 2012 – 2014,” amendments were made to four standards. Adjustments to the wording of individual IFRSs/IASs are intended to clarify existing regulations. The following standards are affected: IFRS 5, IFRS 7, IAS 19 and IAS 34.
- The amendments to IFRS 10, IFRS 12 and IAS 28 serve to clarify various issues relating to the application of the consolidation exception under IFRS 10 if the parent company complies with the definition of an “investment entity.”

The first-time application of the amended standards had no material impact on the presentation of our consolidated financial statements.

Accounting regulations not applied in advance of their effective date

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

Accounting regulations not applied in advance of their effective date 94

	Mandatory for fiscal years beginning on or after
IFRS 9 “Financial Instruments”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018

These standards and amendments to existing standards will be applied by Henkel starting in fiscal 2018. We are currently examining what impact IFRS 15 “Revenue from Contracts with Customers” will have on the consolidated financial statements. Given the current situation, we expect a minor impact on sales and on cost of sales in the year of implementation due to the recognition of rights of return in the financial statements. A conclusive assessment of the effects is not possible at present. We are also currently examining what impact IFRS 9 “Financial Instruments” will have on the consolidated financial statements. A conclusive assessment of the effects is not possible.

Accounting regulations not yet adopted into EU law

In fiscal 2016, the IASB issued the following standards and amendments to existing standards of relevance to Henkel, which still have to be adopted into EU law (endorsement mechanism) before they become applicable:

Accounting regulations not yet adopted into EU law 95

	Mandatory for fiscal years beginning on or after
IFRS 16 “Leases”	January 1, 2019
IFRS 2 (Amendment) “Classification and Measurement of Share-Based Payment Transactions”	January 1, 2018
IFRS 10 and IAS 28 (Amendment) “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	outstanding
IFRS 15 (Amendment) “Clarifications to IFRS 15”	January 1, 2018
IAS 7 (Amendment) “Disclosure Initiative”	January 1, 2017
IAS 12 (Amendment) “Recognition of Deferred Tax Assets for Unrealised Losses”	January 1, 2017
IAS 40 (Amendment) “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018
Improvements to IFRS 2014 – 2016 “Amendments to IFRS 12”	January 1, 2017
Improvements to IFRS 2014 – 2016 “Amendments to IFRS 1 and IAS 28”	January 1, 2018

These new standards and amendments to existing standards will be applied by Henkel starting in fiscal 2017 or later. A conclusive assessment of the effects is not possible.

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 estimated useful lives. The useful life estimates are reviewed annually. If facts or circumstances indicate the need for impairment, the recoverable amount is determined. It is measured as the higher of the fair value less costs to sell (net realizable value) and the value in use. Impairment losses are recognized if the recoverable amounts of the assets are lower than their carrying amounts. They are charged to the relevant functions.

The following unchanged, standardized useful lives are applied:

Useful life

96

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

1 Intangible assets

Cost

97

	Trademarks and other rights					
in million euros	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Intangible assets in development	Goodwill	Total
At January 1, 2015	**1,820**	**1,506**	**220**	**64**	**8,085**	**11,695**
Acquisitions	101	18	–	–	224	**343**
Divestments	– 1	–	–	–	– 1	**– 2**
Additions	–	12	35	64	–	**111**
Disposals	–	– 9	–	–	–	**– 9**
Reclassifications to assets held for sale	–	–	–	–	–	**–**
Reclassifications	–	–	11	– 11	–	**–**
Translation differences	159	71	4	–	553	**787**
At December 31, 2015/January 1, 2016	**2,079**	**1,598**	**270**	**117**	**8,861**	**12,925**
Acquisitions	1,012	26	12	–	2,539	**3,589**
Divestments	–	–	–	–	–	**–**
Additions	–	6	8	69	–	**83**
Disposals	–	– 30	– 8	–	–	**– 38**
Reclassifications to assets held for sale	–	– 8	–	–	– 3	**– 11**
Reclassifications	– 101	101	105	– 105	–	**–**
Translation differences	77	29	4	–	240	**350**
At December 31, 2016	**3,067**	**1,722**	**391**	**81**	**11,637**	**16,898**

Accumulated amortization / impairment

98

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 January 1, 2015	**16**	**921**	**157**	**–**	**11**	**1,105**
Divestments	–	–	–	–	–	**–**
Write-ups	– 5	–	–	–	–	**– 5**
Scheduled amortization	–	91	19	–	–	**110**
Impairment losses	–	–	–	–	–	**–**
Disposals	–	– 7	–	–	–	**– 7**
Reclassifications to assets held for sale	–	–	–	–	–	**–**
Reclassifications	1	– 1	–	–	–	**–**
Translation differences	–	35	5	–	–	**40**
At December 31, 2015/January 1, 2016	**12**	**1,039**	**181**	**–**	**11**	**1,243**
Divestments	–	–	–	–	–	**–**
Write-ups	–	–	–	–	–	**–**
Scheduled amortization	–	104	34	–	–	**138**
Impairment losses	–	–	1	–	–	**1**
Disposals	–	– 28	– 8	–	–	**– 36**
Reclassifications to assets held for sale	–	– 5	–	–	–	**– 5**
Reclassifications	–	–	–	–	–	**–**
Translation differences	– 4	16	2	–	–	**14**
At December 31, 2016	**8**	**1,126**	**210**	**–**	**11**	**1,355**

Net book values

99

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 December 31, 2016	**3,059**	**596**	**181**	**81**	**11,626**	**15,543**
At December 31, 2015	2,067	559	89	117	8,850	**11,682**

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

Additions to internally generated intangible assets mostly reflect investments in consolidating and optimizing our IT system architecture for managing business processes.

The change in goodwill resulting from acquisitions and divestments made in the fiscal year is presented in the section "Acquisitions and divestments" on pages 123 to 126.

Goodwill as well as trademarks and other rights with indefinite useful lives are subjected to an impairment test at least once a year and also when indicators of impairment are present ("impairment only" approach).

Amortization and impairment of trademarks and other rights are recognized as selling expenses. Amortization and impairment of other intangible assets are allocated to the relevant functions in the consolidated statement of income.

In the course of our annual impairment test, we reviewed the carrying amounts of goodwill. The following table shows the cash-generating units together with the associated goodwill at book value at the reporting date. The description of the cash-generating units can be found in the notes to the consolidated financial statements, Note 35 on page 172 and in the combined management report on pages 88 to 99.

Book values – Goodwill

100

Cash-generating units in million euros	At December 31, 2015			At December 31, 2016		
	Goodwill	Terminal growth rate	Weighted average cost of capital	Goodwill	Terminal growth rate	Weighted average cost of capital
Packaging and Consumer Goods Adhesives	2,005	1.50%	7.50%	**2,012**	**1.50%**	**7.00%**
Transport and Metal	462	1.50%	7.50%	**476**	**1.50%**	**7.00%**
General Industry	385	1.00%	7.50%	**416**	**1.00%**	**7.00%**
Electronics	1,473	1.50%	7.50%	**1,513**	**1.50%**	**7.00%**
Adhesives for Consumers, Craftsmen and Building	373	1.00%	7.50%	**404**	**1.00%**	**7.00%**
Total Adhesive Technologies	**4,698**			**4,821**		
Branded Consumer Goods	1,294	1.00%	6.25%	**1,461**	**1.00%**	**6.25%**
Hair Salon Business	305	1.00%	6.25%	**314**	**1.00%**	**6.25%**
Total Beauty Care	**1,599**			**1,775**		
Laundry Care	1,286	1.00%	6.25%	**3,727**	**1.00%**	**6.25%**
Home Care	1,267	1.00%	6.25%	**1,303**	**1.00%**	**6.25%**
Total Laundry & Home Care	**2,553**			**5,030**		

We assess goodwill impairment according to the fair-value-less-costs-to-sell approach on the basis of future estimated cash flows which are obtained from the business budgets approved by the appropriate corporate management bodies. The determination of fair value (before deduction of costs to sell) is allocated to valuation level 3 of the fair value hierarchy (see Note 21 on pages 153 to 165). The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. Budgets are prepared on the basis of a financial planning horizon of four years. For the period after that, a growth rate in a range between 1 and 2 percent in the cash flows is assumed for the purpose of impairment testing. The euro to US dollar exchange rate applied is 1.08. Taking into account specific tax effects, the cash flows of the various cash-generating units are discounted at different rates reflecting the weighted average cost of capital (WACC) in each business unit: 6.25 percent after tax for both Laundry & Home Care and Beauty Care, and 7 percent after tax for Adhesive Technologies.

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

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

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

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

Book values – Trademarks and other rights

101

Cash-generating units (summarized) in million euros	At December 31, 2015 Trademarks and other rights with indefinite useful lives	Terminal growth rate	Weighted average cost of capital	At December 31, 2016 Trademarks and other rights with indefinite useful lives	Terminal growth rate	Weighted average cost of capital
Packaging and Consumer Goods Adhesives	51	1.50 %	7.50 %	**51**	**1.50 %**	**7.00 %**
Transport and Metal	14	1.50 %	7.50 %	**18**	**1.50 %**	**7.00 %**
General Industry	0	1.00 %	7.50 %	**–**	**1.00 %**	**7.00 %**
Electronics	90	1.50 %	7.50 %	**90**	**1.50 %**	**7.00 %**
Adhesives for Consumers, Craftsmen and Building	68	1.00 %	7.50 %	**67**	**1.00 %**	**7.00 %**
Total Adhesive Technologies	**223**			**226**		
Branded Consumer Goods	572	0.20 – 1.80 %	6.25 – 9.50 %	**603**	**0.20 – 1.80 %**	**6.25 – 9.00 %**
Hair Salon Business	121	0.20 – 1.80 %	6.25 – 9.80 %	**124**	**0.20 – 1.80 %**	**6.25 – 7.80 %**
Total Beauty Care	**693**			**727**		
Laundry Care	779	1.00 – 1.80 %	6.25 – 12.30 %	**1,745**	**1.00 – 2.00 %**	**6.25 – 14.40 %**
Home Care	372	1.00 – 1.80 %	6.25 – 11.50 %	**361**	**1.00 – 2.00 %**	**6.25 – 14.30 %**
Total Laundry & Home Care	**1,151**			**2,106**		

We assess impairment of trademarks and other rights with indefinite useful lives according to the fair-value-less-costs-to-sell approach at the level of the cash-generating unit, which consists of either global business units (Adhesive Technologies) or regional strategic business units. We base the approach on future estimated cash flows which are obtained from business budgets. The determination of fair value (before deduction of costs to sell) is allocated to valuation level 3 of the fair value hierarchy (see Note 21 on pages 153 to 165). The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. Budgets are prepared on the basis of a financial planning horizon of four years. For the period after that, a growth rate in a range between 0.2 and 2 percent in the cash flows is assumed for the purpose of impairment testing. The euro to US dollar exchange rate applied is 1.08. Taking into account specific tax effects, the cash flows of the various cash-generating units are discounted at different rates, with a range between 6.25 and 14.40 percent applied as the applicable weighted average cost of capital (WACC) to each cash-generating unit. The impairment tests revealed sufficient impairment buffers so that – as in the previous year – no impairment of trademarks and other rights with indefinite useful lives was required.

The trademarks and other rights with indefinite useful lives with a net book value of 3,059 million euros (previous year: 2,067 million euros) are established in their markets and will continue to be intensively promoted. Moreover, there are no other statutory, regulatory or competition-related factors that limit our usage of our brand names.

Our annual impairment tests on trademarks and other rights with indefinite useful lives required impairment losses of 0 million euros (previous year: 0 million euros). Following the acquisition of The Sun Products Corporation and the associated integration and restructuring measures, trademark book values with indefinite useful lives were reclassified to trademarks with finite useful lives in an amount of 101 million euros. The scheduled amortization ends in December 2017. In 2016, amortization of around 14 million euros was recognized.

The company also intends to continue using the brands disclosed as having definite useful lives. No impairment losses were registered with respect to trademarks and other rights with definite useful lives in 2016.

2 Property, plant and equipment

Cost

102

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At January 1, 2015	**2,088**	**2,872**	**973**	**310**	**6,243**
Acquisitions	3	6	2	–	**11**
Divestments	–	–	–	–	**–**
Additions	45	136	77	256	**514**
Disposals	– 16	– 94	– 75	–	**– 185**
Reclassifications to assets held for sale	–	1	3	–	**4**
Reclassifications	62	153	65	– 282	**– 2**
Translation differences	46	51	2	18	**117**
At December 31, 2015/January 1, 2016	**2,228**	**3,125**	**1,047**	**302**	**6,702**
Acquisitions	85	160	11	21	**277**
Divestments	–	–	–	–	**–**
Additions	44	142	68	222	**476**
Disposals	– 41	– 137	– 83	–	**– 261**
Reclassifications to assets held for sale	– 155	– 10	–	–	**– 165**
Reclassifications	41	179	51	– 271	**–**
Translation differences	12	20	1	– 10	**23**
At December 31, 2016	**2,214**	**3,479**	**1,095**	**264**	**7,052**

Accumulated depreciation / impairment

103

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At January 1, 2015	**1,008**	**2,042**	**733**	**– 1**	**3,782**
Divestments	–	–	–	–	**–**
Write-ups	–	– 1	–	–	**– 1**
Scheduled depreciation	62	182	96	–	**340**
Impairment losses	2	12	2	–	**16**
Disposals	– 10	– 86	– 73	–	**– 169**
Reclassifications to assets held for sale	1	– 1	2	–	**2**
Reclassifications	– 1	– 3	3	–	**– 1**
Translation differences	19	36	19	– 2	**72**
At December 31, 2015/January 1, 2016	**1,081**	**2,181**	**782**	**– 3**	**4,041**
Divestments	–	–	–	–	**–**
Write-ups	–	–	–	–	**–**
Scheduled depreciation	65	192	107	–	**364**
Impairment losses	50	13	4	–	**67**
Disposals	– 27	– 129	– 81	–	**– 237**
Reclassifications to assets held for sale	– 75	– 9	–	–	**– 84**
Reclassifications	– 4	4	– 3	3	**–**
Translation differences	4	8	2	–	**14**
At December 31, 2016	**1,094**	**2,260**	**811**	**–**	**4,165**

Net book values

104

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At December 31, 2016	**1,120**	**1,219**	**284**	**264**	**2,887**
At December 31, 2015	1,147	944	265	305	**2,661**

Additions are stated at purchase or manufacturing cost. The latter includes direct costs and appropriate proportions of necessary overheads. Interest charges on borrowings are not included, as Henkel does not currently hold any qualifying assets in accordance with International Accounting Standard (IAS) 23 “Borrowing Costs.” Cost figures are shown net of investment grants and allowances. Acquisition-related costs incurred in order to make the asset ready for the intended use are capitalized. An overview of the primary investment projects undertaken during the fiscal year can be found on page 70 in the combined management report.

At December 31, 2016, property, plant and equipment with a carrying amount of 0 million euros had been pledged as collateral for existing liabilities. The periods over which the assets are depreciated are based on their estimated useful lives as set out on page 131. Scheduled depreciation and impairment losses recognized are allocated to the relevant functions in the consolidated statement of income.

Of the impairment losses amounting to 67 million euros, 46 million euros are attributable to the site in Scottsdale, Arizona, USA, due to the merger of administrative functions as part of the process of integrating The Sun Products Corporation.

3 Other financial assets

Analysis

105

in million euros	At December 31, 2015 Non-current	Current	Total	At December 31, 2016 Non-current	Current	Total
Receivables from associated companies	–	1	1	**4**	**1**	**5**
Financial receivables from third parties	15	24	39	**13**	**25**	**38**
Derivative financial instruments	–	72	72	**–**	**103**	**103**
Investments accounted for using the equity method	12	–	12	**7**	**–**	**7**
Other investments	21	–	21	**56**	**–**	**56**
Receivable from Henkel Trust e.V.	–	349	349	**–**	**501**	**501**
Securities and time deposits	–	5	5	**–**	**2**	**2**
Financial collateral provided	–	10	10	**–**	**7**	**7**
Sundry financial assets	15	79	94	**15**	**95**	**110**
Total	**63**	**540**	**603**	**95**	**734**	**829**

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

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

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

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

- Receivables from sureties and guarantee deposits amounting to 37 million euros (previous year: 32 million euros)
- Receivables from suppliers amounting to 21 million euros (previous year: 14 million euros)
- Receivables from employees amounting to 14 million euros (previous year: 15 million euros).

4 Other assets

Analysis

106

in million euros	At December 31, 2015 Non-current	Current	Total	At December 31, 2016 Non-current	Current	Total
Tax receivables	–	202	202	**–**	**242**	**242**
Payments on account	–	28	28	**–**	**55**	**55**
Overfunding of pension obligations	58	–	58	**24**	**–**	**24**
Reimbursement rights related to employee benefits	100	11	111	**102**	**13**	**115**
Accruals	18	72	90	**21**	**88**	**109**
Sundry other assets	1	17	18	**8**	**36**	**44**
Total	**177**	**330**	**507**	**155**	**434**	**589**

5 Deferred taxes

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

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

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

The valuation, recognition and breakdown of deferred taxes in respect of the various items in the statement of financial position are disclosed under Note 30 ("Taxes on income") on pages 168 to 170.

6 Inventories

In accordance with IAS 2, reported under inventories are those assets that are intended to be sold in the ordinary course of business (finished products and merchandise), those in the process of production for such sale (work in progress) and those to be utilized or consumed in the course of manufacture or the rendering of services (raw materials and supplies). Payments on account made for the purpose of purchasing inventories are likewise disclosed under the inventories heading.

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

Inventories are measured using either the "first in, first out" (FIFO) or the average cost method. Manufacturing cost includes not only the direct costs but also appropriate portions of necessary overheads (for example goods inward department, raw material storage, filling, costs incurred through to the finished goods warehouse), production-related administrative expenses, the costs of the pensions of people who are employed in the production process, and production-related amortization /depreciation. The overhead add-ons are calculated on the basis of average capacity utilization. Not included, however, are interest expenses incurred during the manufacturing period.

The net realizable value is determined as an estimated selling price less costs yet to be incurred through to completion, and necessary selling and distribution costs. Write-downs to the net realizable value are made if, at year-end, the carrying amounts of the inventories are above their realizable fair values. The resultant valuation allowance amounted to 142 million euros (previous year: 120 million euros). The carrying amount of inventories recognized at fair value less costs to sell amounted to 359 million euros. The carrying amount of inventories pledged as security for liabilities amounted to 0 million euros.

Analysis of inventories

107

in million euros	December 31, 2015	December 31, 2016
Raw materials and supplies	483	**544**
Work in progress	69	**95**
Finished products and merchandise	1,157	**1,290**
Payments on account for merchandise	12	**9**
Total	**1,721**	**1,938**

7 Trade accounts receivable

Trade accounts receivable amounted to 3,349 million euros (previous year: 2,944 million euros). They are all due within one year. Valuation allowances have been recognized in respect of specific risks as appropriate. Overall, we recognized total valuation allowances of 25 million euros (previous year: 21 million euros).

Trade accounts receivable

108

in million euros	December 31, 2015	December 31, 2016
Trade accounts receivable, gross	3,056	**3,467**
less: cumulative valuation allowances on trade accounts receivable	112	**118**
Trade accounts receivable, net	**2,944**	**3,349**

Development of valuation allowances on trade accounts receivable

109

in million euros	2015	2016
Valuation allowances at January 1	**108**	**112**
Additions	15	**22**
Derecognition of receivables	– 12	**– 15**
Currency translation effects	1	**– 1**
Valuation allowances at December 31	**112**	**118**

8 Cash and cash equivalents

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

The volume of cash and cash equivalents increased compared to the previous year from 1,176 million euros to 1,389 million euros. Of this figure, 1,259 million euros (previous year: 950 million euros) relates to cash and 130 million euros (previous year: 226 million euros) to cash equivalents. The change is shown in the consolidated statement of cash flows.

9 Assets and liabilities held for sale

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

Compared to December 31, 2015, assets held for sale increased by 85 million euros to 95 million euros. This increase is primarily due to the merger of administrative functions as part of the process of integrating The Sun Products Corporation. As a result, the office in Scottsdale, Arizona, USA, will probably be sold in the first half of 2017. The impairment of 41 million euros resulting from measurement of the assets at the lower of fair value and carrying amount has been recognized as a loss in administrative expenses. Liabilities held for sale also exist in an amount of 13 million euros (December 31, 2015: 0 million euros), mainly due to the signed agreement governing the sale of Henkel's Western European flooring, tiling and waterproofing business.

Assets and liabilities held for sale

110

in million euros	At December 31, 2015	At December 31, 2016
Intangible assets and property, plant and equipment	6	**92**
Inventories and trade accounts receivable	3	**2**
Cash and cash equivalents	–	**–**
Other assets	1	**1**
Provisions	–	**13**
Borrowings	–	**–**
Other liabilities	–	**–**
Net assets	**10**	**82**

10 Issued capital

Issued capital

111

in million euros	At December 31, 2015	At December 31, 2016
Ordinary bearer shares	260	**260**
Preferred bearer shares	178	**178**
Capital stock	**438**	**438**

Comprising:
259,795,875 ordinary shares, 178,162,875 non-voting preferred shares.

All shares are fully paid in. The ordinary and preferred shares are bearer shares of no par value, each of which represents a nominal proportion of the capital stock amounting to 1 euro. The liquidation proceeds are the same for all shares. The number of ordinary shares issued remained unchanged year on year. The number of preferred shares in circulation was also unchanged year on year, at 174,482,323 as at December 31, 2016.

According to Art. 6 (5) of the Articles of Association, there is an authorized capital. Under Authorized Capital 2015, the Personally Liable Partner is authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to increase the capital of the corporation at any time until April 12, 2020, by up to a nominal amount of 43,795,875 euros in total by issuing up to 43,795,875 new non-voting preferred shares for cash and/or in-kind consideration. The authorization may be utilized to the full extent allowed or once or several times in installments. The proportion of capital stock represented by shares issued against payment in kind on the basis of this authorization must not exceed a total of 10 percent of the capital stock existing at the time the authorization takes effect.

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

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

In addition, the Personally Liable Partner is authorized to purchase ordinary and/or preferred shares of the corporation at any time until April 12, 2020, up to a maximum nominal proportion of the capital stock of 10 percent. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may, in particular, be transferred to third parties for the purpose of acquiring entities or participating interests of entities. Treasury shares may also be sold to third parties against payment in cash, provided that the selling price is not significantly below the quoted market price at the time of share disposal. The shares may likewise be used to satisfy warrants or conversion rights granted by the corporation. The Personally Liable Partner has also been authorized, with the approval of the Shareholders' Committee and of the Supervisory Board, to cancel treasury shares without the need for further resolution by the Annual General Meeting.

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

Treasury shares held by the corporation at December 31, 2016 amounted to 3,680,552 preferred shares (December 31, 2015: 3,680,552). This represents 0.84 percent of the capital stock and a proportional nominal value of 3.7 million euros.

See also the explanatory notes on pages 31 and 32 of the combined management report.

11 Capital reserve

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

12 Retained earnings

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

For details on the acquisition of ownership interests in subsidiaries with no change in control in fiscal 2016, please see the section "Acquisitions and divestments" on pages 123 to 126.

13 Other components of equity

Reported under this heading are differences reported in equity arising from the currency translation of annual financial statements of foreign subsidiaries and also the effects arising from the valuation in total comprehensive income of financial assets in the "Available for sale" category and of derivative financial instruments for which hedge accounting is used. The latter are derivatives used in connection with cash flow hedges or hedges of a net investment in a foreign entity. Due in particular to the appreciation of the US dollar versus the euro, the negative difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation decreased compared to the figure at December 31, 2015, by 134 million euros to –7 million euros.

14 Non-controlling interests

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

15 Provisions for pensions and similar obligations

Description of the pension plans

Employees in companies included in the consolidated financial statements have entitlements under company pension plans which are either defined contribution or defined benefit plans. These take different forms depending on the legal, financial and tax regimes of each country. The level of benefits provided is based, as a rule, on the length of service and on the income of the person entitled. Details of pension benefits for members of the Management Board are provided in the remuneration report on pages 39 to 51.

In defined benefit plans, the liability for pensions and other post-employment benefits is calculated at the present value of the future obligations (projected unit credit method). This actuarial method of calculation takes future trends in wages, salaries and retirement benefits into account.

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

Active employees of Henkel in Germany participate in a defined contribution system, "Altersversorgung 2004 (AV 2004)," which was newly formed in 2004. AV 2004 is an employer-financed pension plan that reflects the personal income development of employees during their career at Henkel and thus provides a performance-related pension. Henkel guarantees a minimum return on the company's contributions. The benefit essentially consists of an annuity payable upon attainment of the retirement age plus a lump-sum payment if the annuity threshold is exceeded in the employee's service period. In addition to age and disability pensions, the plan benefits include surviving spouse and surviving child benefits.

Employees who started at Henkel after April 1, 2011, participate in the pension plan "Altersversorgung 2011 (AV 2011)." AV 2011 is an employer-financed, fund-linked retirement plan funded by contributions based on the income development of the employee. Henkel ensures its employees that a lump-sum amount is available upon retirement which is at least equivalent to the level of principal contributions made by Henkel. Henkel makes the pension contribution to an investment fund established for the purpose of the company pension plan. Upon attaining retirement age, the employee can choose between an annuity through transfer of the superannuation lump-sum to a pension fund, or a one-time payment.

To provide protection under civil law of the pension entitlements of future and current pensioners of Henkel AG & Co. KGaA against insolvency, we have transferred the proceeds of the bond issued in 2005 and certain other assets to Henkel Trust e.V. The trustee invests the cash with which it has been entrusted in the capital market in accordance with investment policies laid down in the trust agreement. In addition, we also subsidize medical benefits for retired employees resident mainly in the USA. Under these programs, retirees are reimbursed for a certain percentage of their medical expenses. We build provisions during the employees' service period and pay the promised benefits when they are claimed.

The defined contribution plans are structured in such a way that the corporation pays contributions to public or private sector institutions on the basis of statutory or contractual terms or on a voluntary basis and has no further obligations regarding the payment of benefits to employees. The contributions for defined contribution plans, excluding multi-employer plans, for the reporting period amounted to 103 million euros (previous year: 82 million euros). In 2016, we paid 47 million euros to public sector institutions (previous year: 46 million euros) and 56 million euros to private sector institutions (previous year: 36 million euros).

No extraordinary events occurred in the reporting period.

Multi-employer plans

Henkel provides defined pension benefits that are financed by more than one employer. The ensuing multi-employer plans are treated as defined contribution plans because, due to the limited share of the contribution volume in the plans, the information available for each of the financing companies is insufficient for defined benefit accounting. In the Henkel Group, benefits from multi-employer plans are provided for employees primarily in the USA and Japan. Withdrawal from our multi-employer plans at the present time would incur a one-time expense of around 29 million euros (previous year: around 30 million euros). Payments into multi-employer plans in fiscal 2016 amounted to 2 million euros (previous year: 2 million euros). We expect contributions of around 2 million euros in fiscal 2017.

Assumptions

Group-wide, the obligations from our pension plans are valued by an independent external actuary at the end of the fiscal year. The calculations at the end of the fiscal year are based on the actuarial assumptions below. These are given as the weighted average. The mortality rates used are based on published statistics and experience relating to each country. In Germany, the assumptions are based on the "Heubeck 2005G" mortality table. In the USA, the assumptions are based on the modified "RP 2014" mortality table. The valuation of pension obligations in Germany was based essentially on the assumption of a 1.9 percent increase in retirement benefits (previous year: 2 percent).

The discount rate is based on yields in the market for high-ranking corporate bonds on the respective date. The currency and term of the underlying bonds are aligned with the currency and expected maturities of the post-employment pension obligation.

Actuarial assumptions 112

	Germany		USA		Other countries[1]	
in percent	2015	2016	2015	2016	2015	2016
Discount rate	2.20	**1.60**	4.30	**4.10**	2.85	**2.10**
Income trend	3.25	**3.25**	2.85	**3.00**	2.50	**2.85**
Expected increases in costs for medical benefits	–	**–**	7.10	**6.80**	3.80	**3.60**
in years						
Life expectancy at age 65 as of the valuation date for a person currently						
65 years old	21.0	**21.2**	22.0	**22.0**	24.0	**24.0**
40 years old	24.2	**24.4**	23.0	**23.0**	26.0	**26.0**

[1] Weighted average.

Development of defined benefit obligation at December 31, 2015

113

in million euros	Germany	USA	Other countries	Total
At January 1, 2015	**3,254**	**1,174**	**1,137**	**5,565**
Changes in the Group	5	–	–	**5**
Translation differences	–	124	34	**158**
Actuarial gains (–)/losses (+)	– 251	– 68	– 89	**– 408**
of which: from changes in demographic assumptions	–	– 36	2	**– 34**
of which: from changes in financial assumptions	– 246	– 27	– 74	**– 347**
of which: from experience adjustments	– 5	– 5	– 17	**– 27**
Current service cost	46	18	26	**90**
Employee contributions	11	–	1	**12**
Gains (–)/losses (+) arising from the termination and curtailment of plans	– 1	– 5	– 2	**– 8**
Interest expense	54	50	28	**132**
Retirement benefits paid out of plan assets	– 144	– 69	– 35	**– 248**
Employer’s payments for pension obligations	– 8	– 26	– 9	**– 43**
Other changes	–	–	–	**–**
At December 31, 2015	**2,966**	**1,198**	**1,091**	**5,255**
of which: obligations not covered by plan assets	87	298	94	**479**
of which: obligations covered by plan assets	2,879	789	997	**4,665**
of which: obligations covered by reimbursement rights	–	111	–	**111**

Development of plan assets at December 31, 2015

114

in million euros	Germany	USA	Other countries	Total
At January 1, 2015	**2,646**	**815**	**867**	**4,328**
Changes in the Group	3	–	–	**3**
Translation differences	–	93	29	**122**
Employer contributions	25	–	35	**60**
Employee contributions	11	–	1	**12**
Retirement benefits paid out of plan assets	– 144	– 69	– 35	**– 248**
Planned income on plan assets	49	34	22	**105**
Remeasurements in equity	– 13	– 39	2	**– 50**
Other changes	–	–	–	**–**
At December 31, 2015	**2,577**	**834**	**921**	**4,332**

Development of asset ceiling at December 31, 2015

115

in million euros	Germany	USA	Other countries	Total
At January 1, 2015	**–**	**–**	**1**	**1**
Interest cost for asset ceiling	–	–	–	**–**
Remeasurements in equity	–	–	6	**6**
At December 31, 2015	**–**	**–**	**7**	**7**

Development of the net obligation at December 31, 2015

116

in million euros	Germany	USA	Other countries	Total
Net obligation at January 1, 2015	**608**	**359**	**270**	**1,237**
Recognized through profit or loss				
Current service cost	46	18	26	**90**
Gains (–)/losses (+) arising from the termination and curtailment of plans	– 1	– 5	– 2	**– 8**
Interest expense	5	16	6	**27**
Recognized in equity in other comprehensive income				
Actuarial gains (–)/losses (+)	– 251	– 68	– 89	**– 408**
Remeasurements in equity	13	39	– 2	**50**
Change in the effect of the asset ceiling	–	–	6	**6**
Other items recognized in equity				
Employer’s payments	– 33	– 26	– 43	**– 102**
Changes in the Group	2	–	–	**2**
Translation differences	–	31	5	**36**
Net obligation at December 31, 2015	**389**	**364**	**177**	**930**
Overfunding of pension obligations	–	23	35	**58**
Recognized provision at December 31, 2015	**389**	**387**	**212**	**988**

Development of defined benefit obligation at December 31, 2016

117

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

Development of plan assets at December 31, 2016

118

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

Development of asset ceiling at December 31, 2016

119

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

Development of the net obligation at December 31, 2016

120

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

Analysis of reimbursement rights

121

in million euros	2015	2016
At January 1	105	**111**
Changes in the Group	–	**–**
Translation differences	10	**5**
Employer contributions	3	**3**
Employee contributions	–	**–**
Retirement benefits paid	–7	**–8**
Interest income	5	**5**
Remeasurements in equity	–5	**–1**
At December 31	111	**115**

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

- 1,960 million euros for active employees,
- 930 million euros for former employees with vested benefits, and
- 2,671 million euros for retirees.

The average weighted duration of pension obligations is 16 years for Germany, 9 years for the USA and 20 years for other countries.

In determining net liability, we take into account amounts that are not recognized due to asset ceiling restrictions. If the fair value of the plan asset item exceeds the obligations arising from the pension benefits, an asset is recognized only if the reporting entity can also derive economic benefit from these assets, for example in the form of return flows or a future reduction in contributions ("Asset Ceiling" per IAS 19.58 ff.). In the reporting period, we recorded an amount of 8 million euros as an asset ceiling (previous year: 7 million euros).

Within our consolidated statement of income, current service costs are allocated on the basis of cost of sales to the respective function. Only the net of interest expense for the present value of obligations and interest income from plan assets is reported in the interest result. All gains/losses from the termination and curtailment of plans have been recognized in other operating income/expenses. The employer's contributions in respect of state pension provisions are included as "Social security contributions and staff welfare costs" under Note 33, page 171. In 2016, allocations to the pension fund amounted to 185 million euros (previous year: 60 million euros).

The reimbursement rights covering a portion of the pension obligations in the USA are assets that do not fulfill the definition of plan assets as stated in IAS 19.

The reimbursement rights indicated are available to the Group in order to cover the expenditures required to fulfill the respective pension obligations. Reimbursement rights and the associated pension obligations must, according to IAS 19, be shown unnetted in the statement of financial position.

Payments into pension funds in fiscal 2017 are expected to total 52 million euros.

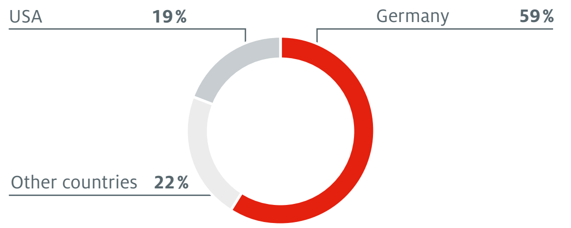
Analysis of plan assets

122

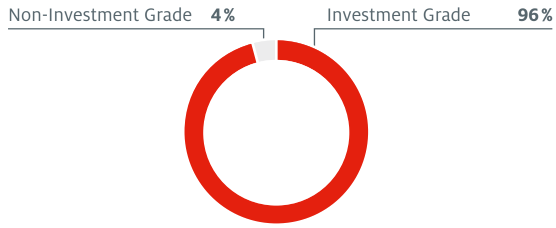
	December 31, 2015			December 31, 2016		
in million euros	Quotation on active markets	No quotation on active markets	Total	Quotation on active markets	No quotation on active markets	Total
Shares	1,274	–	1,274	**1,407**	**–**	**1,407**
Europe	555	–	555	**646**	**–**	**646**
USA	223	–	223	**229**	**–**	**229**
Others	496	–	496	**532**	**–**	**532**
Bonds and hedging instruments	2,891	11	2,902	**3,086**	**5**	**3,091**
Government bonds	994	–	994	**1,048**	**–**	**1,048**
Corporate bonds	1,897	–	1,897	**2,038**	**–**	**2,038**
Derivatives	–	11	11	**–**	**5**	**5**
Alternative investments	–	214	214	**–**	**275**	**275**
Cash	–	78	78	**–**	**104**	**104**
Liabilities[1]	–	–349	–349	**–**	**–501**	**–501**
Other assets	–	213	213	**–**	**210**	**210**
Total	4,165	167	4,332	**4,493**	**93**	**4,586**

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

Plan assets by country 2016 123



Classification of bonds by rating 2016 124



The objective of the investment strategy for the global plan assets is the long-term security of pension payments. This is ensured by comprehensive risk management that takes into account the asset and liability portfolios of the defined benefit pension plans. Henkel pursues a liability-driven investment (LDI) approach in order to achieve the investment objective. This approach takes into account the structure of the pension obligations and manages the cover ratio of the pension plans. In order to improve the funding ratio, Henkel invests plan assets in a diversified portfolio for which the expected long-term yield is above the interest costs of the pension obligations.

In order to cover the risks arising from trends in wages, salaries and life expectancies, and to close the potential deficit between plan assets and pension obligations over the long term, additional investments are made in a return-enhancing portfolio as an add-on instrument that contains assets such as equities, private equity and real estate. The target portfolio structure of the plan assets is essentially determined in asset-liability studies. These studies are conducted regularly with the help of external advisors who assist Henkel in the investment of plan assets. They examine the actual portfolio structure, taking into account current capital market conditions, investment principles and the obligation structure, and can suggest adjustments be made to the portfolio.

The expected long-term yield for individual plan assets is derived from the target portfolio structure and the expected long-term yields for the individual asset classes.

Major plan assets are administered by external fund managers in Germany and the USA. These countries pursue the above investment strategies and are monitored centrally. At December 31, 2016, other assets making up the plan assets included the present value of a non-current receivable of 64 million euros (previous year: 60 million euros) relating to claims pertaining to a hereditary building lease assigned by Henkel AG & Co. KGaA to Henkel Trust e.V. Also shown here is a claim of 115 million euros (previous year: 123 million euros) against BASF Personal Care & Nutrition GmbH (formerly Cognis GmbH) for indemnification of pension obligations. This claim represents the nominal value, which is equivalent to the market price. In the reporting year, as in the previous year, we held no direct investments and no treasury shares in respect of plan assets in the portfolio.

Risks associated with pension obligations

Our internal pension risk management monitors the risks of all pension plans Group-wide in compliance with local legal regulations. As part of the monitoring process, guidelines on the control and management of risks are adopted and continuously developed; these guidelines mainly govern external funding, portfolio structure and actuarial assumptions. The objective of the financing strategy within the Group is to ensure that plan assets cover 90 to 100 percent of the present value of the funded pension obligations. The contributions and investment strategies are intended to ensure nearly complete coverage of the plans for the duration of the pension obligations.

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

In order to reduce the risks arising from the payment of lifelong benefits as well as inflation, pension benefits have been gradually converted since 2004 to what are known as modular benefits with a pension option in which the benefit is initially divided into an annuity and lump-sum benefit portion. Newly hired employees since 2011 receive a commitment based primarily on the lump-sum benefit. Generally, lump-sum benefits may also be paid out as an annuity through a pension fund. All benefits in Germany are financed through a provident fund

(Vorsorgefonds) established for the purpose of the occupational pension plan. Benefits for new employees since 2011 as well as a portion of the entitlements vested since 2004 are linked to the performance of this provident fund, resulting in a reduction in overall risk to the Group. The described adjustments within the pension structure reduce the financial risk arising from pension commitments in Germany. By linking the benefit to the capital investment, the net risk is also largely eliminated. An increase in the long-term inflation assumption would mainly affect the expected increase in pensions and the expected trend in pension-eligible salaries.

The pension obligations in the USA are based primarily on three retirement plans that are all closed to new employees. New employees receive pension benefits based on a defined contribution plan. The pension benefits generally have a lump-sum option which is usually exercised. When a pension becomes payable, the amount of the annuity granted is determined on the basis of current market interest rates. As a result, the impact of a change to the interest rate used in the calculation is low compared to pension commitments entailing lifelong benefits. Additionally, in the USA, pensions paid once are not adjusted by amount, thus there are no direct risks during the pension payment period arising from pending annuity adjustments. Inflation risks therefore result mainly from the salary adjustments awarded.

In addition to the pension obligation risks already presented, there are specific risks associated with multi-employer plans. In the Henkel Group, these essentially relate to the USA. The contributions to these plans are raised mainly through an allocation process based on the pension-eligible income of active employees. Restructuring contributions may also be made in order to close gaps in coverage. The risks of such plans arise largely from higher future contributions to close coverage gaps or through discontinuation by other companies obligated to make contributions.

The impact of changes to assumptions in medical benefits for employees and retirees in the USA is shown in the sensitivities analysis.

The analysis of our Group-wide pension obligations revealed no extraordinary risks.

Cash flows and sensitivities

In the next five financial years, the following payments from pension plans are expected:

Future payments for pension benefits 125

in million euros	Germany	USA	Other countries	Total
2017	137	125	36	**298**
2018	127	102	33	**262**
2019	127	102	34	**263**
2020	128	100	37	**265**
2021	133	100	37	**270**

The future level of the funded status and thus of the pension obligations depends on the development of the discount rate, among other factors. Companies based in Germany and the USA account for 78 percent of our pension obligations. The medical costs for employees of our subsidiaries in the USA which are incurred after retirement are also recognized in the pension obligations for defined benefit plans. A rate of increase of 6.8 percent (previous year: 7.1 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, 2016

126

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

pp = percentage points

The extension of life expectancy in Germany by one year would increase the present value of pension obligations by 4 percent. This would have a more limited effect in the USA because a significant share of the pension plans is based on lump-sum benefits.

It should be noted with respect to the sensitivities presented that, due to mathematical effects, the percentage change is not and does not need to be linear. Thus the percentage increases and decreases do not vary with the same absolute amount. Each sensitivity is independently calculated and is not subject to scenario analysis.

16 Income tax provisions and other provisions

Development in 2016

127

in million euros	Initial balance January 1, 2016	Acquisitions	Utilized	Released	Added	Other changes	End balance December 31, 2016
Income tax provisions	**352**	**2**	**– 137**	**– 20**	**285**	**– 18**	**464**
of which: non-current	89	2	– 1	0	24	– 8	**106**
of which: current	263	0	– 136	– 20	261	– 10	**358**
Restructuring provisions	**225**	**1**	**– 126**	**– 12**	**172**	**5**	**265**
of which: non-current	72	0	– 15	– 2	19	– 16	**58**
of which: current	153	1	– 111	– 10	153	21	**207**
Sundry provisions	**1,735**	**62**	**– 1,172**	**– 93**	**1,502**	**14**	**2,048**
of which: non-current	324	1	– 32	– 4	53	– 53	**289**
of which: current	1,411	61	– 1,140	– 89	1,449	67	**1,759**
Total	**2,312**	**65**	**– 1,435**	**– 125**	**1,959**	**1**	**2,777**
of which: non-current	485	3	– 48	– 6	96	– 77	**453**
of which: current	1,827	62	– 1,387	– 119	1,863	78	**2,324**

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

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

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

Other changes in provisions include changes in the scope of consolidation, movements in exchange rates, compounding effects, and adjustments to reflect changes in maturity as time passes.

Provisions are recognized in respect of restructuring measures, provided that work has begun on the implementation of a detailed, formal plan or such a plan has already been communicated. Additions to the restructuring provisions are related to the closure of the administrative office in Scottsdale, Arizona, USA, as part of the integration of The Sun Products Corporation in North America, and to the further optimization of production and process structures in all business units.

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

Provisions for payroll obligations essentially cover expenditures likely to be incurred by the Group for variable, performance-related remuneration components.

Provisions for obligations in the production and engineering sphere relate primarily to provisions for warranties.

Analysis of sundry provisions by function

128

in million euros	At December 31, 2015	At December 31, 2016
Sales	**817**	**977**
of which: non-current	14	**10**
of which: current	803	**967**
Payroll	**638**	**691**
of which: non-current	228	**199**
of which: current	410	**492**
Production and engineering	**37**	**45**
of which: non-current	20	**20**
of which: current	17	**25**
Various sundry obligations	**243**	**335**
of which: non-current	62	**60**
of which: current	181	**275**
Total	**1,735**	**2,048**
of which: non-current	324	**289**
of which: current	1,411	**1,759**

Risks arising from legal disputes and proceedings

Provisions have been made for individual risks arising from civil disputes in the amount of probable claims plus associated procedural costs. The amount accrued for claims arising from product liability actions in the USA was adjusted to reflect the latest information. Overall, the total amount in euros is in the double-digit millions. In accordance with IAS 37.92, further disclosures with respect to the proceedings and their related risks to Henkel have not been made in order to refrain from interference with their outcome.

On December 18, 2014, in an action relating to infringements between 2003 and 2006, the French antitrust authorities imposed fines amounting to around 951 million euros in total against various international companies in the cosmetic and detergent industries. Henkel received a fine of 109 million euros, which was paid provisionally on May 15, 2015. A final decision on the appeal filed by Henkel with regard to the amount of the fine is still pending.

Henkel and its Group companies are also defendants in or parties to other judicial, arbitrational, and official proceedings. The course and outcomes of legal disputes are inherently uncertain and unpredictable. Based on the knowledge currently available, no negative future impact, material or otherwise, on the net assets, financial position and results of operations of the corporation is expected.

17 Borrowings

Borrowings

129

in million euros	At December 31, 2015 Non-current	Current	Total	At December 31, 2016 Non-current	Current	Total
Bonds	–	–	–	**2,254**	**4**	**2,258**
Commercial paper[1]	–	811	811	**–**	**381**	**381**
Liabilities to banks[2]	–	69	69	**1,042**	**40**	**1,082**
Other borrowings	4	–	4	**4**	**–**	**4**
Total	**4**	**880**	**884**	**3,300**	**425**	**3,725**

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

Bonds

130

Issuer (in million euros)	Type	Nominal value	Carrying amounts excluding accrued interest 2015	2016	Market values excluding accrued interest[1] 2015	2016	Market values including accrued interest[1] 2015	2016	Interest rate 2015	2016	Maturity
Henkel AG & Co. KGaA	Bond	500 million euros	–	**499**	–	**501**	–	**501**	–	**0 % p.a.**	September 13, 2018
Henkel AG & Co. KGaA	Bond	700 million euros	–	**698**	–	**699**	–	**699**	–	**0 % p.a.**	September 13, 2021
Henkel AG & Co. KGaA	Bond	750 million US dollars	–	**709**	–	**707**	–	**710**	–	**1.5 % p.a.**	September 13, 2019
Henkel AG & Co. KGaA	Bond	300 million GB pounds[2]	–	**348**	–	**344**	–	**345**	–	**0.875 % p.a.**	September 13, 2022
Total bonds			**–**	**2,254**	**–**	**2,251**	**–**	**2,255**			

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

Henkel issued four fixed-rate bonds with a volume of 2.2 billion euros in September 2016 to finance the acquisition of The Sun Products Corporation. Additionally, Henkel took out a three-year floating-rate syndicated bank loan of 1.1 billion US dollars (based on the interest rate for 1M US dollar LIBOR plus 0.55 percent spread), which is recognized under liabilities to banks.

18 Other financial liabilities

Analysis

131

in million euros	At December 31, 2015 Non-current	Current	Total	At December 31, 2016 Non-current	Current	Total
Liabilities to non-consolidated affiliated companies and associated companies	–	8	8	**–**	**7**	**7**
Liabilities to customers	–	42	42	**–**	**58**	**58**
Derivative financial instruments	–	44	44	**13**	**64**	**77**
Sundry financial liabilities	1	15	16	**101**	**35**	**136**
Total	**1**	**109**	**110**	**114**	**164**	**278**

Of the liabilities to non-consolidated affiliated companies and associated companies, 7 million euros is attributable to non-consolidated affiliated companies. Included in the sundry financial liabilities are the contingent purchase price liability relating to our acquisition in Nigeria (75 million euros) and liabilities from finance leases (17 million euros).

19 Other liabilities

Analysis

132

in million euros	At December 31, 2015 Non-current	Current	Total	At December 31, 2016 Non-current	Current	Total
Other tax liabilities	–	174	174	**–**	**211**	**211**
Liabilities to employees	–	28	28	**6**	**41**	**47**
Liabilities relating to employee deductions	–	70	70	**–**	**62**	**62**
Liabilities in respect of social security	1	22	23	**–**	**23**	**23**
Sundry other liabilities	15	57	72	**19**	**58**	**77**
Total	**16**	**351**	**367**	**25**	**395**	**420**

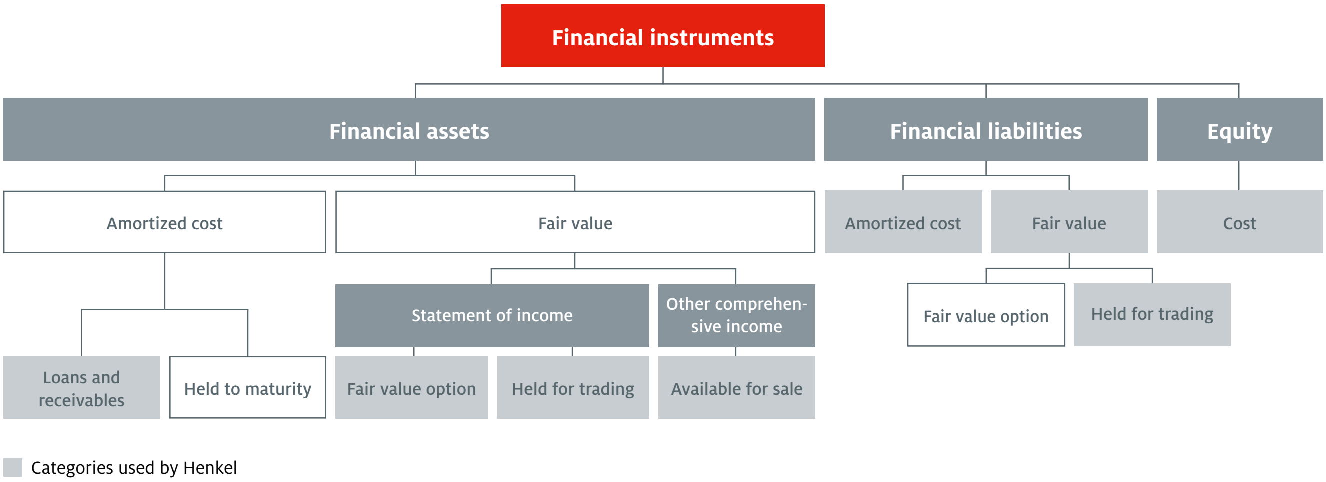
The sundry other liabilities primarily comprise various income deferrals for other accounting periods amounting to 29 million euros (previous year: 14 million euros) and payments on account received in the amount of 10 million euros (previous year: 3 million euros).

20 Trade accounts payable

Trade accounts payable increased from 3,176 million euros to 3,665 million euros. In addition to purchase invoices, they also relate to accruals for invoices outstanding in respect of goods and services received. They are all due within one year.

21 Financial instruments report

133



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

Within the Henkel Group, financial instruments are reported under trade accounts receivable, trade accounts payable, borrowings, other financial assets, other financial liabilities, and cash and cash equivalents within the statement of financial position.

Financial instruments are recognized once Henkel becomes a party to the contractual provisions of the financial instrument. The recognition of financial assets takes place at the settlement date, with the exception of derivative financial instruments, which are recognized on the transaction date. All financial instruments are initially reported at their fair value. Transaction costs are only capitalized if the financial instruments are not subsequently remeasured to fair value through profit or loss. For subsequent remeasurement, financial instruments are divided into the following classes in accordance with IAS 39:

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

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

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

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

The derivative financial instruments that are not included in a designated hedging relationship are categorized as "Held for trading" and recognized at their fair value. All fair value changes are recognized through profit or loss. Hedge accounting is applied in individual cases – where possible and economically sensible – in order to avoid profit and loss variations arising from fair value changes in derivative financial instruments. Fair value and cash flow hedges are designated within the Group depending on the type of underlying and the risk being hedged. Details relating to the hedging contracts transacted within the Group and how the fair values of the derivatives are determined are provided on pages 157 to 159.

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

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

Carrying amounts and fair values of financial instruments

134

At December 31, 2015 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value, through other comprehen-sive income	Fair value, through profit or loss	
Assets					
Loans and receivables	**4,603**	4,603	–	–	**4,603**
Trade accounts receivable	**2,944**	2,944	–	–	**2,944**
Other financial assets	**483**	483	–	–	**483**
Receivables from associated companies	**1**	1	–	–	**1**
Financial receivables from third parties	**39**	39	–	–	**39**
Receivables from Henkel Trust e.V.	**349**	349	–	–	**349**
Sundry financial assets	**94**	94	–	–	**94**
Cash and cash equivalents	**1,176**	1,176	–	–	**1,176**
Financial assets available for sale	**36**	21	15	–	**36**
Other financial assets	**36**	21	15	–	**36**
Other investments	**21**	21	–	–	**21**
Floating-interest securities and time deposits (level 1)	**3**	–	3	–	**3**
Floating-interest securities (level 2)	**2**	–	2	–	**2**
Fixed-interest securities (level 1)	**–**	–	–	–	**–**
Financial collateral provided (level 1)	**10**	–	10	–	**10**
Financial assets held for trading (level 2)	**60**	–	–	60	**60**
Derivative financial instruments not included in a designated hedging relationship	**60**	–	–	60	**60**
Derivative financial instruments included in a designated hedging relationship (level 2)	**12**	–	12	–	**12**
Total	**4,711**	**4,624**	**27**	**60**	**4,711**
Liabilities					
Amortized cost	**4,126**	4,126	–	–	**4,126**
Trade accounts payable	**3,176**	3,176	–	–	**3,176**
Borrowings not included in a designated hedging relationship	**884**	884	–	–	**884**
Borrowings included in a designated hedging relationship	**–**	–	–	–	**–**
Other financial liabilities	**66**	66	–	–	**66**
Financial liabilities held for trading (level 2)	**34**	–	–	34	**34**
Derivative financial instruments not included in a designated hedging relationship	**34**	–	–	34	**34**
Derivative financial instruments included in a designated hedging relationship (level 2)	**10**	–	10	–	**10**
Other financial liabilities (level 3)	**–**	–	–	–	**–**
Sundry financial liabilities	**–**	–	–	–	**–**
Total	**4,170**	**4,126**	**10**	**34**	**4,170**

Carrying amounts and fair values of financial instruments

135

At December 31, 2016 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value, through other comprehen-sive income	Fair value, through profit or loss	
Assets					
Loans and receivables	**5,392**	5,392	–	–	**5,392**
Trade accounts receivable	**3,349**	**3,349**	–	–	**3,349**
Other financial assets	**654**	654	–	–	**654**
Receivables from associated companies	**5**	5	–	–	**5**
Financial receivables from third parties	**38**	38	–	–	**38**
Receivables from Henkel Trust e.V.	**501**	501	–	–	**501**
Sundry financial assets	**110**	110	–	–	**110**
Cash and cash equivalents	**1,389**	1,389	–	–	**1,389**
Financial assets available for sale	**65**	56	9	–	**65**
Other financial assets	**65**	56	9	–	**65**
Other investments	**56**	56	–	–	**56**
Floating-interest securities (level 2)	**2**	–	2	–	**2**
Financial collateral provided (level 1)	**7**	–	7	–	**7**
Financial assets held for trading (level 2)	**72**	–	–	72	**72**
Derivative financial instruments not included in a designated hedging relationship	**72**	–	–	72	**72**
Derivative financial instruments included in a designated hedging relationship (level 2)	**31**	–	31	–	**31**
Total	**5,560**	**5,448**	**40**	**72**	**5,560**
Liabilities					
Amortized cost	**7,516**	7,516	–	–	**7,513**
Trade accounts payable	**3,665**	3,665	–	–	**3,665**
Borrowings not included in a designated hedging relationship	**3,725**	3,725	–	–	**3,722**
Other financial liabilities	**126**	126	–	–	**126**
Financial liabilities held for trading (level 2)	**68**	–	–	68	**68**
Derivative financial instruments not included in a designated hedging relationship	**68**	–	–	68	**68**
Derivative financial instruments included in a designated hedging relationship (level 2)	**9**	–	9	–	**9**
Other financial liabilities (level 3)	**75**	–	75	–	**75**
Sundry financial liabilities	**75**	–	75	–	**75**
Total	**7,668**	**7,516**	**84**	**68**	**7,665**

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

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

The fair value of securities and time deposits classified as level 1 is based on the quoted market prices on the reporting date. Observable market data are used to measure the fair value of level 2 securities. If bid and ask prices are available, the mid price is used to determine the fair value.

The fair value of the contingent purchase price liability reported under other financial liabilities that resulted from our acquisition in Nigeria is classified as level 3. The fair value of the contingent purchase price liability on the date of the acquisition was 113 million euros. As a result of remeasurement as of December 31, 2016, this figure was adjusted to 75 million euros.

The measurement effects were recognized directly in equity and reported in the statement of changes in equity as other changes in equity. The fair value was determined using the discounted cash flow method, taking into account the key financial figures of the acquired company based on a detailed planning horizon up to 2025. A discount rate was applied as derived from the capital costs in euros. A further material valuation parameter – in addition to the long-term growth rate reflected in the perpetual annuity of 1.5 percent and the weighted average cost of capital (WACC) of 6.2 percent that was used as the discount rate – is the exchange rate of the Nigerian naira. A rise in interest rates or a depreciation of the naira would result in a lower negative fair value of the liability. An interest rate reduction or an appreciation of the naira would result in a higher negative fair value.

We did not perform any reclassifications between the valuation categories or transfers within the fair value hierarchy either in fiscal 2016 or in the previous year.

Net gains and losses from financial instruments by category

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

Net results of the measurement categories and reconciliation to financial result

136

in million euros	2015	2016
Loans and receivables	57	**19**
Financial assets available for sale	2	**0**
Financial assets and liabilities held for trading including derivatives in a designated hedging relationship	64	**65**
Financial liabilities measured at amortized cost	–77	**–29**
Total net results	**46**	**55**
Foreign exchange effects	–60	**–74**
Interest expense of pension provisions less interest income from plan assets and reimbursement rights	–22	**–11**
Other financial result (not related to financial instruments)	–6	**–3**
Financial result	**–42**	**–33**

The net result of "Loans and receivables" is attributable in full to interest income. Net expenses arising from additions and releases of valuation allowances amounting to –25 million euros (previous year: –21 million euros) and income from payments on financial instruments already written off and derecognized amounting to 1 million euros (previous year: 1 million euros) were recognized in operating profit.

The net result from securities and time deposits classified as "Available for sale" amounts to 0 million euros (previous year: 1 million euros) for interest income, 0 million euros (previous year: 1 million euros) for income from sales and 0 million euros (previous year: 0 million euros) for income from other investments. As was also the case in 2015, the measurement of these financial instruments at fair value did not result in recognition of a gain or loss in equity.

The net result from "Held for trading" financial instruments and derivatives in a designated hedging relationship includes, in addition to the outcome of measurement of these derivatives at fair value amounting to 66 million euros (previous year: 17 million euros), an expense of –2 million euros arising from additions to the valuation allowance made for counterparty credit risk (previous year: 0 million euros). Moreover, 1 million euros of interest income and expenses from interest rate and currency derivatives and amounts recycled from cash flow hedges recognized in equity are also included under this heading (previous year: 47 million euros).

The net result from "Financial liabilities measured at amortized cost" is essentially derived from the interest expense for borrowings amounting to –25 million euros (previous year: –116 million euros). Fees amounting to –4 million euros for procuring money and loans were also recognized under this heading (previous year: –4 million euros).

The realization and valuation of financial assets and liabilities in foreign currencies (without derivative financial instruments) resulted in an expense of –74 million euros (previous year: –60 million euros).

Derivative financial instruments

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

Hedge accounting is not applied to the large majority of derivative financial instruments. We recognize through profit or loss the fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of Group strategy. These are largely compensated by fair value changes in the hedged items. In hedge accounting, derivative financial instruments are qualified as instruments for hedging the fair value of a recognized underlying ("fair value hedge"), as instruments for hedging future cash flows ("cash flow hedge") or as instruments for hedging a net investment in a foreign entity ("hedge of a net investment in a foreign entity").

The following table provides an overview of the derivative financial instruments utilized and recognized within the Group, and their fair values:

Derivative financial instruments

137

At December 31 in million euros	Nominal value		Positive fair value[2]		Negative fair value[2]	
	2015	2016	2015	2016	2015	2016
Forward exchange contracts[1]	5,879	**4,000**	72	**80**	– 44	**– 64**
(of which: for hedging loans within the Group)	(4,277)	**(2,433)**	(51)	**(53)**	(– 29)	**(– 44)**
(of which: designated as cash flow hedge)	(696)	**(657)**	(12)	**(11)**	(– 10)	**(– 9)**
Foreign exchange options	5	**1**	–	**–**	–	**–**
Cross-currency swaps	–	**359**	–	**–**	–	**– 13**
Equity forward contracts	–	**167**	–	**23**	–	**–**
(of which: designated as cash flow hedge)	(–)	**147**	(–)	**20**	(–)	**–**
Total derivative financial instruments	**5,884**	**4,527**	**72**	**103**	**– 44**	**– 77**

[1] Maturity less than 1 year.
[2] Fair values including accrued interest and excluding valuation allowance for counterparty credit risk of 2 million euros (previous year: 0 million euros).

We determine the fair value of forward exchange contracts and cross-currency swaps on the basis of the reference rates issued by the European Central Bank for the reporting date, taking into account forward premiums/forward discounts for the remaining term of the respective contract versus the contracted foreign exchange rate. Foreign exchange options are measured using price quotations or recognized models for the determination of option prices. The fair value of equity forward contracts is measured on the basis of the closing price of Henkel preferred shares on the reporting date, taking into account forward premiums/forward discounts for the remaining term of the respective contract versus the contracted forward share price. Interest rate hedges are measured on the basis of discounted cash flows expected in the future, taking into account market interest rates applicable for the remaining term of the contracts. These are indicated for the two most important currencies in the following table. It shows the interest rates quoted on the interbank market in each case on December 31.

Interest rates in percent p.a.

138

At December 31 Term	Euro		US dollar	
	2015	2016	2015	2016
1 month	– 0.21	**– 0.37**	0.43	**0.77**
3 months	– 0.13	**– 0.32**	0.61	**1.00**
6 months	– 0.04	**– 0.22**	0.85	**1.32**
1 year	0.06	**– 0.08**	1.18	**1.69**
2 years	– 0.03	**– 0.16**	1.18	**1.46**
5 years	0.33	**0.08**	1.74	**1.96**
10 years	1.00	**0.66**	2.19	**2.32**

In measuring derivative financial instruments, counterparty credit risk is taken into account with an adjustment to the fair values concerned, determined on the basis of credit risk premiums. The adjustment relating to fiscal 2016 amounts to 2 million euros (previous year: 0 million euros). The addition is recognized in profit or loss under financial result.

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

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

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

The Henkel Group did not use any fair value hedges in fiscal 2016. In 2015, receiver interest rate swaps used to hedge the fair value risk of the hybrid bond issued by Henkel AG & Co. KGaA were designated as fair value hedges. They expired when the hybrid bond was redeemed in November 2015.

The following table provides an overview of the gains and losses arising from fair value hedges (valuation allowance made for the counterparty credit risk not included):

Gains and losses from fair value hedges

139

in million euros	2015	2016
Gains (+)/losses (–) from hedged items	43	–
Gains (+)/losses (–) from hedging instruments	– 45	–
Net	**– 2**	**–**

Cash flow hedges: A cash flow hedge hedges fluctuations in future cash flows from recognized assets and liabilities, and also transactions that are either planned or highly probable, or firmly contracted unrecognized financial commitments, from which an interest-rate, currency, or share price risk arises. The effective portion of a cash flow hedge is recognized in the hedge reserve in equity. The ineffective portion arising from the change in value of the hedging instrument is recognized through profit or loss in the financial result or operating profit, depending on the item hedged. The gains and losses recorded in equity are subsequently recognized through profit or loss in the period in which the results are affected by the hedged transaction.

Cash flow hedges (after tax)

140

in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	End balance
2016	**– 215**	**31**	**– 31**	**– 215**
2015	– 202	1	– 14	**– 215**

The initial value of the cash flow hedges recognized in equity reflects the fair values of the payer interest swaps that were used in previous years to hedge the cash flow risks of the floating-interest US dollar liabilities at Henkel of America, Inc., and of currency hedges for acquisitions.

An addition of 11 million euros after tax relates to currency hedges of planned inventory purchases against fluctuations in spot rates. Of the gains recognized in equity, 11 million euros was reclassified to operating profit in the reporting period. The positive and negative fair values of the derivatives contracted as a currency hedge of planned inventory purchases amounted to 11 million and –9 million euros respectively. The cash flows from the currency derivatives and the cash flows from the hedged inventory purchases are expected to occur and affect profit or loss in the next fiscal year.

An addition of 20 million euros resulted from the hedges to protect planned payments relating to our long-term incentive (LTI) scheme – some of which were effected in the course of the fiscal year just ended – against fluctuations in Henkel share prices. All of the gains recognized in equity were reclassified to operating profit in the reporting period. The positive fair values of the equity forward contracts totaled 20 million euros. The cash flows relating to these derivatives will occur during the next fiscal year, as will the cash flows from the hedged LTI payments. The ineffective portions recognized in operating profit amounted to 1 million euros.

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

The items recognized in equity relate essentially to translation risks arising from net investments in Swiss francs and US dollars for which the associated hedges were entered into and settled in previous years. Henkel did not hedge any net investments in foreign entities in fiscal 2016.

Hedges of a net investment in a foreign entity (after tax)

141

in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	End balance
2016	**31**	**–**	**–**	**31**
2015	35	– 4	–	**31**

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

Management of currency, interest rate and liquidity risks is based on the treasury guidelines introduced by the Management Board, which are binding on the entire corporation. They define the targets, principles and competences of the Corporate Treasury organizational unit. These guidelines describe the fields of responsibility and establish the distribution of these responsibilities between Corporate Treasury and Henkel's subsidiaries. The Management Board is regularly and comprehensively informed of all major risks and of all relevant hedging transactions and arrangements. A description of the objectives and fundamental principles adopted in capital management can be found in the combined management report on pages 72 and 73. There were no major risk clusters in the reporting period.

Credit risk

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

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

Maximum risk position

142

in million euros	2015	2016
Trade accounts receivable	2,944	**3,349**
Derivative financial instruments not included in a designated hedging relationship	60	**72**
Derivative financial instruments included in a designated hedging relationship	12	**31**
Other financial assets	519	**719**
Cash and cash equivalents	1,176	**1,389**
Total carrying values	**4,711**	**5,560**

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

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

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

We make valuation allowances with respect to financial assets so that the assets are recognized at their fair value at the reporting date. In the case of impairment losses that have already occurred but have not yet been identified, we make global valuation allowances on the basis of empirical evidence, taking into account the overdue structure of the trade accounts receivable. As a rule, the impairment test on loans and receivables that are more than 180 days overdue results in a valuation allowance of 100 percent.

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

In all, we recognized valuation allowances on loans and receivables in 2016 in the amount of 25 million euros (previous year: 21 million euros).

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

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

Age analysis of non-impaired overdue loans and receivables

143

Analysis

in million euros	Less than 30 days	30 to 60 days	61 to 90 days	More than 91 days	Total
At December 31, 2016	**235**	**73**	**35**	**7**	**350**
At December 31, 2015	194	67	32	6	**299**

Credit risks also arise from financial investments such as cash at banks, securities and the positive fair value of derivatives. Such exposure is limited by our Corporate Treasury specialists through the selection of counterparties with strong credit ratings, and limitations on the amounts allocated to individual investments. In financial investments and derivatives trading with German and international banks, we only enter into transactions with counterparties of high financial standing. We invest exclusively in securities from issuers with an investment grade rating. Our cash deposits can be liquidated at short notice. Our financial investments are broadly diversified across various counterparties and various financial assets. To minimize the credit risk, we agree netting arrangements to offset bilateral receivables and obligations with counterparties. We additionally enter into collateral agreements with relevant banks, on the basis of which reciprocal sureties are established twice a month to secure the fair values of contracted derivatives and other claims and obligations. The netting arrangements only provide for a contingent right to offset transactions conducted with a contractual party. Accordingly, associated amounts can be offset only under certain circumstances, such as the insolvency of one of the contractual parties. Thus, the netting arrangements do not meet the offsetting criteria under IAS 32 "Financial Instruments: Presentation." The following table provides an overview of financial assets and financial liabilities from derivatives that are subject to netting, collateral, or similar arrangements:

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

144

At December 31	Gross amount recognized in the statement of financial position [1]		Amount eligible for offsetting		Financial collateral received / provided		Net amount	
in million euros	2015	2016	2015	2016	2015	2016	2015	2016
Financial assets	72	**103**	35	**76**	35	**21**	2	**6**
Financial liabilities	44	**77**	35	**76**	10	**7**	–1	**–6**

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

In addition to netting and collateral arrangements, investment limits are set, based on the ratings of the counterparties, in order to minimize credit risk. These limits are monitored and adjusted regularly. When determining the limits, we also apply certain other indicators, such as the pricing of credit default swaps (CDS) by banks. A valuation allowance of 2 million euros exists to cover the remaining credit risk from the positive fair values of derivatives (previous year: 0 million euros).

Liquidity risk

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

We minimize this risk by deploying financing instruments in the form of issued bonds and commercial paper. With the help of our existing debt issuance program in the amount of 6 billion euros, this is also possible on a short-term and flexible basis. In order to ensure the financial flexibility of Henkel at any time, the liquidity within the Group is largely centralized and managed through the use of cash pools. We predominantly invest cash in financial assets traded in a liquid market in order to ensure that they can be sold at any time to procure liquid funds. In addition, the Henkel Group has at its disposal confirmed credit lines of 1.5 billion euros. These credit lines have terms until 2019. The individual subsidiaries additionally have at their disposal committed bilateral loans of 0.1 billion euros with a revolving term of up to one year. Our credit rating is regularly assessed by the rating agencies Standard & Poor's and Moody's.

Our liquidity risk can therefore be regarded as very low.

The maturity structure of the original and derivative financial liabilities within the scope of International Financial Reporting Standard (IFRS) 7 based on cash flows is shown in the following table.

Cash flows from financial liabilities

145

in million euros	December 31, 2015 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	December 31, 2015 Total cash flow
Bonds	–	–	–	–	–
Commercial paper[1]	811	811	–	–	811
Liabilities to banks	69	70	–	–	70
Trade accounts payable	3,176	3,176	–	–	3,176
Sundry financial instruments[2]	70	65	1	4	70
Original financial instruments	**4,126**	**4,122**	**1**	**4**	**4,127**
Derivative financial instruments	**44**	**44**	**–**	**–**	**44**
Total	**4,170**	**4,166**	**1**	**4**	**4,171**

[1] From the euro and US dollar commercial paper program (total volume 2 billion US dollars and 1 billion euros).
[2] Sundry financial instruments include amounts due to customers, and finance bills.

Cash flows from financial liabilities

146

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

[1] From the euro and US dollar commercial paper program (total volume 2 billion US dollars and 1 billion euros).
[2] Sundry financial instruments include amounts due to customers, and finance bills.

Market risk

Market risk exists where the fair value or future cash flows of a financial instrument may fluctuate due to changes in market prices. Market risks primarily take the form of currency risk, interest rate risk and various price risks (particularly the commodity price risk, and the share price risk arising from our long-term incentive [LTI]). Henkel uses equity forward contracts to hedge against the share price risk.

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

The currency and interest rate risk management of the Group is supported by an integrated treasury system which is used to identify, measure and analyze the Group's currency exposure and interest rate risks. In this context, "integrated" means that the entire process from the conclusion of financial transactions to their entry in the accounts is covered. Much of the currency trading takes place on internet-based, multibank dealing platforms. These foreign currency transactions are automatically transferred into the treasury system. The currency exposure and interest rate risks reported by all subsidiaries under standardized reporting procedures are 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 computations reveal the maximum potential future loss of a certain portfolio over a given period based on a specified probability level.

Currency risk

The global nature of our business activities results in a huge number of cash flows in different currencies. The resultant currency exposure breaks down into two categories, namely transaction and translation risks.

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

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2016 amounted to 99 million euros after hedging (previous year: 102 million euros). The value-at-risk shows the maximum expected risk of loss in a year as a result of currency fluctuations. Starting in fiscal 2013, our value-at-risk analysis has been extended to one year in our internal risk reports as it provides a more comprehensive representation of the risk associated with a fiscal year. The risk arises from imports and exports by Henkel AG & Co. KGaA and its foreign subsidiaries. Due to the international nature of its activities, the Henkel Group has a portfolio with more than 50 different currencies. The following table shows the value-at-risk for Henkel's major currencies.

Currency exposure[1]

147

in million euros	2015	2016
Russian ruble	23	**19**
Egyptian pound	8	**17**
Iranian rial	3	**11**
Chinese yuan	12	**9**
US dollar	–4	**–14**
Others	60	**57**
	102	**99**

[1] Transaction risk.

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

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

Interest rate risk

Interest rate risk encompasses those potentially negative influences on profits, equity or cash flow in current or future reporting periods arising from changes in interest rates. In the case of fixed-interest financial instruments, changing capital market interest rates result in a fair value risk, as the attributable fair values fluctuate depending on those capital market interest rates. In the case of floating-interest financial instruments, a cash flow risk exists because the interest payments may be subject to future fluctuations.

The Henkel Group obtains and invests the majority of the cash it requires from and in the international money and capital markets. The resulting financial liabilities and our cash deposits may be exposed to the risk of changes in interest rates. The aim of our centralized interest rate management system is to manage this risk through our choice of interest commitments and the use of derivative financial instruments. 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 and commercial paper issued to secure Group liquidity, the securities and time deposits used for cash investments, and the other financial instruments. The financial instruments exposed to interest rate risk are primarily denominated in euros and US dollars.

Depending on forecasts with respect to interest rate developments, Henkel enters into derivative financial instruments, primarily interest rate swaps, in order to optimize the interest rate lock-down structure. In the event of an expected rise in interest rate levels, Henkel protects its positions by transacting additional interest rate derivatives as an effective means of hedging against interest rates rising over the short term. In addition to the two fixed-rate euro-denominated bonds, Henkel entered into a cross-currency swap to convert the bond denominated in British pounds into a fixed-rate euro obligation. A fixed-rate bond denominated in US dollars was also issued. The interest on all other financial instruments is floating. Our exposure (after hedging) to interest rate risk at the reporting dates was as follows:

Interest rate exposure

148

	Carrying amounts	
in million euros	2015	2016
Fixed-interest financial instruments		
Euro	–	**–1,546**
US dollar	–	**–712**
Others	–	**–**
	–	**–2,258**
Floating-interest financial instruments		
Euro	254	**357**
US dollar	–1,036	**–1,797**
Chinese yuan	474	**511**
Russian ruble	16	**26**
Others	627	**860**
	335	**–43**

The calculation of the interest rate risk is based on sensitivity analyses. The analysis of cash flow risk examines all the main floating-interest financial instruments as of the reporting date. Net financial position is defined as cash and cash equivalents plus readily monetizable financial instruments classified as "Available for sale" or according to the "Fair value option," less borrowings, and plus positive and less negative fair values of hedging transactions. The interest rate risk figures shown in the table are based on this calculation at the relevant reporting date. When analyzing fair value risk, we assume a parallel shift in the interest curve of 100 basis points and calculate the hypothetical loss or gain of the relevant interest rate derivatives at the reporting date.

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

Interest rate risk

149

in million euros	2015	2016
Based on an interest rate change of 100 basis points	–3	–
of which:		
Cash flow through profit and loss	–3	–
Fair value recognized in equity through comprehensive income	–	–

Other price risks (commodity price risk)

Uncertainty with respect to commodity price development impacts the Group. Purchase prices for raw materials can affect the net assets, financial position and results of operations of Henkel. The risk management strategy put in place by the Group management for safeguarding against procurement market risk is described in more detail in the risk and opportunities report on pages 106 and 107.

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

Notes to the consolidated statement of income

22 Sales and principles of income recognition

Sales increased year on year to 18,714 million euros. Revenues and their development by business unit and region are summarized in the Group segment report and in the key financials by region on pages 121 and 122. A detailed explanation of the development of major income and expense items can be found in the combined management report on pages 64 to 69.

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

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

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

23 Cost of sales

The cost of sales increased from 9,368 million euros to 9,742 million euros.

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

24 Marketing, selling and distribution expenses

Marketing, selling and distribution expenses amounted to 4,635 million euros (previous year: 4,608 million euros).

In addition to marketing organization and distribution expenses, this item comprises, in particular, advertising, sales promotion and market research expenses. Also included here are the expenses of technical advisory services for customers, valuation allowances on trade accounts receivable and valuation allowances and impairment losses on trademarks and other rights.

25 Research and development expenses

Research and development expenses decreased year on year to 463 million euros (previous year: 478 million euros). Expenditures directly attributable to research and development activities amounted to 460 million euros (previous year: 464 million euros).

The capitalization of research expenses is not permitted. Development expenditures are recognized as an asset if all the criteria for recognition are met, the research phase can be clearly distinguished from the development phase, and the expenditures can be attributed to distinct project phases. Currently, the criteria set out in International Accounting Standard (IAS) 38 “Intangible Assets” for recognizing development expenditures are not all met in regard to product and technology developments, due to a high level of interdependence within these developments and the difficulty of assessing which products will eventually be marketable.

26 Administrative expenses

Administrative expenses amounted to 1,062 million euros (previous year: 1,012 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.

27 Other operating income

Other operating income

150

in million euros	2015	2016
Release of provisions[1]	11	**37**
Gains on disposal of non-current assets	34	**13**
Insurance claim payouts	4	**2**
Write-ups of non-current assets	1	**–**
Payments on derecognized receivables	2	**1**
Impairment reversal on assets held for sale	–	**–**
Sundry operating income	75	**56**
Total	**127**	**109**

[1] Including income from the release of provisions for pension obligations (curtailment gains) of 13 million euros in 2016 (2015: 2 million euros).

Sundry operating income relates to a number of individual items arising from ordinary operating activities, such as grants and subsidies, tax refunds for indirect taxes, and similar income.

28 Other operating expenses

Other operating expenses

151

in million euros	2015	2016
Losses on disposal of non-current assets	–8	**–7**
Other taxes	–1	**–1**
Amortization, depreciation of other assets	–	**–1**
Sundry operating expenses	–96	**–137**
Total	**–105**	**–146**

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

29 Financial result

Financial result

152

in million euros	2015	2016
Interest result	–17	**–5**
Other financial result	–24	**–26**
Investment result	–1	**–2**
Total	**–42**	**–33**

Interest result

153

in million euros	2015	2016
Interest and similar income from third parties[1]	28	**20**
Interest to third parties[1]	–45	**–25**
Total	**–17**	**–5**

[1] Including interest income and interest expense, both in the amount of 0 million euros in 2016 (2015: 26 million euros) with respect to mutually offset deposits and liabilities to banks, reported on a net basis.

Other financial result

154

in million euros	2015	2016
Interest result from net obligation (pensions)	–27	**–15**
Interest income from reimbursement rights (IAS 19)	5	**5**
Other financial expenses	–71	**–118**
Other financial income	69	**102**
Total	**–24**	**–26**

Other financial expenses include –106 million euros (previous year: –60 million euros) from currency losses. Other financial income includes 98 million euros (previous year: 63 million euros) for currency gains. Please see page 157 of the financial instruments report for information on the net results of the valuation categories under International Financial Reporting Standard (IFRS) 7, and the reconciliation to financial result.

Investment result

The investment result includes 2 million euros for expenses from the valuation of companies that are recognized using the equity method (2015: 2 million euros).

30 Taxes on income

Income tax expense/income breaks down as follows:

Income before tax and analysis of taxes

155

in million euros	2015	2016
Income before tax	**2,603**	**2,742**
Current taxes	708	**830**
Deferred taxes	– 73	**– 181**
Taxes on income	**635**	**649**
Tax rate in percent	24.4 %	**23.7 %**

Main components of tax expense and income

156

in million euros	2015	2016
Current tax expense/income in the reporting year	688	**816**
Current tax adjustments for prior years	20	**14**
Deferred tax expense/income from temporary differences	– 77	**– 164**
Deferred tax income from unused tax losses	– 13	**– 8**
Deferred tax expense from tax credits	2	**– 4**
Deferred tax expense/income from changes in tax rates	– 4	**– 8**
Increase/decrease in valuation allowances on deferred tax assets	19	**3**

Deferred tax expense by items on the statement of financial position

157

in million euros	2015	2016
Intangible assets	– 140	**16**
Property, plant and equipment	– 8	**– 38**
Financial assets	82	**– 1**
Inventories	– 9	**8**
Other receivables and other assets	– 17	**14**
Special tax items	– 2	**– 2**
Provisions	1	**– 66**
Liabilities	8	**– 104**
Tax credits	2	**– 4**
Unused tax losses	– 9	**– 7**
Valuation allowances	19	**3**
Financial statement figures	**– 73**	**– 181**

We have summarized the individual company reports – prepared on the basis of the tax rates applicable in each country and taking into account consolidation procedures – in the statement below, showing how the expected tax charge, based on the tax rate applicable to Henkel AG & Co. KGaA of 31 percent, is reconciled to the effective tax charge disclosed.

Tax reconciliation statement

158

in million euros	2015	2016
Income before tax	2,603	**2,742**
Tax rate (including trade tax) of Henkel AG & Co. KGaA	31 %	**31 %**
Expected tax charge	**807**	**850**
Tax reductions due to differing tax rates abroad	– 100	**– 122**
Tax increases/reductions for prior years	– 2	**6**
Tax increases/reductions due to changes in tax rates	– 4	**– 8**
Tax increases/reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	19	**3**
Tax reductions due to tax-free income and other items	– 216	**– 208**
Tax increases/reductions arising from additions and deductions for local taxes	4	**– 1**
Tax increases due to withholding taxes	43	**43**
Tax increases due to non-deductible expenses	84	**86**
Tax charge disclosed	**635**	**649**
Tax rate	**24.4 %**	**23.7 %**

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

159

in million euros	Deferred tax assets December 31, 2015	Deferred tax assets December 31, 2016	Deferred tax liabilities December 31, 2015	Deferred tax liabilities December 31, 2016
Intangible assets	341	**360**	749	**1,037**
Property, plant and equipment	16	**18**	75	**73**
Financial assets	1	**1**	167	**168**
Inventories	50	**50**	1	**3**
Other receivables and other assets	39	**38**	37	**48**
Special tax items	–	**–**	35	**33**
Provisions	704	**822**	26	**9**
Liabilities	58	**169**	7	**12**
Tax credits	3	**7**	–	**–**
Unused tax losses	60	**164**	–	**–**
Amounts netted	–427	**–550**	–427	**–550**
Valuation allowances	–29	**–62**	–	**–**
Financial statement figures	**816**	**1,017**	**670**	**833**

The deferred tax assets of 822 million euros (previous year: 704 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 1,037 million euros (previous year: 749 million euros) relating to intangible assets are mainly attributable to business combinations such as the acquisition of the National Starch businesses in 2008, Spotless Group SAS in 2014, and The Sun Products Corporation in 2016.

An excess of deferred tax assets is only recognized insofar as it is likely that the company concerned will achieve sufficiently positive taxable profits in the future against which the deductible temporary differences can be offset and tax loss carryforwards can be used. Deferred taxes have not been recognized with respect to unused tax losses of 269 million euros (previous year: 146 million euros), as it is not probable that sufficient taxable profit will be available against which they may be utilized. Of these tax losses carried forward, 190 million euros (previous year: 62 million euros) expire after more than three years. Thereof 58 million euros (previous year: 53 million euros) are attributable to state taxes of our US subsidiaries (tax rate around 2 percent). Of the tax losses carried forward, 73 million euros are non-expiring (previous year: 76 million euros). Deferred tax liabilities of 62 million euros (previous year: 42 million euros) relating to the retained earnings of foreign subsidiaries have been recognized due to the fact that these earnings will be distributed in 2017.

We have summarized the expiry dates of unused tax losses and tax credits in the following table, which includes unused tax losses arising from losses on the disposal of assets of 10 million euros (previous year: 10 million euros) which may be carried forward without restriction. In addition to the unused tax losses listed in the table, an interest expense of 5 million euros (previous year: 8 million euros) is available which may be carried forward in full with no expiration.

Expiry dates of unused tax losses and tax credits

160

in million euros	Unused tax losses December 31, 2015	Unused tax losses December 31, 2016	Tax credits December 31, 2015	Tax credits December 31, 2016
Expire within				
1 year	3	**12**	1	**1**
2 years	3	**2**	–	**–**
3 years	6	**7**	–	**–**
more than 3 years	180	**674**	2	**6**
May be carried forward without restriction	103	**107**	–	**–**
Total	**295**	**802**	**3**	**7**

In many countries, different tax rates apply to losses on the disposal of assets than to operating profits, and in some cases losses on the disposal of assets may only be offset against gains on the disposal of assets.

Tax loss carryforwards in the amount of 353 million euros are attributable to our US subsidiaries. Of this amount, 112 million euros relate to federal and state tax loss carryforwards, and 231 million euros (previous year: 101 million euros) relate exclusively to state taxes.

Equity-increasing deferred taxes of 55 million euros were recognized (previous year: equity-decreasing deferred taxes of 82 million euros). Within this figure, income of 55 million euros (previous year: expense of 88 million euros) results from actuarial gains and losses on pension obligations, while income of 0 million euros (previous year: income of 2 million euros) is attributable to hedges of net investments in foreign entities and an expense of 1 million euros (previous year: 0 million euros) is attributable to foreign exchange effects.

31 Non-controlling interests

The amount shown here represents the proportion of net income and losses attributable to other shareholders of consolidated affiliated companies.

Their share of net income was 41 million euros (previous year: 49 million euros) and that of losses was 1 million euros (previous year: 2 million euros).

The non-controlling interests included in the Henkel Group at the end of fiscal 2016 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

32 Reconciliation of adjusted net income

161

in million euros		2015	2016	+/–
EBIT (as reported)		**2,645**	**2,775**	**4.9%**
One-time gains		– 15	**– 1**	–
One-time charges		100	**121**	–
Restructuring expenses		193	**277**	–
Adjusted EBIT		**2,923**	**3,172**	**8.5%**
Adjusted return on sales	in %	16.2	**16.9**	0.7 pp
Financial result		– 42	**– 33**	– 21.4 %
Taxes on income (adjusted)		– 720	**– 775**	7.6 %
Adjusted tax rate	in %	25.0	**24.7**	– 0.3 pp
Adjusted net income		**2,161**	**2,364**	**9.4%**
Attributable to non-controlling interests		49	**41**	– 16.3%
Attributable to shareholders of Henkel AG & Co. KGaA		2,112	**2,323**	10.0%
Adjusted earnings per ordinary share	in euros	**4.86**	**5.34**	**9.9%**
Adjusted earnings per preferred share	in euros	**4.88**	**5.36**	**9.8%**

The one-time gains recognized in fiscal 2016 and in 2015 stemmed from performance-related purchase price components.

Of the adjusted charges in fiscal 2016, 33 million euros is attributable to provisions for litigations (2015: 18 million euros), 26 million euros to the optimization of our IT system architecture for managing business processes (2015: 60 million euros), 42 million euros to costs relating to the integration of The Sun Products Corporation (2015: 0 million euros), and 20 million euros to acquisition-related costs (2015: 8 million euros).

Of the restructuring expenses in fiscal 2016, 47 million euros is attributable to cost of sales (2015: 18 million euros) and 77 million euros to marketing, selling and distribution expenses (2015: 87 million euros). A further 3 million euros is attributable to research and development expenses (2015: 14 million euros), and 150 million euros to administrative expenses (2015: 74 million euros).

33 Payroll cost and employee structure

Payroll cost [1]

162

in million euros	2015	2016
Wages and salaries	2,464	**2,427**
Social security contributions and staff welfare costs	404	**410**
Pension costs	179	**164**
Total	**3,047**	**3,001**

[1] Excluding personnel-related restructuring expenses of 137 million euros (previous year: 104 million euros).

Number of employees per function [1]

163

	2015	2016
Production and engineering	25,400	**26,550**
Marketing, selling and distribution	14,650	**13,600**
Research and development	2,800	**2,700**
Administration	7,000	**7,100**
Total	**49,850**	**49,950**

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

34 Share-based payment plans

Global Long Term Incentive Plan (Global LTI Plan) 2013
In fiscal 2013, the general terms and conditions of the previously implemented Global CPU Plan 2004 were amended and replaced by the Global LTI Plan 2013, which is a share-based remuneration scheme with cash settlement. Since 2013, Cash Performance Units (CPUs) are granted on condition that the member of the Plan is employed for four years by Henkel AG & Co. KGaA or one of its subsidiaries in a position senior enough to qualify to participate and that he or she is not under notice during that period. This minimum period of employment pertains to the calendar year in which the CPUs are granted and the three subsequent calendar years. In addition, an Outperformance Reward, which awards CPUs based on the achievement of target figures established in advance, may be set at the beginning of a four-year medium-term plan.

The total value of the cash remuneration payable to senior management personnel is recalculated on each reporting date and on the settlement date, based on the fair value of the CPUs, and recognized through an appropriate increase in provisions as a payroll cost that is spread over the period of service of the beneficiary. All changes to the measurement of this provision are reported under payroll cost.

Due to the extension of the cycle, one tranche with a three-year term and another with a four-year term were issued in 2013. The number of CPUs granted depends not only on the seniority of the officer but also on the achievement of set target figures. For the cycles issued from 2013 onward, the target is based on growth in adjusted earnings per preferred share. The value of a CPU in each case is the average price of the Henkel preferred share as quoted 20 stock exchange trading days after the Annual General Meeting following the performance period. As of the reporting date, the calculation of the provision was based on a fair value of 113.25 euros (closing price of Henkel preferred shares on December 30, 2016; on December 30, 2015: 103.20 euros) per CPU. The overall payout of the long-term incentive is subject to a cap.

The tenth three-year cycle, which was issued in 2013, became due for payment in 2016. At December 31, 2016, the CPU Plan worldwide comprised 505,750 CPUs (December 31, 2015: 537,431 CPUs) from the four-year tranche issued in 2013, 516,200 CPUs (December 31, 2015: 542,998 CPUs) from the tranche issued in 2014, 576,746 CPUs (December 31, 2015: 673,099 CPUs) from the tranche issued in 2015, and 560,687 CPUs from the tranche issued in the reporting year. The Outperformance Reward comprised 361,375 CPUs (December 31, 2015: 511,098 CPUs). This resulted in an additional expense in the reporting year of 61.8 million euros (December 31, 2015: 101.8 million euros). The corresponding provision amounted to 189.5 million euros (December 31, 2015: 178.9 million euros), of which 97.6 million euros (December 31, 2015: 52.3 million euros) is vested.

35 Group segment report

The format for reporting the activities of the Henkel Group by segment is by business unit and reportable segments; selected regional information is also provided. The segment report corresponds to the way in which the Group manages its operating business, and the Group's reporting structure.

The assignment of operating segments to individual reportable segments is based on the economic characteristics of the business, the nature of products and production processes, the type of customer groups, and the characteristics of the sales and distribution structure and of the regulatory environment.

Reportable segments

Adhesives for Consumers, Craftsmen and Building
In the Adhesives for Consumers, Craftsmen and Building operating segment, we market a comprehensive range of brand-name products for private users, craftsmen and the construction industry. Based on our four international brand platforms, namely Loctite, Pritt, Pattex and Ceresit, we offer target-group-aligned system solutions for applications in the household, in schools and in offices, for do-it-yourselfers and craftsmen, and also for the building industry.

Industrial Adhesives
The Industrial Adhesives reportable segment covers four operating segments: Packaging and Consumer Goods Adhesives, Transport and Metal, General Industry, and Electronics.

The Packaging and Consumer Goods Adhesives operating segment serves major international customers as well as medium- and small-sized manufacturers of the consumer goods and furniture industries. Our economies of scale allow us to offer attractive solutions for standard and volume applications.

The Transport and Metal operating segment serves major international customers in the automotive and metal-processing industries, offering tailor-made system solutions and specialized technical services that cover the entire value chain – from steel strip coating to final vehicle assembly.

In the General Industry operating segment, our customers comprise manufacturers from a multitude of industries, ranging from household appliance producers to the wind power industry. Our portfolio here encompasses Loctite products for industrial maintenance, repair and overhaul, a wide range of sealants and system solutions for surface treatment applications, and specialty adhesives.

Our Electronics operating segment offers customers from the worldwide electronics industry a broad spectrum of innovative high-technology adhesives and soldering materials for the manufacture of microchips and electronic assemblies.

Beauty Care

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

Laundry & Home Care

This reportable segment covers the global activities of Henkel in laundry and home care branded consumer goods. The Laundry Care operating segment includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers, and other fabric care products. Our Home Care operating segment encompasses hand and automatic dishwashing products, cleaners for bathroom and WC applications, and household, glass and specialty cleaners. We also offer air fresheners and insect control products for household applications in selected regions.

Principles of Group segment reporting

In determining the segment results, assets and liabilities, we apply essentially the same principles of recognition and measurement as in the consolidated financial statements. We have valued net operating assets in foreign currencies at average exchange rates.

The Group measures the performance of its segments on the basis of a segment income variable referred to by Internal Control and Reporting as “adjusted EBIT.” For this purpose, operating profit (EBIT) is adjusted for one-time charges and gains and also restructuring expenses.

Of the restructuring expenses, 61 million euros (previous year: 77 million euros) is attributable to Adhesive Technologies, 94 million euros (previous year: 43 million euros) to Beauty Care and 119 million euros (previous year: 66 million euros) to Laundry & Home Care.

For reconciliation with the figures for the Henkel Group, Group overheads are reported under Corporate together with income and expenses that cannot be allocated to the individual business units.

Proceeds transferred between the segments only exist to a negligible extent and are therefore not separately disclosed.

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, and non-current assets in accordance with the domicile of the international company to which they pertain.

Reconciliation between net operating assets / capital employed and financial statement figures

164

in million euros	Net operating assets		Financial statement figures	Net operating assets		Financial statement figures
	Annual average[1] 2015	December 31, 2015	December 31, 2015	Annual average[1] 2016	December 31, 2016	December 31, 2016
Goodwill at book value	8,605	8,850	8,850	9,742	11,626	**11,626**
Other intangible assets and property, plant and equipment (including assets held for sale)	5,266	5,503	5,503	5,833	6,899	**6,899**
Deferred taxes	–	–	816	–	–	**1,017**
Inventories	1,836	1,721	1,721	1,818	1,938	**1,938**
Trade accounts receivable from third parties	3,171	2,944	2,944	3,326	3,349	**3,349**
Intra-group accounts receivable	1,018	1,246	–	1,291	1,311	**–**
Other assets and tax refund claims[2]	505	440	1,313	530	617	**1,699**
Cash and cash equivalents			1,176			**1,389**
Operating assets/Total assets	**20,401**	**20,704**	**22,323**	**22,540**	**25,740**	**27,917**
Operating liabilities	6,435	6,716	–	7,104	7,815	**–**
of which: Trade accounts payable to third parties	3,242	3,176	3,176	3,382	3,665	**3,665**
Intra-group accounts payable	1,018	1,246	–	1,291	1,311	**–**
Other provisions and other liabilities[2] (financial and non-financial)	2,175	2,294	2,437	2,431	2,839	**3,011**
Net operating assets	13,965	13,988	–	15,436	17,925	**–**
– Goodwill at book value	8,605	–	–	9,742	–	**–**
+ Goodwill at cost[3]	9,151	–	–	10,201	–	**–**
Capital employed	14,511	–	–	15,895	–	**–**

[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).

36 Earnings per share

Earnings per share

165

in million euros (rounded)	2015 Reported	2015 Adjusted	2016 Reported	2016 Adjusted
Net income attributable to shareholders of Henkel AG & Co. KGaA	1,921	2,112	**2,053**	**2,323**
Dividends, ordinary shares	377	377	**416**	**416**
Dividends, preferred shares	256	256	**283**	**283**
Total dividends	633	633	**699**	**699**
Retained earnings, ordinary shares	771	885	**810**	**972**
Retained earnings, preferred shares	517	594	**544**	**652**
Retained earnings	**1,288**	**1,479**	**1,354**	**1,624**
Number of ordinary shares	259,795,875	259,795,875	**259,795,875**	**259,795,875**
Dividend per ordinary share in euros	1.45	1.45	**1.60** [3]	**1.60** [3]
Of which preliminary dividend per ordinary share in euros [1]	0.02	0.02	**0.02**	**0.02**
Retained earnings per ordinary share in euros	2.97	3.41	**3.12**	**3.74**
EPS per ordinary share in euros	**4.42**	**4.86**	**4.72**	**5.34**
Number of outstanding preferred shares [2]	174,482,312	174,482,312	**174,482,323**	**174,482,323**
Dividend per preferred share in euros	1.47	1.47	**1.62** [3]	**1.62** [3]
Of which preferred dividend per preferred share in euros [1]	0.04	0.04	**0.04**	**0.04**
Retained earnings per preferred share in euros	2.97	3.41	**3.12**	**3.74**
EPS per preferred share in euros	**4.44**	**4.88**	**4.74**	**5.36**
Number of ordinary shares	259,795,875	259,795,875	**259,795,875**	**259,795,875**
Dividend per ordinary share in euros	1.45	1.45	**1.60** [3]	**1.60** [3]
Of which preliminary dividend per ordinary share in euros [1]	0.02	0.02	**0.02**	**0.02**
Retained earnings per ordinary share in euros (after dilution)	2.97	3.41	**3.12**	**3.74**
Diluted EPS per ordinary share in euros	**4.42**	**4.86**	**4.72**	**5.34**
Number of potentially outstanding preferred shares [2]	174,482,312	174,482,312	**174,482,323**	**174,482,323**
Dividend per preferred share in euros	1.47	1.47	**1.62** [3]	**1.62** [3]
Of which preferred dividend per preferred share in euros [1]	0.04	0.04	**0.04**	**0.04**
Retained earnings per preferred share in euros (after dilution)	2.97	3.41	**3.12**	**3.74**
Diluted EPS per preferred share in euros	**4.44**	**4.88**	**4.74**	**5.36**

[1] See combined management report, Corporate governance, Capital stock denominations/Shareholder rights/Amendments to the Articles of Association on pages 30 and 31.
[2] Weighted annual average of preferred shares.
[3] Proposal to shareholders for the Annual General Meeting on April 6, 2017.

37 Consolidated statement of cash flows

We prepare the consolidated statement of cash flows in accordance with International Accounting Standard (IAS) 7 “Statement of Cash Flows.” It describes the flow of cash and cash equivalents by origin and usage of liquid funds, distinguishing between changes in funds arising from operating activities, investing activities, and financing activities. Financial funds include cash on hand, checks and credit at banks, and other financial assets with a remaining term of not more than three months. Securities are therefore included in financial funds, provided that they are available at short term and are only exposed to an insignificant price change risk. The computation is adjusted for effects arising from currency translation. In some countries, there are administrative hurdles to the transfer of money to the parent company.

Cash flows from operating activities are determined by initially adjusting operating profit for non-cash variables such as amortization/depreciation/impairment/write-ups on intangible assets and property, plant and equipment – supplemented by changes in provisions, changes in other assets and liabilities, and also changes in net working capital. We disclose payments made for income taxes under operating cash flow.

Cash flows from investing activities occur essentially as a result of outflows of funds for investments in intangible assets and property, plant and equipment, subsidiaries and other business units, as well as investments accounted for using the equity method, and joint ventures. Here, we also recognize inflows of funds from the sale of intangible assets and property, plant and equipment, subsidiaries and other business units. In the reporting period, cash flows from investing activities mainly involved outflows for the acquisition of subsidiaries and other business units in the amount of –3,727 million euros (previous year: –322 million euros), as well as outflows for investments in intangible assets, and property, plant and equipment, including payments on account, in the amount of –557 million euros (previous year: –625 million euros). Outflows for the acquisition of subsidiaries and other business units relate to the acquisitions as described in the section “Acquisitions and divestments” on pages 123 to 126.

In cash flow from financing activities, we recognize interest and dividends paid and received, the change in borrowings and in pension provisions, and also payments made for the acquisition of non-controlling interests and other financing transactions. In fiscal 2016, the change in borrowings was influenced by the acquisition-related issuance of four fixed-rate bonds with a total volume of 2.2 billion euros, a floating-rate syndicated bank loan of 1.1 billion US dollars that was taken out, and outflows from the repayment of commercial paper.

Free cash flow shows how much cash is actually available for acquisitions and dividends, reducing debt and/or contributions to pension funds.

38 Contingent liabilities

Analysis

166

in million euros	December 31, 2015	December 31, 2016
Liabilities under guarantee and warranty agreements	12	**5**

39 Lease and other unrecognized financial commitments

Operating leases as defined in IAS 17 comprise all forms of rights of use of assets, including rights of use arising from rent and leasehold agreements. Payment commitments under operating lease agreements are shown at the total amounts payable up to the earliest date of termination. The amounts shown are the nominal values. At December 31, 2016, they were due for payment as follows:

Operating lease commitments

167

in million euros	December 31, 2015	December 31, 2016
Due in the following year	72	**162**
Due within 1 to 5 years	139	**98**
Due after 5 years	17	**144**
Total	**228**	**404**

Within the Group, we primarily lease office space and equipment, automobiles, and IT equipment. Some of these contracts contain extension options and price adjustment clauses. In the course of fiscal 2016, 75 million euros became due for payment under operating leases (previous year: 66 million euros).

Finance lease commitments

168

in million euros At Dec. 31, 2016	Future payments relating to finance lease commitments	Interest portion	Present value of future lease installments
Due in the following year	2	0	2
Due within 1 to 5 years	10	2	9
Due after 5 years	7	1	6
Total	**19**	**3**	**17**

At December 31, 2015, the company had no finance lease commitments.

As of the end of 2016, commitments arising from orders for property, plant and equipment amounted to 68 million euros (previous year: 65 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, 2016 amounted to 4 million euros (previous year: 0 million euros).

40 Voting rights / Related party disclosures

Related parties as defined by IAS 24 "Related Party Disclosures" are legal entities or natural persons who may be able to exert influence on Henkel AG & Co. KGaA and its subsidiaries, or be subject to control or material influence by Henkel AG & Co. KGaA or its subsidiaries. These mainly include all members of the Henkel family share-pooling agreement, the non-consolidated affiliated companies in which Henkel holds shares, the associated companies, and the members of the corporate bodies of Henkel AG & Co. KGaA, whose remuneration is explained in the remuneration report in the combined management report (pages 39 to 51). Related parties as defined in IAS 24 also include Henkel Trust e.V. and Metzler Trust e.V.

Information required by Section 160 (1) no. 8 of the German Stock Corporation Act [AktG]:

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

- 131 members of the families of the descendents of Fritz Henkel, the company's founder,
- four foundations set up by members of those families,
- three trusts set up by members of those families,
- two private limited companies (GmbH) set up by members of those families, 13 limited partnerships with a limited company as general partner (GmbH & Co. KG), and one limited partnership (KG),

under the terms of a share-pooling agreement per Section 22 (2) of the German Securities Trading Act [WpHG], whereby the shares held by the two private limited companies, by the 13 limited partnerships with a limited company as general partner, and by the one limited partnership, representing a percentage of 16.97 percent of the voting rights (44,081,965 votes), are attributed (per Section 22 (1) no. 1 WpHG) to the family members who control those companies.

No party to the share-pooling agreement is obliged to notify that it has reached or exceeded 3 percent or more of the total voting rights in Henkel AG & Co. KGaA, even after adding voting rights expressly granted under the terms of usufruct agreements.

Dr. Simone Bagel-Trah, Germany, is the authorized representative of the parties to the Henkel family share-pooling agreement. (Latest notification November 5, 2014.)

Financial receivables from and payables to other investments in the form of non-consolidated affiliated entities and associated entities are disclosed in Notes 3 and 18.

Henkel Trust e.V. and Metzler Trust e.V., as parties to relevant contractual trust arrangements (CTA), hold the assets required to cover the pension obligations in Germany. The claim on Henkel Trust e.V. for reimbursement of pension payments made is shown under other financial assets (Note 3 on page 137). The receivable does not bear interest.

41 Exercise of exemption options

As was also the case in 2015, the following German companies included in the consolidated financial statements of Henkel AG & Co. KGaA exercised exemption options in fiscal 2016:

- Schwarzkopf Henkel Production Europe GmbH & Co. KG, Düsseldorf (Section 264b German Commercial Code [HGB])
- Henkel Loctite-KID GmbH, Hagen (Section 264 (3) HGB)
- Henkel IP Management and IC Services GmbH, Monheim (Section 264 (3) HGB)
- The Bergquist Company GmbH, Halstenbek (Section 264 (3) HGB)

The Dutch company Henkel Nederland B.V., Nieuwegein, exercised the exemption option afforded in Article 2:403 of the Civil Code of the Netherlands.

42 Remuneration of the corporate management bodies

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,572,896 euros plus value-added tax (previous year: 1,546,000 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 and members of the Management Board of Henkel Management AG amounted to 26,503,197 euros (previous year: 25,804,019 euros).

For pension obligations to former members of the Management Board and the management of Henkel KGaA, as well as the former management of its legal predecessor and surviving dependents, 100,771,135 euros (previous year: 98,729,434 euros) is deferred. 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 7,127,205 euros (previous year: 7,163,382 euros). For further details regarding the compensation of the corporate management bodies, please refer to the audited remuneration report on pages 39 to 51.

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

In February 2016, the Management Board of Henkel Management AG and the Supervisory Board and Shareholders' Committee of Henkel AG & Co. KGaA approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code [DCGK] in accordance with Section 161 of the German Stock Corporation Act [AktG]. The declaration has been made permanently available to shareholders on the company website: www.henkel.com/ir

44 Subsidiaries and other investments

Details relating to the investments held by Henkel AG & Co. KGaA and the Henkel Group, which are part of these financial statements, are provided in a separate schedule appended to these notes to the consolidated financial statements but not included in the printed form of the Annual Report. Said schedule is included in the accounting record submitted for publication in the electronic Federal Gazette and can be viewed there and at the Annual General Meeting. The schedule is also published on our website: www.henkel.com/reports

45 Auditor's fees and services

The total fees charged to the Group for services provided by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft and other companies of the worldwide KPMG network in fiscal 2015 and 2016 were as follows:

Type of fee 169

in million euros	2015	of which Germany	2016	of which Germany
Audits	8.4	1.8	**9.6**	**2.3**
Other audit-related services	1.7	0.6	**1.6**	**0.6**
Tax advisory services	0.8	0.1	**1.2**	**0.2**
Other services	1.1	1.0	**0.2**	**0.1**
Total	**12.0**	**3.5**	**12.6**	**3.2**

The item "Audits" includes fees and disbursements with respect to the audit of the Group accounts and the legally prescribed financial statements of Henkel AG & Co. KGaA and its affiliated companies. The fees for "Other audit-related services" relate primarily to the quarterly reviews. The item "Tax advisory services" includes fees for advice and support on tax issues and the performance of tax compliance services on behalf of affiliated companies outside Germany. "Other services" comprise fees predominantly for project-related consultancy services.

Subsequent events

After December 31, 2016, 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, 2017

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board
Hans Van Bylen,
Jan-Dirk Auris, Pascal Houdayer, Carsten Knobel,
Kathrin Menges, Bruno Piacenza

Independent Auditor's Report

To Henkel AG & Co. KGaA, Düsseldorf

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Henkel AG & Co. KGaA, Düsseldorf, and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and notes to the consolidated financial statements for the business year from January 1 to December 31, 2016.

Responsibility of the Personally Liable Partner of the Company for the Consolidated Financial Statements

The personally liable partner of Henkel AG & Co. KGaA is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and the supplementary requirements of German law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code], to give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The personally liable partner of the company is also responsible for the internal controls that management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the company's personally liable partner, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

Pursuant to § 322 Abs. 3 Satz 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Henkel Group as at December 31, 2016, as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Combined Management Report

We have audited the accompanying Group management report of Henkel AG & Co. KGaA, which is combined with the management report of the company, for the business year from January 1 to December 31, 2016. The personally liable partner of Henkel AG & Co. KGaA is responsible for the preparation of the combined management report in compliance with the applicable requirements of German commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of combined management reports promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Accordingly, we are required to plan and perform the audit to obtain reasonable assurance about whether the combined management report is consistent with the consolidated financial statements and the audit findings, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz 1 HGB, we state that our audit of the combined management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and combined management report, the combined management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, January 30, 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Kai C. Andrejewski	Simone Fischer
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

Recommendation for the approval of the annual financial statements and the appropriation of the profit of Henkel AG & Co. KGaA

It is proposed that the annual financial statements of Henkel AG & Co. KGaA be approved as presented and that the unappropriated profit of 1,027,893,701.02 euros for fiscal 2016 be applied as follows:

a)	Payment of a dividend of 1.60 euros per ordinary share (259,795,875 shares)	= 415,673,400.00 euros
b)	Payment of a dividend of 1.62 euros per preferred share (178,162,875 shares)	= 288,623,857.50 euros
c)	Carried forward as retained earnings	= 323,596,443.52 euros
		1,027,893,701.02 euros

According to Section 71b German Stock Corporation Act [AktG], treasury shares do not qualify for a dividend. The amount in unappropriated profit which relates to the shares held by the corporation (treasury shares) at the date of the Annual General Meeting will be carried forward as retained earnings. As the number of such treasury shares can change up to the time of the Annual General Meeting, a correspondingly adapted proposal for the appropriation of profit will be submitted to it, providing for an unchanged payout of 1.60 euros per ordinary share qualifying for a dividend and 1.62 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, 2017

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board

Responsibility statement by the Personally Liable Partner

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the management report of the Group, which is combined with the management report of Henkel AG & Co. KGaA, includes a fair review of the development, performance and results of the business and the position of the Group, together with a cogent description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, January 30, 2017

Henkel Management AG

Management Board
Hans Van Bylen,
Jan-Dirk Auris, Pascal Houdayer, Carsten Knobel,
Kathrin Menges, Bruno Piacenza

Corporate management bodies of Henkel AG & Co. KGaA

Boards / memberships as defined by Section 125 (1) sentence 5 of the German Stock Corporation Act [AktG] as at January 2017

Honorary Chairman of the Henkel Group: Dipl.-Ing. Albrecht Woeste

Supervisory Board of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah
Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: April 14, 2008

Memberships:
Henkel Management AG (Chair)[1]
Henkel AG & Co. KGaA (Shareholders' Committee, Chair)[2]
Bayer AG[1]
Heraeus Holding GmbH[1]

Winfried Zander *
Vice Chair,
Chairman of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1954
Member since: May 17, 1993

Jutta Bernicke *
Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1962
Member since: April 14, 2008

Dr. rer. nat. Kaspar von Braun
Astrophysicist, Pasadena

Born in 1971
Member since: April 19, 2010

Boris Canessa
(until April 11, 2016)
Private Investor, Düsseldorf

Born in 1963
Member from: April 16, 2012

Johann-Christoph Frey
(since April 11, 2016)
Private Investor, Klosters

Born in 1955
Member since: April 11, 2016

Ferdinand Groos
(until April 11, 2016)
Managing Partner, Cryder Capital Partners LLP, London

Born in 1965
Member from: April 16, 2012

Béatrice Guillaume-Grabisch
(until March 31, 2016)
Chairwoman of the Executive Board, Nestlé Deutschland AG, Frankfurt am Main

Born in 1964
Member from: April 16, 2012

Peter Hausmann *
Member of the Executive Board of IG Bergbau, Chemie, Energie and responsible for Wages / Finance, Hannover

Born in 1954
Member since: April 15, 2013

Memberships:
Continental AG[1]
Covestro Deutschland AG[1]
Vivawest Wohnen GmbH (Vice Chair)[1]
50 Hertz Transmission AG (Vice Chair)[1]

Birgit Helten-Kindlein *
Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1964
Member since: April 14, 2008

Benedikt-Richard Freiherr von Herman
(since April 11, 2016)
Private Investor, Wain

Born in 1972
Member since: April 11, 2016

Timotheus Höttges
(since April 11, 2016)
Chairman of the Executive Board, Deutsche Telekom AG, Bonn

Born in 1962
Member since: April 11, 2016

Memberships:
BT Group plc, Great Britain[2]
FC Bayern München AG[1]
Telekom Group:
Telekom Deutschland GmbH (Chair)[1]
T-Mobile US, Inc. (Chair), USA[2]

Prof. Dr. sc. nat. Michael Kaschke
Chairman of the Executive Board, Carl Zeiss AG, Oberkochen

Born in 1957
Member since: April 14, 2008

Memberships:
Deutsche Telekom AG[1]
Robert Bosch GmbH[1]
Carl Zeiss Group:
Carl Zeiss Industrielle Messtechnik GmbH (Chair)[1]
Carl Zeiss Meditec AG (Chair)[1]
Carl Zeiss Microscopy GmbH (Chair)[1]
Carl Zeiss SMT GmbH (Chair)[1]
Carl Zeiss Australia Pty. Ltd. (Chair), Australia[2]
Carl Zeiss Far East Co. Ltd. (Chair), China / Hong Kong[2]
Carl Zeiss Inc. (Chair), USA[2]
Carl Zeiss India (Bangalore) Private Ltd., India[2]
Carl Zeiss Pte. Ltd. (Chair), Singapore[2]
Carl Zeiss (Pty.) Ltd., South Africa[2]

* Employee representatives.
[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Angelika Keller*
(since January 1, 2017)

Member of the General Works Council of
Henkel AG & Co. KGaA and
Chairwoman of the Works Council of
Henkel AG & Co. KGaA, Munich site

Born in 1965
Member since: January 1, 2017

Barbara Kux
Private Investor, Zurich

Born in 1954
Member since: July 3, 2013

Memberships:
Engie S.A., France [2]
Firmenich S.A., Switzerland [2]
Pargesa Holding S.A., Switzerland [2]
Total S.A., France [2]
Umicore N.V., Belgium [2]

Mayc Nienhaus*
(until December 31, 2016)

Member of the General Works Council of
Henkel AG & Co. KGaA and
Chairman of the Works Council of
Henkel AG & Co. KGaA, Unna site

Born in 1961
Member from: January 1, 2010

Andrea Pichottka*
Managing Director, IG BCE Bonusagentur GmbH, Hannover
Managing Director, IG BCE Bonusassekuranz GmbH, Hannover

Born in 1959
Member since: October 26, 2004

Dr. rer. nat. Martina Seiler*
Chemist, Duisburg
Chairwoman of the General Senior Staff
Representative Committee and of the Senior Staff
Representative Committee of Henkel AG & Co. KGaA

Born in 1971
Member since: January 1, 2012

Prof. Dr. oec. publ. Theo Siegert
Managing Partner of
de Haen-Carstanjen & Söhne, Düsseldorf

Born in 1947
Member since: April 20, 2009

Memberships:
E.ON SE [1]
Merck KGaA [1]
DKSH Holding Ltd., Switzerland [2]
E. Merck OHG [2]

Edgar Topsch*
Member of the General Works Council of
Henkel AG & Co. KGaA and
Vice Chairman of the Works Council of
Henkel AG & Co. KGaA, Düsseldorf site

Born in 1960
Member since: August 1, 2010

Supervisory Board committees

Nominations Committee

Functions
The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members of the Supervisory Board (representatives of the shareholders).

Members
Dr. Simone Bagel-Trah, Chair
Dr. Kaspar von Braun
Prof. Dr. Theo Siegert

Audit Committee

Functions
The Audit Committee prepares the proceedings and resolutions of the Supervisory Board relating to the approval of the annual financial statements and the consolidated financial statements, and relating to ratification of the proposal to be put before the Annual General Meeting regarding appointment of the auditor. It also deals with accounting, risk management and compliance issues.

Members
Prof. Dr. Theo Siegert, Chair
Prof. Dr. Michael Kaschke, Vice Chair
Dr. Simone Bagel-Trah
Peter Hausmann
Birgit Helten-Kindlein
Winfried Zander

Shareholders' Committee of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah
Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: April 18, 2005

Memberships:
Henkel AG & Co. KGaA (Chair)[1]
Henkel Management AG (Chair)[1]
Bayer AG[1]
Heraeus Holding GmbH[1]

Dr. rer. pol. h.c. Christoph Henkel
Vice Chair,
Founding Partner, Canyon Equity LLC, London

Born in 1958
Member since: May 27, 1991

Prof. Dr. oec. HSG Paul Achleitner
Chairman of the Supervisory Board,
Deutsche Bank AG, Munich

Born in 1956
Member since: April 30, 2001

Memberships:
Bayer AG[1]
Daimler AG[1]
Deutsche Bank AG (Chair)[1]

Boris Canessa
(since April 11, 2016)
Private Investor, Düsseldorf

Born in 1963
Member since: April 11, 2016

Johann-Christoph Frey
(until April 11, 2016)
Private Investor, Klosters

Born in 1955
Member from: April 16, 2012

Stefan Hamelmann
Private Investor, Düsseldorf

Born in 1963
Member since: May 3, 1999

Prof. Dr. rer. pol. Ulrich Lehner
Former Chairman of the Management Board
of Henkel KGaA, Düsseldorf

Born in 1946
Member since: April 14, 2008

Memberships:
Deutsche Telekom AG (Chair)[1]
E.ON SE[1]
Porsche Automobil Holding SE[1]
ThyssenKrupp AG (Chair)[1]

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer
Chairman of the Supervisory Board
of Bayerische Motoren Werke Aktiengesellschaft,
Munich

Born in 1956
Member since: April 11, 2011

Memberships:
Bayerische Motoren Werke Aktiengesellschaft
(Chair)[1]
Siemens AG[1]

Konstantin von Unger
Managing Director, CKA Capital Limited, London

Born in 1966
Member since: April 14, 2003

Membership:
Henkel Management AG[1]

Jean-François van Boxmeer
Chairman of the Executive Board
of Heineken N.V., Amsterdam

Born in 1961
Member since: April 15, 2013

Membership:
Mondelez International Inc., USA[2]

Werner Wenning
Chairman of the Supervisory Board
of Bayer AG, Leverkusen

Born in 1946
Member since: April 14, 2008

Memberships:
Bayer AG (Chair)[1]
Henkel Management AG[1]
Siemens AG[1]

Subcommittees of the Shareholders' Committee

Finance Subcommittee

Functions
The Finance Subcommittee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, internal auditing, and risk management in the company.

Members
Dr. Christoph Henkel, Chair
Stefan Hamelmann, Vice Chair
Prof. Dr. Paul Achleitner
Prof. Dr. Ulrich Lehner
Dr. Dr. Norbert Reithofer

Human Resources Subcommittee

Functions
The Human Resources Subcommittee deals principally with personnel matters relating to members of the Management Board, issues pertaining to human resources strategy, and with remuneration.

Members
Dr. Simone Bagel-Trah, Chair
Konstantin von Unger, Vice Chair
Boris Canessa (since April 11, 2016)
Johann-Christoph Frey (until April 11, 2016)
Jean-François van Boxmeer
Werner Wenning

[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Management Board of Henkel Management AG *

Hans Van Bylen
Chairman of the Management Board
(since May 1, 2016)

Born in 1961
Member since: July 1, 2005 [3]

Kasper Rorsted
(until April 30, 2016)
Chairman of the Management Board

Born in 1962
Member since: April 1, 2005 [3]

Memberships:
Anheuser-Busch InBev SA, Belgium [2]
Bertelsmann Management SE [1]
Danfoss A/S, Denmark [2]

Jan-Dirk Auris
Adhesive Technologies

Born in 1968
Member since: January 1, 2011

Membership:
Henkel Corporation (Chair), USA [2]

Pascal Houdayer
(since March 1, 2016)
Beauty Care

Born in 1969
Member since: March 1, 2016

Membership:
The Dial Corporation (Chair), USA [2]

Carsten Knobel
Finance / Purchasing / Integrated Business Solutions

Born in 1969
Member since: July 1, 2012

Memberships:
Henkel Central Eastern Europe GmbH (Chair), Austria [2]
Henkel (China) Investment Co. Ltd., China [2]
Henkel & Cie AG, Switzerland [2]
Henkel Consumer Goods Inc. (Chair), USA [2]
Henkel Ltd., Great Britain [2]
Henkel of America Inc. (Chair), USA [2]

Kathrin Menges
Human Resources / Infrastructure Services

Born in 1964
Member since: October 1, 2011

Memberships:
Adidas AG [1]
Henkel Central Eastern Europe GmbH, Austria [2]
Henkel Nederland BV, Netherlands [2]
Henkel Norden AB, Sweden [2]
Henkel Norden Oy, Finland [2]

Bruno Piacenza
Laundry & Home Care

Born in 1965
Member since: January 1, 2011

Membership:
GfK SE, Nuremberg [1]

Supervisory Board of Henkel Management AG *

Dr. rer. nat. Simone Bagel-Trah
Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: February 15, 2008

Memberships:
Henkel AG & Co. KGaA (Chair) [1]
Henkel AG & Co. KGaA (Shareholders' Committee, Chair) [2]
Bayer AG [1]
Heraeus Holding GmbH [1]

Konstantin von Unger
Vice Chair
Managing Director, CKA Capital Limited, London

Born in 1966
Member since: April 17, 2012

Membership:
Henkel AG & Co. KGaA (Shareholders' Committee) [2]

Werner Wenning
Chairman of the Supervisory Board
of Bayer AG, Leverkusen

Born in 1946
Member since: September 16, 2013

Memberships:
Bayer AG (Chair) [1]
Siemens AG [1]
Henkel AG & Co. KGaA (Shareholders' Committee) [2]

* Personally Liable Partner of Henkel AG & Co. KGaA.
[1] Membership of statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.
[3] Including membership of the Management Board of Henkel KGaA.

Quarterly breakdown of key financials

170

in million euros	1st quarter 2015	1st quarter 2016	2nd quarter 2015	2nd quarter 2016	3rd quarter 2015	3rd quarter 2016	4th quarter 2015	4th quarter 2016	Full year 2015	Full year 2016
Sales										
Adhesive Technologies	2,160	**2,144**	2,343	**2,290**	2,279	**2,272**	2,209	**2,255**	8,992	**8,961**
Beauty Care	940	**950**	1,006	**988**	964	**968**	922	**932**	3,833	**3,838**
Laundry & Home Care	1,298	**1,333**	1,314	**1,345**	1,314	**1,479**	1,211	**1,638**	5,137	**5,795**
Corporate	32	**30**	31	**31**	33	**29**	32	**31**	128	**121**
Henkel Group	**4,430**	**4,456**	**4,695**	**4,654**	**4,590**	**4,748**	**4,374**	**4,856**	**18,089**	**18,714**
Cost of sales	– 2,264	**– 2,293**	– 2,439	**– 2,373**	– 2,361	**– 2,453**	– 2,304	**– 2,623**	– 9,368	**– 9,742**
Gross profit	**2,166**	**2,163**	**2,256**	**2,281**	**2,229**	**2,295**	**2,070**	**2,233**	**8,721**	**8,972**
Marketing, selling and distribution expenses	– 1,166	**– 1,092**	– 1,185	**– 1,167**	– 1,158	**– 1,171**	– 1,099	**– 1,205**	– 4,608	**– 4,635**
Research and development expenses	– 119	**– 114**	– 122	**– 118**	– 120	**– 116**	– 117	**– 115**	– 478	**– 463**
Administrative expenses	– 245	**– 225**	– 241	**– 240**	– 278	**– 232**	– 248	**– 365**	– 1,012	**– 1,062**
Other operating expenses and income	12	**–15**	7	**1**	– 7	**–1**	10	**–22**	22	**–37**
EBIT										
Adhesive Technologies	345	**364**	388	**403**	367	**423**	362	**371**	1,462	**1,561**
Beauty Care	133	**143**	158	**162**	142	**155**	128	**67**	561	**526**
Laundry & Home Care	192	**236**	198	**218**	211	**228**	186	**121**	786	**803**
Corporate	– 22	**– 25**	– 29	**– 26**	– 54	**– 31**	– 58	**– 33**	– 164	**– 115**
Henkel Group	**648**	**717**	**715**	**757**	**666**	**775**	**616**	**526**	**2,645**	**2,775**
Interest result	– 3	**2**	– 3	**2**	– 8	**– 4**	– 3	**– 5**	– 17	**– 5**
Other financial result	– 6	**– 9**	– 7	**– 2**	– 3	**– 11**	– 8	**– 4**	– 24	**– 26**
Investment result	–	**–**	– 1	**– 1**	–	**–**	–	**– 1**	– 1	**– 2**
Financial result	**– 9**	**– 7**	**– 11**	**– 1**	**– 11**	**– 15**	**– 11**	**– 10**	**– 42**	**– 33**
Income before tax	**639**	**710**	**704**	**756**	**655**	**760**	**605**	**516**	**2,603**	**2,742**
Taxes on income	**– 157**	**– 172**	**– 173**	**– 184**	**– 161**	**– 176**	**– 144**	**– 117**	**– 635**	**– 649**
Net income	**482**	**538**	**531**	**572**	**494**	**584**	**461**	**399**	**1,968**	**2,093**
Attributable to non-controlling interests	12	**13**	10	**11**	10	**8**	15	**8**	47	**40**
Attributable to shareholders of Henkel AG & Co. KGaA	**470**	**525**	**521**	**561**	**484**	**576**	**446**	**391**	**1,921**	**2,053**
Earnings per preferred share in euros	**1.09**	**1.21**	**1.20**	**1.30**	**1.12**	**1.33**	**1.03**	**0.90**	**4.44**	**4.74**

in million euros	1st quarter 2015	1st quarter 2016	2nd quarter 2015	2nd quarter 2016	3rd quarter 2015	3rd quarter 2016	4th quarter 2015	4th quarter 2016	Full year 2015	Full year 2016
EBIT (as reported)	**648**	**717**	**715**	**757**	**666**	**775**	**616**	**526**	**2,645**	**2,775**
One-time gains	–	**–**	–	**– 1**	–	**–**	– 15	**–**	– 15	**– 1**
One-time charges	5	**7**	24	**22**	34	**27**	37	**65**	100	**121**
Restructuring expenses	54	**27**	29	**41**	78	**35**	32	**174**	193	**277**
Adjusted EBIT	**707**	**751**	**768**	**819**	**778**	**837**	**670**	**765**	**2,923**	**3,172**
Adjusted earnings per preferred share in euros	**1.18**	**1.27**	**1.29**	**1.40**	**1.30**	**1.42**	**1.11**	**1.27**	**4.88**	**5.36**

The quarterly figures are specific to the quarter to which they refer and have been rounded for commercial convenience.
Calculated on the basis of units of 1,000 euros.

Multi-year summary

171

in million euros		2010	2011 restated[1]	2012	2013	2014	2015	2016
Results of operations								
Sales		15,092	15,605	16,510	16,355	16,428	18,089	**18,714**
Adhesive Technologies		7,306	7,746	8,256	8,117	8,127	8,992	**8,961**
Beauty Care		3,269	3,399	3,542	3,510	3,547	3,833	**3,838**
Laundry & Home Care		4,319	4,304	4,556	4,580	4,626	5,137	**5,795**
Corporate		199	156	155	148	128	128	**121**
Gross margin		46.5	45.3	46.8	47.7	47.0	48.2	**47.9**
Research and development expenses		391	410	408	415	413	478	**463**
Operating profit (EBIT)		1,723	1,765	2,199	2,285	2,244	2,645	**2,775**
Adhesive Technologies		878	1,002	1,191	1,271	1,345	1,462	**1,561**
Beauty Care		411	471	483	474	421	561	**526**
Laundry & Home Care		542	419	621	682	615	786	**803**
Corporate		–108	–127	–97	–141	–137	–164	**–115**
Income before tax		1,552	1,610	2,018	2,172	2,195	2,645	**2,742**
Tax rate	in %	26.4	26.0	24.4	25.2	24.3	24.4	**23.7**
Net income		1,143	1,191	1,526	1,625	1,662	1,968	**2,093**
Attributable to shareholders of Henkel AG & Co. KGaA		1,118	1,161	1,480	1,589	1,628	1,921	**2,053**
Net return on sales[2]	in %	7.6	7.6	9.2	9.9	10.1	10.9	**11.2**
Interest coverage ratio		12.8	14.0	14.3	23.9	48.4	75.7	**107.9**
Net assets								
Total assets		17,525	18,487	19,525	19,344	20,961	22,323	**27,917**
Non-current assets		11,590	11,848	11,927	11,360	14,150	15,406	**19,704**
Current assets		5,935	6,639	7,598	7,984	6,811	6,917	**8,213**
Equity		7,950	8,670	9,511	10,158	11,644	13,811	**15,183**
Liabilities		9,575	9,817	10,014	9,186	9,317	8,512	**12,734**
Equity ratio	in %	45.4	46.9	48.7	52.5	55.6	61.9	**54.4**
Return on equity[3]	in %	17.5	15.0	17.6	17.1	16.4	16.9	**15.2**
Operating debt coverage ratio	in %	71.4	91.6	>500	not relevant[4]	274.8	375.2	**80.8**
Financial position								
Cash flow from operating activities		1,851	1,562	2,634	2,116	1,914	2,384	**2,850**
Capital expenditures		260	443	516	465	2,214	979	**4,409**
Investment ratio	as % of sales	1.7	2.8	3.1	2.8	13.5	5.4	**23.6**
Shares								
Dividend per ordinary share	in euros	0.70	0.78	0.93	1.20	1.29	1.45	**1.60[5]**
Dividend per preferred share	in euros	0.72	0.80	0.95	1.22	1.31	1.47	**1.62[5]**
Total dividends		310	345	411	529	569	639	**704[5]**
Payout ratio	in %	25.5	25.5	25.6	30.0	30.0	30.2	**30.3[5]**
Share price, ordinary shares, at year-end	in euros	38.62	37.40	51.93	75.64	80.44	88.62	**98.98**
Share price, preferred shares, at year-end	in euros	46.54	44.59	62.20	84.31	89.42	103.20	**113.25**
Market capitalization at year-end	in bn euros	18.3	17.6	24.6	34.7	36.8	41.4	**45.9**
Employees								
Total[6]	(at December 31)	47,850	47,250	46,600	46,850	49,750	49,450	**51,350**
Germany		8,600	8,300	8,000	8,050	8,200	8,350	**8,250**
Abroad		39,250	38,950	38,600	38,800	41,550	41,100	**43,100**

[1] Application of IAS 8 "Accounting policies, changes in accounting estimates and errors" (see notes on pages 116 and 117 of the 2012 Annual Report).
[2] Net income divided by sales.
[3] Net income divided by equity at the start of the year.
[4] Figure not relevant due to the positive balance of net financial position and pension obligations.
[5] Proposed.
[6] Basis: permanent employees excluding apprentices.

Index of tables and graphs

The Company

Highlights 2016 (inside cover)

Combined management report

Remuneration report

Shares and bonds

Operational activities

Strategy and financial targets 2016

Henkel 2020+ – our ambition and strategic priorities

Sustainability strategy

Cost of capital

Economic report

Macroeconomic and industry-related conditions

Results of operations

Net assets and financial position

Employees

Procurement

Production

Research and development

Adhesive Technologies

Beauty Care

Laundry & Home Care

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

Risks and opportunities report

Consolidated financial statements

Glossary

Adjusted EBIT
Earnings Before Interest and Taxes (EBIT) adjusted for exceptional items in the form of one-time charges, one-time gains and restructuring expenses.

Capital employed
Capital invested in company assets and operations. Equity + interest-bearing liabilities.

Compliance
Acting in conformity with applicable regulations; adherence to laws, rules, regulations and in-house or corporate codes of conduct.

Compound annual growth rate
Year-over-year rate of growth, e.g. of an investment.

Corporate governance
System of management and control, primarily within listed companies. Describes the powers and authority of corporate management, the extent to which these need to be monitored and the extent to which structures should be put in place through which certain interest / stakeholder groups may exert influence on the corporate management.

Corporate Governance Code
The German Corporate Governance Code (abbreviation: DCGK) is intended to render the rules governing corporate management and control for a stock corporation in Germany transparent for national and international investors, engendering trust and confidence in the corporate management of German companies.

Credit default swap
Instrument used by Henkel to evaluate the credit risks of banks.

Credit facility
Aggregate of all loan services available on call from one or several banks as cover for an immediate credit requirement.

Declaration of conformity
Declaration made by the management / executive board and supervisory board of a company according to Section 161 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
Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in current and prior periods.

Derivative
Financial instrument, the value of which changes in response to changes in an underlying asset or an index, which will be settled at a future date and which initially requires only a small or no investment.

Earnings per share (EPS)
Metric indicating the income of a joint stock corporation divided between the weighted average number of its shares outstanding. The calculation is performed in accordance with International Accounting Standard (IAS) 33.

EBIT
Abbreviation for Earnings Before Interest and Taxes. Standard profit metric that enables the earning power of the operating business activities of a company to be assessed independently of its financial structure, facilitating comparability between entities where these are financed by varying levels of debt capital.

EBITDA
Abbreviation for Earnings Before Interest, Taxes, Depreciation and Amortization.

Economic Value Added (EVA®)
The EVA concept reflects the net wealth generated by a company over a certain period. A company achieves positive EVA when the operating result exceeds the weighted average cost of capital. The WACC corresponds to the yield on capital employed expected by the capital market. EVA is a registered trademark of Stern Stewart & Co.

Equity ratio
Financial metric indicating the ratio of equity to total capital. It expresses the share of total assets financed out of equity (owners' capital) rather than debt capital (provided by lenders). Serves to assess the financial stability and independence of a company.

Free cash flow
Cash flow actually available for acquisitions, dividend payments, the reduction of borrowings, and contributions to pension funds.

Gross margin
Indicates the percentage by which a company's sales exceed cost of sales, i.e. the ratio of gross profit to sales.

Gross profit
Difference between sales and cost of sales.

Hedge accounting
Method for accounting for hedging transactions whereby the compensatory effect of changes in the fair value of the hedging instrument (derivative) and of the underlying asset or liability is recognized in either the statement of income or the statement of comprehensive income.

KGaA
Abbreviation for “Kommanditgesellschaft auf Aktien.” A KGaA is a company with a legal identity (legal entity) in which at least one partner has unlimited liability with respect to the company’s creditors (personally liable partner), while the liability for such debts of the other partners participating in the share-based capital stock is limited to their share capital (limited shareholders).

Long-term incentive (LTI)
Bonus aligned to long-term financial performance.

Net financial position
Net financial position is defined as cash and cash equivalents plus readily monetizable financial instruments classified as “available for sale” or in the “fair value option,” less borrowings, and plus positive and less negative fair values of hedging transactions.

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

Non-controlling interests
Proportion of equity attributable to third parties in subsidiaries included within the scope of consolidation. Previously termed “minority interests.” Valued on a proportional net asset basis. A pro-rata portion of the net income of a corporation is due to shareholders owning non-controlling interests.

Operational excellence
A comprehensive program to structure and optimize all Henkel’s business processes based on customer needs, quality and efficiency.

Organic sales growth
Growth in revenues after adjusting for effects arising from acquisitions, divestments and foreign exchange differences – i.e. “top line” growth generated from within.

Payout ratio
Indicates what percentage of annual net income (adjusted for exceptional items) is paid out in dividends to shareholders, including non-controlling interests.

Return-enhancing portfolio
Contains investments in equities and alternative investments, and serves to improve the overall return of the pension plan assets over the long term in order to raise the coverage ratio of pension funds. In addition, a broader investment horizon increases the level of investment diversification.

Return on capital employed (ROCE)
Profitability metric reflecting the ratio of earnings before interest and taxes (EBIT) to capital employed.

Return on sales (EBIT)
Operating business metric derived from the ratio of EBIT to revenues. Also known as EBIT margin.

Swap
Term given to the exchange of capital amounts in differing currencies (currency swap) or of different interest obligations (interest swap) between two entities.

Value-at-risk
Method, based on fair value, used to calculate the maximum likely or potential future loss arising from a portfolio.

Weighted average cost of capital (WACC)
Average return on capital, expressed as a percentage and calculated on the basis of a weighted average of the cost of debt and equity. WACC represents the minimum return expected of a company by its lenders for financing its assets.

Credits

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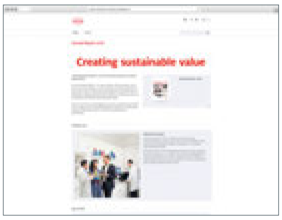
Contacts

Corporate Communications
Phone: +49 (0) 211-797-3533
Fax: +49 (0) 211-798-2484
E-mail: corporate.communications@henkel.com

Investor Relations
Phone: +49 (0) 211-797-3937
Fax: +49 (0) 211-798-2863
E-mail: investor.relations@henkel.com



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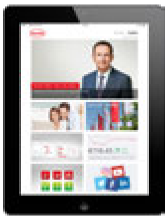

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Financial calendar

Annual General Meeting
Henkel AG & Co. KGaA 2017:
Thursday, April 6, 2017

Publication of Report
for the First Quarter 2017:
Thursday, May 11, 2017

Publication of Report
for the Second Quarter / Half Year 2017:
Thursday, August 10, 2017

Publication of Report
for the Third Quarter / Nine Months 2017:
Tuesday, November 14, 2017

Publication of Report
for Fiscal 2017:
Thursday, February 22, 2018

Annual General Meeting
Henkel AG & Co. KGaA 2018:
Monday, April 9, 2018

Up-to-date facts and figures on Henkel also available on the internet:
www.henkel.com

Henkel AG & Co. KGaA
40191 Düsseldorf, Germany
Phone: +49 (0) 211-797-0
www.henkel.com