

Standards and management

How we anchor the principles of sustainability in our organization

Vision and Values, Codes and Standards:



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Henkel and the United Nations Global Compact:



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Organization for sustainability



The Sustainability Council, as a central decision-making body headed by the Chairman of the Management Board, steers Henkel's global sustainability activities. Its members represent the business sectors and all corporate functions.



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Globally uniform standards

From our Vision and Values, we have formulated globally binding behavioral rules which are specified in a series of codes and standards. These apply to all employees in all business areas and cultures in which we operate. The Code of Conduct contains general corporate principles and behavioral rules. It is supplemented by guidelines on how to handle situations involving business-related conflicts of interest and gifts. The Code of Teamwork and Leadership provides guidance for the conduct of managerial and non-managerial staff at all levels. The Code of Corporate Sustainability describes our principles in regard to sustainable business practices and corporate social responsibility. It is given concrete form by standards for safety, health and the environment, purchasing standards and social standards. In 2010 we introduced the Representation of Interests in Public Affairs standard. The codes and standards are also the basis for Henkel's implementation of the United Nations Global Compact initiative.

Clearly defined responsibilities

Our codes and standards are supported by integrated management systems and an organizational structure with clearly defined responsibilities. The Henkel Management Board bears overall responsibility for our sustainability strategy. The Sustainability Council, whose members are drawn from all areas of the company, steers our sustainability activities.

The Chief Compliance Officer steers the application and further development of our codes and standards. He also monitors the implementation of internal and external requirements. In so doing, he is supported by our interdisciplinary Compliance and Risk Committee, the Corporate Internal Audit department, and by some 50 locally appointed compliance officers all over the world. Since 2009, our corporate data protection officer has been part of our compliance organization. Together this team coordinates the flow of information and helps our employees to implement our requirements – for example, through training courses designed to take local challenges into account. The Chief Compliance Officer reports infringements, as well

as the measures taken to deal with them, directly to the Chairman of the Management Board.

Compliance as a management task

Since we operate on a global scale, our employees are confronted with a variety of legal and value systems. Many of our employees work in countries where, according to surveys by organizations such as Transparency International, there is a greater risk of encountering corrupt practices. Henkel resolutely opposes infringement of laws and standards, and rejects dishonest business practices. To impart clear rules of conduct to our employees, and especially to avoid any conflicts of interest in everyday work situations, our compliance training focuses on courses and communication measures. Compliance issues are addressed in depth as early as the official welcoming seminar for new managers. They are also an integral part of all seminars of the Henkel Global Academy. Newsletters for special target groups and articles in employee newspapers make a further contribution to knowledge transfer in this area.



In November 2010, representatives of local top management and the responsible compliance officers attended a two-day compliance workshop in Chennai, India. This was the last in a series of training workshops held in the course of 2010, which were attended by a total of 220 staff with compliance-related responsibilities worldwide.

Given their position within the company, our managers bear a special responsibility to set an example for their staff. Only if our managers are seen to act in an ethically and legally impeccable manner can compliance be transformed from a bureaucratic system of rules and regulations into a guide for the actions of all employees. Regular training courses are organized by the Corporate Internal Audit department to familiarize our top managers with our corporate standards. We also make increasing use of e-Learning to cover a wide range of themes and simulate everyday decision-making situations.

"We are convinced that only honest business is good business. Our codes and standards are binding for all employees at all sites, as well as for our suppliers and other business partners. Our managers must fulfill a special role: They must serve as an example by visibly acting in an ethically and legally impeccable manner. Only then will compliance become a guide for the day-to-day actions of all employees."



Dirk-Stephan Koedijk
Member of the Henkel Sustainability Council for Compliance.

The complete interview with Dirk-Stephan Koedijk:

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In all areas in which antitrust legislation is of particular relevance, such as marketing, sales and distribution, we organize regular training courses. Nearly all of our employees from these areas have now participated in one or more courses in anti-trust legislation. In 2010, another 830 employees from around the world attended in-person seminars, and 3,300 employees took part in online training sessions.  www.henkel.com/sr2010 | 8

improvements in communication and documentation were identified in a few individual cases. For example, our Social Standards were not always directly accessible to all employees at all sites. In general terms, it has been observed that the core requirements of our Social Standards, such as those relating to the minimum working age and the establishment of employee representation, are now also regulated by local legislation in many regions.

Results of our audit program

Regular audits at our production and administration sites and, increasingly, audits of our subcontractors and logistics centers are important for the implementation of our codes and standards. The audits are a key instrument for identifying risks and potential improvements and make a significant contribution to knowledge transfer. In 2010, we carried out 78 audits at our sites. In the course of the audits, a total of 2,314 individual actions were agreed with Accounting and Human Resources, Purchasing, Sales/Distribution, Marketing, Information Technology and Production, in order to make processes and workflows even safer and more efficient.

Compliance hotline

Since 2007, our internal reporting and complaints channels have been augmented by a compliance hotline, which was set up to enable employees to report major infringements of our codes and standards. It is run by an independent external provider and is currently available in 73 countries. It should be used, in particular, when incidents cannot be cleared up directly with the employee concerned or a supervisor. Regular evaluations show, however, that very few complaints are reported via the hotline. The established internal reporting channels are still used much more frequently.

Integrated safety, health and environment (SHE) audits took place at 35 sites, where we initiated 602 binding corrective actions. In 2010, the audits program for maintaining our social standards was carried out at 13 Henkel sites in Argentina, Brazil, Chile, China, Colombia, Egypt, India, Japan, Peru, Taiwan, the Ukraine, the USA, and Venezuela. Violations of work rules and deficits in timekeeping were revealed at two of the audited sites. Potential

Zero tolerance for violations of regulations

Improper conduct is never in Henkel's interest. It undermines fair competition and damages our trustworthiness and reputation. Not least, our employees attach great importance to a correct and ethically impeccable business environment. We react forcefully to violations of laws, codes and standards. Where necessary, we initiate appropriate disciplinary measures. In 2010, 26 employees received written warnings, and 62 contracts were terminated.

100%
of top management again completed our online compliance training course in 2010.

Corporate governance

We provide comprehensive information on corporate governance and compliance, as well as the remuneration report of the Management Board, in our Annual Report and on the Internet.

 Pages 26 to 39.

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Purchasing and supplier management

How we exercise our responsibility in the supply chain

What we expect from our suppliers and other business partners

Companies that operate globally, such as Henkel, have an obligation to take responsibility for their worldwide supply chains. In selecting our suppliers and other business partners, we therefore consider their performance in regard to sustainability and social responsibility. This procedure is based on our globally applicable corporate purchasing standards and our safety, health and environment standards, which we already formulated in 1997.

A worldwide training program ensures that the requirements placed on the sustainability profiles of our suppliers are understood and internalized by our purchasing employees.

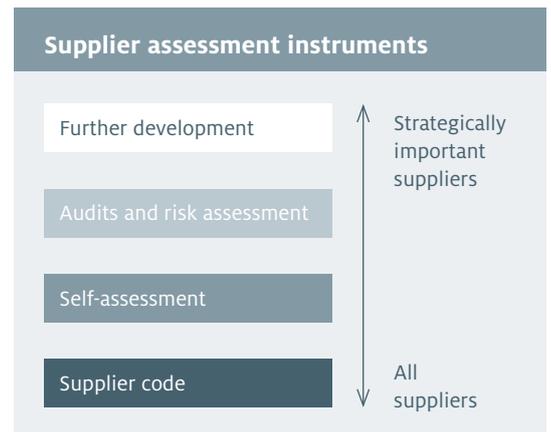
Worldwide purchasing markets

Our supplier base currently includes suppliers and other business partners from about 131 countries. Approximately 80 percent of our purchasing expenditure goes to countries in the Organization for Economic Cooperation and Development (OECD). We are, however, increasingly opening up new purchasing markets in states that are not OECD members. We place the same demands on suppliers from these countries as well.

We assess our suppliers in a comprehensive process that covers sustainability performance and risks as well as key commercial and operating indicators.

Sustainability check for new suppliers

A globally uniform computer-aided registration system anchors our sustainability requirements in standardized form in our supplier management processes. In several steps, a profile is created for each supplier. In this way, we document recognition of the supplier code and analyze the results of the supplier's self-assessment.



Supplier assessment instruments and status in 2010

Our supplier assessment process makes use of four instruments: supplier code, self-assessment, audits, and further development (see graphic at top).

- **Supplier code:** The cross-sector Code of Conduct of the German Association of Materials Management, Purchasing and Logistics (BME) is our globally valid supplier code. Henkel signed on to the BME initiative in 2009, as it is based on the ten principles of the United Nations Global Compact and can therefore be used internationally.

The BME code serves as the basis for contractual relationships with our strategic suppliers. This means that they have either recognized the cross-sector BME code – and hence the principles of the Global Compact – or produced their own comparable code of conduct. The same applies to all new suppliers that wish to enter into a contractual relationship with Henkel (see box “Sustainability check”).

- **Self-assessment:** In addition, we continue to pursue a strategy of supplier self-assessment on the basis of sector-specific questionnaires. These underline our expectations in the areas of safety, health, environment, quality, human rights, employee standards, and anti-corruption. In 2010, the focus was on the renewed assessment of strategically important suppliers. These include suppliers of

Supplier code



Henkel is a signatory to the cross-sector Code of Conduct of the German Association of Materials Management, Purchasing and Logistics (BME).



www.bme.de

More information on the sustainability check for suppliers:



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key raw materials and packaging materials, as well as business partners in telecommunications and technical materials. On the whole, the strategic suppliers and other business partners that were assessed in 2010 satisfied our standards of corporate ethics. In one case, however, we terminated the supplier relationship due to inadequate environmental standards.

- **Audits and risk assessment:** The systematic expansion of the audit program for our supply chain will be the main focus of our work in the coming years. Our activities concentrate to a greater extent on countries identified by international institutions as being associated with heightened levels of risk, and on suppliers and service providers that potentially represent a specific risk for our company. In this way, year by year, we will continuously increase the percentage of suppliers audited in accordance with our sustainability criteria.

- **Further development:** Our supplier assessments are focused not only on the current performance of our suppliers in regard to sustainability and social responsibility. Rather, we aim to purposely work with our suppliers to improve sustainability standards in our supply chain – for example, through

Focus on analysis of risk markets

Our adhesives and soldering pastes for the electronics industry contain metals – mainly silver, copper and tin – to make them electrically conductive. In some countries, mining of these metals is often associated with military conflicts and human rights violations. In 2010, we reviewed our direct suppliers of metals and requested them to supply documentary evidence that they did not purchase or process metals from critical regions. In the USA and other countries, we are collaborating closely with electronics industry associations to define an official auditing process for metals suppliers.

“The diversity of the Henkel business sectors makes special demands on our purchasing organization. Worldwide, we purchase a wide variety of products and services in an equally wide variety of countries and markets. The most important tools for exercising our responsibility on the global purchasing markets are clear specifications for selecting suppliers, and training courses for our purchasing employees.”



Bertrand Conquéret
Member of the Henkel Sustainability Council for Purchasing.

knowledge transfer and continued education about process optimizations, resource efficiency, and environmental and social standards.

In a pilot project, we have begun to include strategic raw materials suppliers in our reporting system to record the relevant environmental data. To ensure comparability of this information, we work closely with these suppliers and continuously improve the quality and transparency of the data.

Specifications for the purchase of palm oil and palm kernel oil

So that we can contribute to the responsible production of palm oil and palm kernel oil, we have participated in the Round Table for Sustainable Palm Oil (RSPO) initiative since 2003. In particular, we promote the development of special marketing and certification models for palm oil from sustainable cultivation. Our aim is that, from 2015 onwards, all of the palm oil and palm kernel oil supplied in the form of raw materials for our products should be covered throughout by RSPO certificates for sustainably cultivated palm oil.

In 2008, we became the first company in the world to purchase certificates for sustainably produced palm kernel oil, for the products of our Terra brand. Since then we have initiated further steps toward achieving our aim. Our laundry detergents Le Chat Eco Efficacité in France and Persil Eco Power in Belgium, together with our Ecocert-certified cosmetics products, have also been covered by corresponding palm kernel oil certificates since 2010.

The complete interview with Bertrand Conquéret:

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By purchasing RSPO certificates, we ensure that for the amounts of palm kernel oil we utilize a corresponding amount of sustainably produced palm kernel oil will be placed on the market. Further information on the “Book & Claim” system:

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Production and logistics

How we optimize our processes as a whole



Our worldwide production sites:



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Improving our performance, reducing resource consumption

Continuous improvement of our processes and site structures, while simultaneously reducing energy, water and materials consumption and environmental burdens, is an important part of our promise of quality. Our business sectors set up their own optimization programs to achieve these aims, as the various production processes involved in making products such as tiling adhesives, household cleaners, and skin creams, offer fundamentally different approaches for improvements.

In addition to optimizing local production processes, the Laundry & Home Care business sector has set itself the goal of reducing the growing complexity between its 31 production sites and its suppliers, distribution centers and customers. A planning and steering system was already introduced for this purpose in 2006, and this has increased the transparency of the worldwide processes. It enables us to identify inefficient processes and effect integral improvements in the interplay of the various partners. For example, we increasingly group production capacities in the geographical vicinity of our markets. Taking a cross-border view of our production network enables us to locate our logistical distribution centers in such a way as to optimize the distance between sites and customers, thus reducing transport mileage to a minimum.

Since 2006, we have systematically carried out analyses of the processes in our eight Cosmetics plants as part of our Total Productive Management Plus program. The aim is to identify losses in the various production processes and the supply chain, so that we can continuously increase added value. On the basis of detailed analyses which were carried out at the start of the program, our sites specify actions and quantified targets each year. To achieve these objectives, we rely on the process-specific experience and the ideas and creativity of our employees. To involve all employees as unbureaucratically as possible in the process of continuous improvement, "blue cards" have been placed at clearly visible locations in all cosmetics plants. Our employees can use these cards to submit suggestions for improving processes.

Regarding the production of our Adhesives, Sealants and Surface Treatments, we continued to consolidate our worldwide production network in 2010 and have reduced the number of sites to 149. Key aspects of our production planning are production in the geographical vicinity of our customers, as well as economies of scale and the resulting optimized utilization of resources, see **AR** Pages 58 and 59.

In 2010, as a result of all our worldwide programs, cuts were achieved in energy consumption at 62 percent of our sites, in water consumption at 57 percent, and in waste at 55 percent. We were thus able to further improve our performance on important sustainability indicators in 2010 and have already achieved the 2012 environmental targets we had set for our production sites, see **SR** inside front cover and Page 14.

Globally applicable standards, audits and training courses

Our safety, health and environment standards (SHE Standards) and our Social Standards apply to all of our sites worldwide. We ensure compliance with these standards, especially at the production level, through a clearly defined process of communication, training courses and audits. Checking the level of compliance with our standards is part of the due diligence procedure undertaken before we buy into a company. On the basis of the results, we draw up detailed action plans to raise newly acquired sites to the level of the Henkel standards where necessary.

In November 2010, at the presentation of the national Awards for Cleaner Production, our site in La Luz, Mixco, Guatemala, received the prize in the Energy category. The prize is awarded annually by the Guatemalan Ministry of the Environment (MARN), in cooperation with the U.S. Agency for International Development (USAID), the Central American Commission on Environment and Development (CCAD) and the Center for Clean Production in Guatemala (CGPL).

