

Procurement

We use externally procured 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. Price increases for direct materials were in the low single-digit percentage range in 2012.

Aside from supply and demand, the prices of raw materials, packaging and purchased goods are mainly determined by the prices of the input materials used to manufacture them. The price development of the input materials varied between regions and materials. Prices for palm kernel oil and butadiene declined, for example, while ethylene prices rose in Europe and Asia, and prices for caustic soda rose globally. The average price of crude oil remained at the same high level as in 2011. A few input materials again suffered disruptions in external supplier procurement chains, due to postponed maintenance and repair measures, and unforeseen failures in production facilities. Developments in procurement markets and the supply and demand situation led to higher purchase prices for the raw materials, packaging and purchased goods procured by Henkel.

Direct material expenditures were 7.5 billion euros in the year under review, 0.2 billion euros more than the previous year. This is primarily attributable to higher production volumes and increased prices for direct materials. Higher selling prices, our global procurement strategy, savings from cost reduction measures, and improvements in production and supply chain efficiency enabled us to increase our adjusted¹ gross margin.

In terms of direct materials, our five most important groups of raw materials are raw materials for use in hotmelt adhesives, washing-active substances (surfactants), raw materials for polyurethane-based adhesives, inorganic raw materials and water-based adhesive raw materials. These account for around 34 percent of our total direct material expenditures. Our five largest suppliers account for around 13 percent of our direct material expenditures.

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, logistics, marketing and IT services. Our global procurement strategy and structural cost reduction measures enabled us to reduce our procurement prices in these areas compared to the previous year.

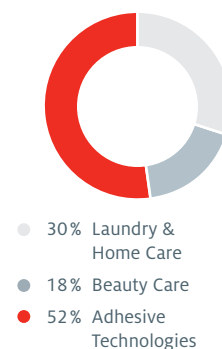
Expenses for indirect materials and services were 4.2 billion euros in 2012, matching the level of the previous year.

In order to improve efficiency and secure material supplies, we continuously optimize our value chain while at the same time maintaining our level of quality. In addition to continuous negotiation of new, competitive contract terms, our ongoing initiative to reduce total procurement expenses is a major factor in the success of our purchasing strategy. Working together with the three business sectors, Purchasing works continuously on reducing product complexity, optimizing the raw materials mix and further standardizing packaging and raw materials. This gives us stronger negotiating positions and greater leeway to further consolidate our supplier base. For long-term business relationships, we choose suppliers we feel offer the greatest potential in terms of innovation and optimization of manufacturing costs and logistics processes, while limiting the risk of supply shortages. We manage our strategic suppliers using individual target agreements. Last year, we succeeded in reducing the number of suppliers by more than 10 percent.

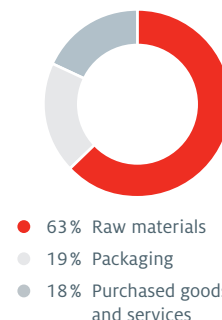
We were able to increase the efficiency of our purchasing activities by further standardizing, automating and centralizing our procurement processes. In addition to making greater use of e-sourcing tools to support our purchasing processes, we have already combined large portions of our administrative purchasing activities – such as order processing, price maintenance and reporting activities – in our shared service centers.

The improvement in net working capital is primarily due to optimization of our payment terms, continuous improvements in our supply chain processes, and better inventory management.

Material expenditures by business sector



Material expenditures by type



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

Given the uncertainties with respect to material price changes and supply shortages in procurement markets, risk management is an important part of our purchasing strategy. An emphasis is put on reducing price and supply risks while maintaining uniformly high quality. As part of our active price management approach, we employ strategies to safeguard prices over the long term, both by means of contracts and, when appropriate and possible, financial hedging instruments. In order to minimize the risk of supplier default, we use 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 regarded as critical. If a high risk of supplier default is identified, we systematically prepare back-up plans in order to ensure continuous supply.

We expect our suppliers and contractual partners to behave in a manner in keeping 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 formulated in 1997, through which we have long acknowledged our responsibility for the entire supply chain. Consequently, when choosing and developing our suppliers and counterparties, 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 objective of this process is to ensure supplier compliance with these standards and to improve the sustainability standards in our supply chain with our strategic suppliers. A global training program ensures that the requirements for the sustainability profile of our suppliers are understood and properly applied by our employees.

Production

We further optimized our production sites in fiscal year 2012, with Henkel manufacturing products with a total weight of about 7.6 million metric tons at 171 sites in 54 countries. Our largest production facility is in Düsseldorf, Germany. Here we manufacture not only detergents and household cleaners but also adhesives for consumers and craftsmen, and products for our industrial customers. Cooperation with toll manufacturers is an integral component of our production strategy, enabling us to optimize our production and logistics structures when entering new markets or when volumes are still small. We currently purchase around 10 percent in additional production tonnage from toll manufacturers each year.

Number of production sites

	2011	2012
Laundry & Home Care	29	28
Beauty Care	8	8
Adhesive Technologies	143	135
Total	180	171

Our plant in Düsseldorf continues to be the largest production site for our **Laundry & Home Care** business sector. Here we predominantly manufacture powdered and liquid detergents, fabric softeners, liquid cleaning products and dishwasher tabs.

We further reduced the number of production sites worldwide from 29 to 28 in the year under review. Concentrating our production on fewer, more efficient factories close to our customers has enabled us to continuously improve our performance. By the end of 2012, Group headquarters and 16 other sites had been certified in accordance with the new ISO 50001 standard for energy management systems. In addition, a building at our production site in Körösladány, Hungary, was certified for the first time in accordance with the ÖGNI/DGNB standards for sustainable construction, and an application has been submitted for LEED (Leadership in Energy and Environmental Design) certification. In this way, the Laundry & Home Care business sector is further expanding its leading role in the successful implementation of sustainability strategies within the area of production.