

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.

An international study on optimizing logistics flows was performed in 2012. We want to reduce transport volumes in order to both save costs and reduce environmental pollution. We will be implementing the recommendations of the study during coming years to significantly reduce transport volumes and consolidate to a smaller number of larger warehousing sites. This will allow us to make greater use of automated warehouses. We already implemented projects of this type in Russia and Austria in 2012.

The **Beauty Care** business sector is very efficiently structured with eight factories around the world. Our largest plant is located in Wassertrüdingen, Germany, and focuses on the production of body and hair care products. As in previous years, sustainability was a major driver of our activities. We were able to achieve further significant reductions in energy consumption, and waste and wastewater volume. The continuous improvement of our “Total Productive Management Plus” program has allowed us to further increase productivity at all of our plants.

In our **Adhesive Technologies** business sector, emerging markets are the primary driver of organic growth. As a result, we are investing disproportionately in new production facilities in these regions.

We are introducing new technologies and expanding our production capacity at the same time in order to further improve our competitiveness. With production volumes rising in emerging markets, the pooling of technologies at selected sites gives rise to economies of scale. These multi-technology sites use a shared infrastructure, which also helps boost resource efficiency. Our largest adhesives production site is currently being constructed on the basis of this concept in Shanghai, China. This will allow us to expand production capacity with fewer sites.

The increased use of standardized processes and systems is a further driver of continuous improvement in production. We ensure at the same time that the different requirements of the customers of our businesses are satisfied.

We continued the overall consolidation of our global production footprint in 2012. Despite a further increase in capacities, we reduced the number of factories by eight to 135. In combination with other measures taken to improve efficiency, this allowed us to further reduce our manufacturing costs.

Sustainability performance 2008 to 2012, Henkel Group

Environmental indicators
per metric ton of output

Water consumption	- 35%	↘
Energy consumption	- 30%	↘
Waste footprint	- 19%	↘
Occupational accidents ¹	- 29%	↘

¹ Per million hours worked.

In all three business sectors, our optimization efforts are aligned to reducing the ecological footprint of our production activities. We focus in particular on cutting energy consumption, thereby contributing to climate protection, reducing materials use and waste volume, and limiting water consumption and wastewater pollution. New storage concepts and the manufacture of packaging materials directly at the filling site reduce transport costs and thus likewise contribute to climate protection.

Overall, our global programs in 2012 resulted in 49 percent of our sites reducing their energy consumption, 52 percent reducing their water consumption and 56 percent lowering their waste footprint.

Our five-year Group-wide targets for occupational safety, resource conservation and emissions reduction that we set in 2007 were achieved ahead of schedule by the end of 2010. Building on this, we further developed our strategy and set new sustainability targets for the end of 2015:

- 15 percent less energy per production unit.
- 15 percent less water per production unit.
- 15 percent less waste per production unit.
- 20 percent increase in occupational safety per million hours worked.

R&D expenditures

in million euros



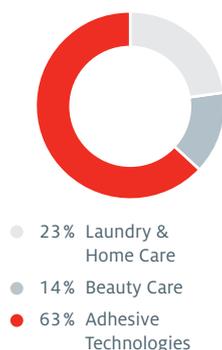
¹ Includes restructuring charges of: 52 million euros (2008), 13 million euros (2009), 8 million euros (2010), 14 million euros (2011), 2 million euros (2012).

For further details on our sustainability targets, please see pages 51 to 53 and our Sustainability Report on our website at www.henkel.com/sustainability

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

We have the environmental management systems at our sites externally certified where our partners in the markets recognize such certification. By the end of 2012, around 85 percent of our production output was generated by factories certified under the ISO 14001 international standard for environmental management systems.

R&D expenditures by business sector



Research and development

Expenditures for research and development were 408 million euros for the Henkel Group in the year under review (adjusted for restructuring charges: 406 million euros), compared to 410 million euros (adjusted: 396 million euros) in 2011. As a percentage of sales, we spent 2.5 percent (adjusted: 2.6 percent) on research and development (2011: 2.6 percent, adjusted: 2.5 percent). Successful implementation of our Open Innovation strategy, project outsourcing, and the relocation of resources in the direction of emerging markets led to improved efficiency and demonstrated our ongoing focus on innovation.

A substantial part of our research and development activity takes place in the areas of polymer chemistry, materials management, surface treatment, metering systems and innovative packaging. These activities are important for all three Henkel business sectors. As in the previous year, personnel expenses accounted for around half of total R&D spending.

Our research and development costs were fully expensed, no development costs were capitalized in accordance with International Financial Reporting Standards (IFRS).

On an annual average, 2,657 employees worked in research and development (2011: 2,654), corresponding to 5.7 percent of the total workforce. The success of our R&D activities is based on the talents, skills and capabilities of our highly qualified employees. Our teams are comprised of natural scientists – predominantly chemists – as well as material scientists, engineers and technicians.

Key R&D figures

	2008	2009	2010	2011	2012
R&D expenditures (million euros)	377 ¹	383 ¹	383 ¹	396 ¹	406 ¹
R&D expenditures (in % of sales)	2.7 ¹	2.8 ¹	2.5 ¹	2.5 ¹	2.6 ¹
Employees (annual average)	2,942	2,743	2,665	2,654	2,657

¹ Adjusted for restructuring charges.