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Corporate Governance at Henkel AG & Co. KGaA

Corporate Governance – in the sense of responsible, transparent management and control of the company aligned to achieving a long-term increase in shareholder value – is an essential component of Henkel's corporate culture.

Consequently, the Management Board, Shareholders' Committee and Supervisory Board have committed to the following principles:

- **Value creation** as the foundation of our managerial approach
- **Sustainability** as a criterion for responsible management
- **Transparency** underpinned by an active and open information policy

The main features of corporate governance at Henkel AG & Co. KGaA (also referred to as the "Corporation") are described in the following.

1. Organization and business sectors

Henkel AG & Co. KGaA is both operationally active in its own right and the parent company of the Henkel Group. In this latter role, it is responsible for defining the Group's corporate objectives and for the management, control and stewardship of Group-wide activities, including risk management and the distribution 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 control of the Group is incumbent upon the Management Board of Henkel Management AG in its function as the sole personally liable partner. The Management Board is supported in its duties by Henkel's Corporate Center.

Henkel is organized into three business sectors:

- Laundry & Home Care
- Cosmetics/Toiletries
- Adhesive Technologies

The three business sectors are managed as globally operational strategic business units. These are supported by the central functions of Henkel AG & Co. KGaA in order to ensure optimum utilization of corporate synergies. Implementation of the strategies at a local and regional level is the responsibility of the affiliated companies. The executive bodies of these companies manage their businesses in line with the relevant statutory regulations, supplemented by their own articles of association, internal procedural rules and the principles incorporated in our globally applicable management guidelines, standards and codes.

2. Legal form of Henkel AG & Co. KGaA and special features derived from its Articles of Association

The Corporation is a “Kommanditgesellschaft auf Aktien” (KGaA), i.e. a partnership limited by shares and incorporated under German law. As the personally liable partner is not a natural person but rather a joint stock entity in the form of Henkel Management AG, the name of the Corporation needed to be changed in order to indicate the limitation of liability (per §279 (2) of the German Stock Corporation Act (AktG)). Consequently, the Corporation now trades under the name “Henkel AG & Co. KGaA”.

2.1 Characteristic features of a “Kommanditgesellschaft auf Aktien” (KGaA)

A KGaA is a company with its own legal personality (i.e. it is a legal person) and has at least one personally liable partner who has unlimited liability with respect to the company’s creditors. The other (limited) partners participate in the capital stock, which is split into shares. Beyond these contributions, they are not personally liable for the company’s debts (§278 (1) AktG).

Therefore, in terms of its legal form, a KGaA is a hybrid of a stock corporation and a limited commercial partnership. It is predominantly governed by the German Stock Corporation Act (AktG). The internal relationship between the two classes of partner – the personally liable partners (aka general partners) on the one hand, and the collectivity of limited partners (aka shareholders) – and also the management structure of the KGaA are aligned to commercial partnership law, while the capital structure and the rights of the shareholders are aligned to corporate law.

The main differences with respect to a joint stock corporation (“AG”) are as follows:

- At Henkel AG & Co. KGaA, the executive role is assigned to Henkel Management AG – acting through its management board – as the sole personally liable partner (§ 278 (2), § 283 AktG in conjunction with Article 11 of the Articles of Association).
- The rights and obligations of a supervisory board of a KGaA are more limited than those of a supervisory board of an AG. In particular, the supervisory board of a KGaA has no authority to appoint the personally liable partners or to stipulate the contractual conditions under which they are engaged. It also has no authority to issue the rules of procedure governing the actions of the management, or to stipulate business activities requiring its consent. Moreover, in the case of a KGaA which, like Henkel, is subject to the provisions of the Co-Determination Act of 1976, there is no requirement to appoint a director of personnel.
- The general meeting of a KGaA essentially has the same rights as the shareholders’s meeting of an AG. In addition, it votes on the adoption of the annual financial statements of the corporation and formerly approves the actions of the personally liable partner. At Henkel, the Annual General Meeting also elects the Shareholders’ Committee and formerly approves its actions. Resolutions passed in the general meeting require the approval of the personally liable partner where they involve matters which, in the case of a partnership, are subject to the authorization of both the general and the limited partners (§ 285 (2) AktG) or relate to the adoption of annual financial statements (§286 (1) AktG).

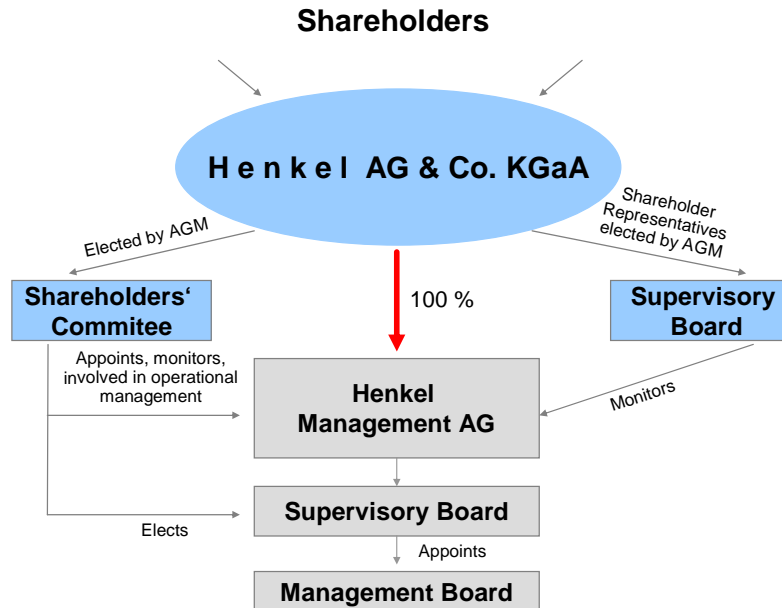
2.2 Structure and corporate bodies of Henkel AG & Co. KGaA

The sole **Personally Liable Partner** of the Corporation is Henkel Management AG (see 6.), the Management Board of which is responsible for managing the business activities of the Corporation. All the shares in Henkel Management AG are held by the Corporation. Such a

structure in which a KGaA itself is the sole shareholder of the joint stock entity which, in turn, is the sole Personally Liable Partner of the KGaA is described as a “Unified Company”.

The other legally required corporate bodies are the **Supervisory Board** (see 8.1) and the **General Meeting** (see 10.). In addition, there is also a **Shareholders’ Committee** (see 8.) set up in accordance with the Corporation’s Articles of Association.

The following diagram provides an overview of the corporate structure:



3. Capital stock / Shareholder structure

3.1 Division of the capital stock, shareholder rights

The capital stock of the Corporation amounts to 437,958,750 euros. It is divided into a total of 437,958,750 bearer shares of no par value, of which 259,795,875 are ordinary bearer shares (nominal proportion of capital stock: 259,795,875 euros or 59.3 percent) and 178,162,875 are preferred bearer shares (nominal proportion of capital stock: 178,162,875 euros or 40.7 percent).

Each ordinary share grants to its bearer one vote. The preferred shares accord to their bearers all shareholder rights apart from the right to vote (§ 140 (1) AktG). Unless otherwise resolved in General Meeting, the unappropriated profit is distributed as follows: first, the holders of preferred shares receive a preferred dividend in the amount of 0.04 euros per preferred share. The holders of ordinary shares then receive a dividend 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 (Art. 35 (2) of the Articles of Association). If the preferred dividend is not fully paid out in a year, and the arrears are not paid off in the following year together with the full preferred dividend for that second year, the holders of preferred shares are accorded voting rights until such arrears are paid (§140 (2) AktG). Cancellation or limitation of this preferred dividend requires the consent of the holders of preferred shares (§141 (1) AktG).

The shareholders exercise their rights in the General Meeting in accordance with the relevant statutory provisions and the Articles of Association of Henkel AG & Co. KGaA. In particular, they may vote (as per entitlement), speak on agenda items, ask questions and propose motions (see 10.).

There are no shares carrying multiple voting rights, preference voting rights ("golden shares") or maximum voting rights.

3.2 *Approved capital, share buyback*

According to Art. 6 (5) of the Articles of Association, there is an authorized capital limit. Acting with this limit, the Personally Liable Partner is authorized, subject to the approval of the Supervisory Board and of the Shareholders' Committee, to increase the capital stock of the Corporation in one or several acts until April 9, 2011, by up to a total of 25,600,000 euros through the issue for cash of new preferred shares with no voting rights. All shareholders are essentially assigned preemptive rights. However, these may be set aside provided that the issue price of the new shares is not significantly below the quoted market price of the shares of the same class at the time of final stipulation of the issues price, or in order to facilitate the disposal of fractional amounts of shares.

In addition, the Personally Liable Partner is authorized to purchase ordinary and/or preferred shares of the Corporation until October 19, 2010, subject to the condition that the shares acquired on the basis of such authorization, together with other shares that the Corporation has already acquired and holds as treasury stock, shall not at any time exceed in total 10 percent of the nominal capital stock.

3.3 *Major shareholders*

According to notifications received by the Corporation, around 52.18 percent of the voting rights are held by signatories to the Henkel family's share-pooling agreement. This agreement was concluded between members of the families of the descendants of company founder Fritz Henkel. It contains restrictions with respect to the transfer of certain ordinary shares (cf. Art. 7 of the Articles of Association).

3.4 *Interlocking relationships*

There are no interlocking relationships/shareholdings.

4. *Interaction between the Management Board, Shareholders' Committee and Supervisory Board*

The Management Board of Henkel Management AG ("Management Board"), the Shareholders' Committee and the Supervisory Board of the Corporation cooperate closely for the benefit of the Corporation.

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

In keeping with good corporate management practice, the Management Board informs the Shareholders' Committee and the Supervisory Board of the Corporation regularly, and in a timely and comprehensive fashion, of all issues of relevance to the Corporation concerning business policy, corporate planning, profitability, the business development of the Corporation and of major Group companies, the risk situation and risk management activities.

For transactions of fundamental significance, the Shareholders' Committee has established a right of veto in the rules of procedure governing the actions of Henkel Management AG in its function as sole Personally Liable Partner. 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 and also the spheres of authority of the General Meeting of the Corporation in matters subject to statutory control.

5. Principles of Corporate Stewardship/Compliance

The corporation, our management bodies and our employees around the world orientate their activities to our corporate vision and values so that our daily work remains in compliance with the guiding principles of sustainable development. We have created a uniform value system to which our more than 55,000 employees of all cultures subscribe.

Henkel's vision is to be a leader with brands and technologies that make people's lives easier, better and more beautiful. We want our products and technologies to make a valuable contribution to society and promote and support sustainable development in all the countries in which we are active. The ten corporate values derived from this vision provide the guidelines governing the conduct and actions of Henkel employees in all areas of business and in all cultures in which Henkel is found. They are an expression of our corporate culture.

From this vision and these common values are derived rules of behavior which we have formulated in a series of codes. Our Code of Conduct supports our employees in dealing with ethical and legal issues. Our Code of Teamwork and Leadership defines the actions and attitudes to be adopted by management and employees in their interpersonal dealings. And the Code of Corporate Sustainability describes the principles and expectations that underlie our approach to sustainable, socially responsible development. These various sets of principles are further expanded in Group-wide standards. Together, these codes also form the basis for Henkel's contribution to achieving the goals specified in the United Nations Global Compact.

Henkel is committed to ensuring that all business transactions are conducted in an ethically and legally irreproachable manner. In order to maintain compliance in this regard, the Management Board has introduced a range of binding rules and regulations in the form of various codes and derivative standards and directives. Reviewed and revised as and when appropriate, these rules also cover the procedures to be adopted in the event of infringements or suspicion of malpractice. In addition to our internal reporting system and complaint registration channels, employees may also, for the purpose of reporting serious violations, use a Compliance Line operated by an external service-provider.

Given the increasing requirements and growing complexities characterizing this sphere, Henkel has appointed a Chief Compliance Officer (CCO). The CCO is responsible for compliance-related activities undertaken at the corporate level, oversees fulfillment of both internal and external regulations, reports on findings in this respect and supports the corporation in the further development and implementation of the associated standards. He or she is assisted in this capacity by the Internal Audit unit, and also by a Compliance Committee of interdisciplinary composition.

Our corporate compliance activities are focused on the fields of safety, health and the environment, antitrust law and the fight against corruption. Further compliance-relevant areas derive from capital market law. In addition to the legal provisions, internal codes of conduct have been put in place to regulate the treatment of information that could potentially affect share prices. There are also rules that go beyond the legal requirements, governing the behavior of the members of the Management Board, the Shareholders' Committee and the Su-

pervisory Board, and also employees of the corporation who, due to their function or involvement in projects, have access to insider information.

6. Personally Liable Partner/Management Board

The sole Personally Liable Partner of the Corporation is Henkel Management AG of which the Management Board is therefore responsible for management of the business activities of the Corporation. Henkel Management AG is not authorized beyond this scope to transact business for its own account or for the account of others, or to pursue other entrepreneurial activities (Art. 8 (2) of the Articles of Association).

The Corporation is the sole shareholder of Henkel Management AG. The tenure of Henkel Management AG as Personally Liable Partner with the Corporation expires once the Corporation no longer holds all the shares in that entity (Art. 8 (5) of the Articles of Association). This structure and the associated provisions ensure that the shareholders and corporate bodies of the Corporation retain their influence over Henkel Management AG and therefore retain control over the business activities of the Corporation, i.e. it is not possible for third parties to take control of Henkel Management AG as the Personally Liable Partner and thus acquire significant rights of influence over the Corporation.

The Management Board is responsible for the stewardship of the Corporation as a whole, its responsibilities encompassing planning, coordination, allocation of resources, financial control and risk management. It is bound by statute to promote the interests of the Corporation and is committed to the sustainable increase of its corporate wealth (shareholder value). The Management Board develops the strategic alignment of the Corporation, agrees this with the Shareholders' Committee and, in compliance with the statutory limits of group management, effects its implementation. The Management Board is also responsible for preparing the quarterly, annual and consolidated financial statements.

Rules of procedure issued for Henkel Management AG by the Shareholders' Committee specify the actions and transactions that require the approval of the Shareholders' Committee. Rules of procedure issued by the Supervisory Board of Henkel Management AG govern the distribution of business responsibilities and cooperation within the latter's Management Board.

7. Supervisory Boards

7.1 Supervisory Board of Henkel AG & Co. KGaA

In accordance with Germany's Co-Determination Act of 1976, the Supervisory Board of the Corporation has 16 members made up of an equal number of shareholder and employee representatives. The eight shareholder representatives are elected by the General Meeting, and the eight employee representatives are elected by the employees in accordance with the provisions of the Co-Determination Act of 1976 and the associated electoral regulations. All the members of the Supervisory Board are equally bound to uphold the interests of the Corporation. The tenure of office is five years unless otherwise stipulated at the time of election.

The task of the Supervisory Board is to regularly advise and supervise Henkel Management AG and its Management Board in the stewardship of Henkel AG & Co. KGaA.

In compliance with the requirements of the German Corporate Governance Code, the Supervisory Board has formed an Audit and also a Nominations Committee.

The Audit Committee is made up of three elected shareholder and three elected employee representative members of the Supervisory Board, each chosen by their fellow shareholder

or employee representative Supervisory Board members. The Chairman of the Audit Committee is elected from candidates proposed by the shareholder representative members of the Supervisory Board. The Audit Committee prepares the ground for the negotiations conducted and resolutions adopted by the Supervisory Board in connection with its approval of the annual financial statements and the consolidated financial statements, and also for ratification of the proposal to be put before the Annual General Meeting regarding appointment of the auditor. The Audit Committee also acts on behalf of the Supervisory Board with respect to, in particular, accountancy, risk management and compliance issues.

The Nomination Committee comprises the Chairman of the Supervisory Board and two further shareholder representative members of the Supervisory Board elected by the shareholder representative members of same. The post of Chairman of the Nomination Committee is assumed by the Chairman of the Supervisory Board. The Nomination Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the General Meeting with respect to the election of members to the Supervisory Board (shareholder representatives).

Inasmuch as Henkel pursues business activities with companies in which members of the Supervisory Board and/or the Shareholders' Committee hold leading managerial positions, the same arm's length principles apply as those applicable to transactions with and between unrelated third parties. This, in our view, ensures the independence and impartiality of the members concerned.

7.2 Supervisory Board of Henkel Management AG

The Supervisory Board of Henkel Management AG comprises three members, all of whom are elected by the General Meeting of Henkel Management AG. The tenure of office is five years, unless otherwise stipulated at the time of election.

The sole shareholder of Henkel Management AG is Henkel AG & Co. KGaA. Corresponding voting rights assigned to Henkel AG & Co. KGaA are exercised by the Shareholders' Committee of Henkel AG & Co. KGaA, which thus also elects the members of the Supervisory Board of Henkel Management AG.

The three members of the Supervisory Board of Henkel Management AG are also members of the Shareholders' Committee of Henkel AG & Co. KGaA. This (partially) identical membership, ensures that the Shareholders' Committee (through the members of the Supervisory Board of Henkel Management AG) is responsible for appointing not only Henkel Management AG as the Personally Liable Partner but also its Management Board, i.e. those natural persons who actually manage the Corporation. Effective oversight and monitoring of management, i.e. the Management Board of Henkel Management AG, is assured by the following:

- Supervision and control of the Management Board by the Supervisory Board of Henkel Management AG in accordance with the principles of corporate law
- Supervision and control of Henkel Management AG as the Personally Liable Partner, and thus (also) of its Management Board
 - through the Shareholders' Committee, which exercises the associated powers of the Corporation's shareholders, and
 - through the Supervisory Board operating at the KGaA level, in accordance with the principles of corporate law.

8. Shareholders' Committee

According to the Articles of Association, Henkel also has a standing Shareholders' Committee which has a minimum of five and a maximum of ten members. The members are elected by the General Meeting of Henkel AG & Co. KGaA. The tenure of office is five years unless otherwise stipulated at the time of election.

The Shareholders' Committee carries out the tasks and functions delegated to it by the General Meeting or by dint of the Articles of Association. In particular, the Shareholders' Committee participates in the management of the Corporation's business in lieu and as an agent of the General Meeting. It is involved in the formulation of the corporate guidelines, the corporate objectives and long-term planning, and it supervises and regularly advises Henkel Management AG through the latter's Management Board on the stewardship of the Corporation. It participates in the drafting of important corporate decisions, offers suggestions as to business development and monitors planning compliance.

It is also responsible for resolving on the appointment and dismissal of the personally liable partners and holds both the power of representation and executive powers over the legal relationships prevailing between the Corporation and Henkel Management AG as sole Personally Liable Partner. Moreover, it is also the responsibility of the Shareholders' Committee to exercise the voting rights of the Corporation in the Annual General Meeting of Henkel Management AG. Consequently, it appoints the members of the Supervisory Board of Henkel Management AG and is intimately involved in the appointment of the members of the Management Board. It may also issue Rules of procedure incumbent upon Henkel Management AG (§ 278 (2) AktG in conjunction with § 114 and §161 HGB [German Commercial Code], and Articles 8, 9 and 26 of the Articles of Association of Henkel AG & Co. KGaA).

From its members, the Shareholders' Committee has created a Finance Subcommittee and a Human Resources Subcommittee. The Finance Subcommittee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, internal auditing and risk management in the Corporation. The Human Resources Subcommittee deals principally with personnel matters concerning members of the Management Board, issues relating to the human resources strategy, and remuneration.

9. Compensation structure

Presented in the following are the basic features of the compensation systems 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.

9.1 Remuneration of the Management Board

Regulation

Stipulation and approval of the compensation payable to the members of the Management Board of Henkel Management AG are the responsibility of the Supervisory Board (comprised of three members of the Shareholders' Committee) of Henkel Management AG following discussion in the Human Resources Subcommittee of the Shareholders' Committee. In order to ensure its ongoing competitiveness, the structure and the amounts involved in the compensation package is regularly reviewed. In this process, due account is taken of the size and international activities of the Corporation, its economic position and the level and structure of remuneration in similar companies.

Structure and amounts

In accordance with the objective of achieving a continuous and sustainable increase in shareholder value, the remuneration model is characterized by a high proportion of performance-related compensation. The package comprises three components: a fixed salary, a variable performance-related cash payment (short term incentive/STI) and a variable performance-related long-term incentive (LTI) in the form of a share-based payment. There are also other emoluments and pension entitlements that are subject to a process of escalation. The components in detail:

Fixed salary

The amount of fixed salary is determined on the basis of the functions and responsibilities of the recipients concerned, their time of tenure as members of the Management Board, and prevailing market conditions. The fixed salary is paid on a monthly basis.

Short-term incentive (STI)

The performance criteria governing the short-term incentive are primarily return on capital employed (ROCE) and earnings per preferred share (EPS). The individual performance of the Management Board member concerned, and the size, significance and development of the business/management sector(s) involved are also taken into account. Payment is made in arrears on an annual basis as a function of the performance achieved in the immediately preceding financial year

Long-term incentive (LTI)

Each member of the Management Board is allocated, as a function of the absolute increase in the price of the Henkel preferred share and the increase in the earnings per Henkel preferred share (EPS) achieved over a period of three years (performance period), the cash equivalent of up to 10,800 preferred shares – so-called Cash Performance Units – per financial year (= tranche). On expiry of the performance period, the number and the value of the Cash Performance Units due are determined and the resulting tranche income is paid in cash. Each member of the Management Board participating in the tranche is required to acquire a personal stake by investing in Henkel preferred shares to the value of 25 percent of the gross tranche payout, and to place these shares in a blocked custody account with a five-year drawing restriction.

In the event of an absolute rise in the share price during the performance period of at least 15 percent, 21 percent or 30 percent, each participant is allocated 1,800, 3,600 or 5,400 Cash Performance Units (CPUs) respectively. To calculate the share price increase, the average price in January of the tranche issue year is compared to the average price in January of the third financial year following the issue year (reference price). If, during the performance period, earnings per preferred share increase by at least 15 percent, 21 percent or 30 percent, each participant is allocated a further 1,800, 3,600 or 5,400 CPUs respectively. To calculate the increase in earnings per preferred share (EPS), the EPS of the financial year prior to the year of issue is compared to that of the second financial year following the year of issue. The calculation is based on the approved and endorsed consolidated financial statements of the respective financial years as duly audited and provided with an unqualified opinion. The EPS figure adopted is that adjusted for exceptional items. The monetary value per Cash Performance Unit essentially corresponds to the reference price of the Henkel preferred share. A ceiling value (cap) is imposed in the event of extraordinary share price increases.

Other emoluments

The other emoluments largely relate to benefits arising out of standard insurance policies and the provision of a company car.

Other regulatory provisions

The contracts of employment of the members of the Management Board do not contain any specific provision for severance pay in the event of premature termination of the employment relationship.

In the event of members of the Management Board taking retirement, they are entitled to continued payment of their remuneration for a further six months up to the month of their 65th birthday.

The Corporation maintains on behalf of the members of corporate bodies and employees of the Henkel Group a third-party group insurance policy (D&O insurance policy) protecting against consequential loss, which policy also covers the members of the Management Board. An appropriate own-risk deductible has been set with respect to the members of the Management Board.

Pension benefits

The retirement pension for members having joined the former Management Board (of Henkel KGaA) before January 1, 2005 amounts to a certain percentage of the final fixed salary (defined benefit). For these Management Board members, the amount payable is set at 60 percent of the final fixed salary in the event of retirement after their 62nd birthday. The actual percentage individually assigned to each Management Board member is made up of two components: the so-called base percentage rate derived from the vested pension entitlement earned prior to entry into the former or current Management Board; and an annual percentage increase of the base percentage during the executive's membership of the Management Board.

Effective January 1, 2005, the pension system for newly appointed members of the Management Board was changed to a defined-contribution scheme. Once a covered event occurs, the relevant members of the Management Board receive a superannuation gratuity in form of a lump-sum payment combined with a continuing basic annuity. The superannuation gratuity comprises the total of annual contributions calculated on the basis of a certain percentage of the fixed salary and of the short-term incentive, this percentage being the same for all members of the Management Board. Any vested pension rights earned within the Corporation prior to appointment to the Management Board are taken into account as start-up units. This ensures the establishment of a performance-related pension system.

Disclosure of remuneration

The remuneration paid to the members of the Management Board is disclosed in the notes to the annual financial statements and the consolidated financial statements of Henkel AG & Co. KGaA (or at some other suitable position in the annual financial statements, consolidated financial statements or the consolidated management report of Henkel AG & Co. KGaA) in accordance with the statutory provisions applicable to publicly listed joint stock corporations (Art. 9 (2) of the Articles of Association of the Corporation).

9.2 Remuneration of the Personally Liable Partner for assumption of liability and reimbursement of expenses

Henkel Management AG shall receive as compensation for performance of its corporate management responsibilities and assumption of personal liability for the debts of the Corporation a non-performance-related annual payment of 50,000 euros (= 5 percent of its capital stock) plus any statutory value-added tax payable. Henkel Management AG shall also be entitled to reimbursement by the Corporation of all the expenses arising in relation to the management of the businesses of the Corporation, including remuneration of the members of its corporate bodies (Art. 9 (1) of the Articles of Association of the Corporation).

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

Regulation

The remuneration components payable to the Supervisory Board and the Shareholders' Committee have been approved by the Annual General Meeting of Henkel AG & Co. KGaA; the corresponding provisions are contained in articles 17 and 33 of the Articles of Association.

Structure and amounts

The structure and amount of the remunerations are commensurate with the size of the Corporation, its economic success and the functions performed by the Supervisory Board and Shareholders' Committee respectively.

The remuneration is made up of three components, a fixed fee, a variable, dividend-related bonus and a variable long-term incentive (LTI) related to the performance of the Corporation. The details:

Fixed fee

Each member of the Supervisory Board and of the Shareholders' Committee receives a fixed fee of 20,000 euros and 50,000 euros per year respectively. The higher fixed fee in the latter case is due to the fact that, as required by the Articles of Association, the Shareholders' Committee is involved in business management activities.

Dividend bonus

Each member of the Supervisory Board and of the Shareholders' Committee further receives an annual bonus of 2,400 euros for every full 0.02 euros by which the preferred dividend paid out for the previous year exceeds 0.25 euros.

Long-term incentive

As a long-term incentive, each member of the Supervisory Board and of the Shareholders' Committee receives an additional cash payment each year, the amount of which depends on the increase in earnings per preferred share (EPS) over a three-year reference period. The EPS of the financial year preceding the payment-related year is compared with the EPS of the second financial year following the payment-related year. If the increase is at least 15 percent, an amount of 600 euros is paid for each full percentage point of the total increase achieved. If the increase reaches a minimum of 21 percent, the amount paid per percentage point is 700 euros, and if the increase is a minimum of 30 percent, the amount paid per percentage point is 800 euros. The calculation of the increase is based on the endorsed and approved consolidated financial statements of the respective financial years as audited and provided with an unqualified opinion. The EPS figure adopted is that adjusted for exceptional items.

The total of the dividend bonus and the long-term incentive is, however, limited to 50,000 euros (cap).

Remuneration for Chairpersons/Vice-Chairpersons/Subcommittee Members

The Chairperson of the Supervisory Board and the Chairperson of the Shareholders' Committee each receives double the amount, and the Vice-Chairperson in each case one-and-a-half times the amount accruing to an ordinary member.

Members of the Shareholders' Committee who are also members of one or more subcommittees of the Shareholders' Committee each additionally receive remuneration equivalent to the initial amount; if they are the chairperson of one or more subcommittees, they receive double.

Members of the Supervisory Board who are also members of one or more committees shall each additionally receive a fee of 50% of the amount accruing to a member of the Supervisory Board if they are the Chairperson of one or more committees, they receive a fee of 100% of this amount. Activity in the Nominations Committee shall not be remunerated separately.

Other regulatory provisions

The members of the Supervisory Board and those of a subcommittee receive an attendance fee amounting to 500 euros for each meeting in which they participate. If several meetings take place on one day, the attendance fee shall only be paid once. In addition, the members of the Supervisory Board and of the Shareholders' Committee are reimbursed expenses arising from the pursuit of their mandates. The members of the Supervisory Board are also reimbursed the turnover tax (VAT) payable on their total remunerations and reimbursed expenses.

The Corporation maintains on behalf of members of corporate bodies and employees of Henkel a third-party group insurance policy protecting against consequential loss, which policy also covers members of the Supervisory Board and of the Shareholders' Committee. An appropriate own-risk deductible has been set with respect to the members of both corporate bodies.

9.4 Remuneration of the Supervisory Board of Henkel Management AG

The members of the Supervisory Board of Henkel Management AG each receive an annual fee of 10,000 euros. However, Members of this Supervisory Board who are simultaneously members of the Supervisory Board or of the Shareholders' Committee of Henkel AG & Co. KGaA receive no remuneration (Art. 14 (1) of the Articles of Association of Henkel Management AG).

In addition, Art. 17 (7) and Art. 33 (7) of the Articles of Association of Henkel AG & Co. KGaA state that the remunerations of members of the Supervisory Board of the Corporation or of members of the Shareholders' Committee who are, at the same time, members of the Supervisory Board of Henkel Management AG, shall be set off one against the other. Any remuneration for service on the Supervisory Board of Henkel Management AG is fully set off against remunerations for service on the Supervisory Board or on the Shareholders' Committee of Henkel AG & Co. KGaA. This regulation ensures that, irrespective of the provisions of the Articles of Association of Henkel Management AG, members of the Supervisory Board or Shareholders' Committee of Henkel AG & Co. KGaA do not receive double the remuneration amount.

Because the members of the Supervisory Board of Henkel Management AG are also members of the Shareholders' Committee of Henkel AG & Co. KGaA, no remuneration is payable to this Supervisory Board.

10. General Meeting of Henkel AG & Co. KGaA

The General Meeting is the will-forming forum of all the Corporation's shareholders. The facilitator or chairman of the General Meeting is appointed by the Shareholders' Committee.

10.1 Subjects requiring General Meeting resolution

The General Meeting passes resolutions on certain matters as prescribed by law and the Articles of Association, and in particular on

- appointment of the members of the Supervisory Board (shareholders' representatives) and of the Shareholders' Committee;
- adoption of the annual financial statements and appropriation of the Corporation's profits;

- formal approval of the actions of the Personally Liable Partner, the Supervisory Board and the Shareholders' Committee;
- election of the auditor and appointment of special auditors;
- changes to the Articles of Association;
- the issuance of new shares, convertible bonds and convertible debenture stock;
- authorization to purchase the Corporation's own shares ("treasury stock");
- the conclusion of enterprise agreements, and company transformations;
- winding up of the Corporation.

Unless otherwise required by mandatory provisions of statute or the Articles of Association, the resolutions of the General Meeting are adopted by simple majority of the votes cast and, where a majority of shares is required by statute, by simple majority of the voting stock duly represented (Art. 24 of the Articles of Association). This also applies to any amendments to the Articles of Association. However, any changes to the object of the Corporation require a three-quarters majority of the represented voting capital stock (§ 179 (2) AktG).

10.2 Convocation

The General Meeting is convened by the Personally Liable Partner. Shareholders who together hold 5 percent of the share capital may demand convocation in writing, citing purpose and reasons; such demands are to be addressed to the Personally Liable Partner. Shareholders holding at least 5 percent of the share capital or whose shares represent a proportional nominal value of 500,000 euros may similarly demand the announcement of agenda items for resolution in General Meeting (§ 122 (1) (2) AktG).

The Ordinary General Meeting (Annual General Meeting) usually takes place within the first four months of the financial year. The management publishes, together with the agenda, the reports and documents, including the Annual Report, required by law for the Annual General Meeting. These items also appear on the website of the Corporation. The results of the resolutions passed by the Annual General Meeting are likewise made available on the internet.

10.3 Participation/Voting rights

The shareholders exercise their rights in the General Meeting in accordance with statutory provisions and the Articles of Association of Henkel AG & Co. KGaA. They are thus entitled to exercise their voting rights (ordinary shares only); they have the right to speak on items included in the agenda and the right to submit relevant questions and motions for debate and resolution.

The shareholders are assisted by the Corporation in the personal exercise of their rights. The Corporation also supports them in the issue of proxy instructions by appointing representatives (proxyholders) who are bound to exercise such voting rights in accordance with the instructions received from the shareholders in question. In addition, the General Meeting is transmitted live, either wholly or in part, via the internet.

Each ordinary share grants one vote. The Corporation has also issued preferred shares attracting a preferred dividend, the voting rights attached to which shares are revived in accordance with the provisions of the German Stock Corporation Act in the event of the preferred dividend not being paid (see 3.1).

11. Transparency / Communication

A pro-active and open policy of information incorporating a commitment to timely and continuous communication is an important component of the value-based management approach adopted at Henkel. It is on the basis of such principles that shareholders, shareholder associations, participants in the capital market, financial analysts, the media and the public

are informed on the current situation and on major business-related changes within the Henkel Group. The Corporation is bound by the principle of equality of treatment. All information is therefore additionally published on the internet to allow immediate and simultaneous accessibility by all parties.

The Corporation is also committed to ensuring regular and timely financial reporting. The annual financial statements and the Annual Report are published within 60 days of the close of the financial year. The quarterly reports are published within 45 days of close of the interim period concerned. The dates of the main regular publications, the dates of the year-end financial press and analysts' conference, and also those of the Annual General Meeting are published in the financial calendar, which is likewise available on the internet.

The progress and objectives of the Corporation in the fields of environmental protection, safety, health and social responsibility are published annually in the Group-wide Sustainability Report. In addition, shareholders, the media and the public are regularly and comprehensively informed by press releases and recurring events. Where facts come to light that may significantly influence the stock market price of the Henkel shares, these are similarly communicated in the form of ad-hoc notifications.

12. Accounting practice

Henkel's consolidated financial statements and the interim reports are prepared in accordance with International Financial Reporting Standards (IFRS) as applicable within the EU and with the provisions relating to commercial law as laid down in § 315a HGB. They therefore comply with internationally recognized accounting principles. The annual financial statements of Henkel AG & Co. KGaA are prepared in accordance with the provisions of the German Commercial Code. The consolidated and annual financial statements are audited and certified by the independent statutory auditor appointed by the General Meeting. Following examination by the Shareholders' Committee and the Supervisory Board, and subject to approval by the Supervisory Board, these same financial statements are presented to the General Meeting of Henkel AG & Co. KGaA, which then resolves on the adoption of the annual financial statements.

13. Opportunity and risk management

At Henkel, the risk management system is an integral component of the comprehensive planning, control and reporting regime practiced in the individual companies, in our business sectors and at corporate level. The principles, processes and responsibilities relating to risk management are defined in a corporate standard that is binding throughout the Group. The implemented regulations and systems are the subject of regular external and internal checks and audits. The findings of such activities are taken into consideration as we continuously further develop our guidelines and systems.

At Henkel, therefore, risk management is performed on a holistic, integrative basis involving the systematic assessment of all opportunities and risks identified as likely to affect our businesses. We understand risk as being a negative deviation from a financial target or KPI resulting from an event or change in circumstances. As opportunity and risk are essentially the two sides of entrepreneurial endeavor, opportunities generally arise from a complementary view of the risk structure. Consequently, we are able both to minimize potential exposure at an early stage and effectively exploit identified opportunities.

The additional risk reporting process, performed annually, begins with identifying risks using checklists based on predefined operating risk categories (e.g. procurement and production) and predefined functional risk categories (e.g. information technology and human resources). The results are evaluated in a two-stage process according to occurrence likelihood and potential loss. The material limit applied is risk of a potential loss upward of one million euros.

We initially determine the gross risk and then, in a second stage, the net risk after taking into account our countermeasures. Initially, risks are recorded on a decentralized basis by our affiliated companies, coordinated by our regional officers. The locally collated risks are then examined by the experts in the business sectors and corporate functions, discussed in the appropriate management committees and finally assigned to a segment-specific risk inventory. Opportunities are registered and assessed in a similar manner. Corporate Controlling is responsible for coordinating the overall process and also the aggregation and analysis of inventorized risks and opportunities. All the opportunity and risks management procedures are supported by an intranet-resident database to ensure transparent communication throughout the entire corporation.

A process of continuous review of the system including its subsystems by the Internal Audit unit and the external auditors serves to ensure its ongoing fitness for purpose while supporting the continuing further development process.

14. Ethical principles

In all fields of activity and in all cultures in which Henkel is active, the Corporation's conduct and actions are governed by its Vision and the Values derived therefrom. These are an expression of the corporate culture of Henkel and follow the principles of sustainable development. The corporate ethics derived from the adopted obligations are formulated in a code of conduct that defines a framework for Henkel's dealings with and treatment of employees, customers, suppliers, other companies and public authorities. Moreover, binding standards covering safety, environmental protection and health apply to all Henkel's business processes around the world. Compliance with these standards is regularly examined on the basis of international audit programs. Henkel has also signed up to various global sustainability initiatives including in particular the following:

- the *Business Charter for Sustainable Development* issued by the International Chamber of Commerce (ICC)
- the worldwide *Responsible Care Program* of the chemical industry and
- the *Global Compact* of the United Nations (UN), obliging signers to respect human rights, basic employee rights and the requirements of environmental protection.

For further details, please refer to our Sustainability Report.