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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 – has always been an integral 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 operationally active as well as being the parent company of the Henkel Group. In this latter capacity, it is responsible for defining and pursuing Henkel's corporate objectives as well as for the management, control and stewardship of our 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 by the corporate functions.

Henkel is organized into three business sectors:

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

The three business sectors are managed on the basis of globally operational strategic business units. These are supported by the 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 in accordance with the regulations laid down in our globally applicable management standards, codes and guidelines.

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

Henkel 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) in which at least one partner assumes unlimited liability in respect of the company’s creditors (personally liable partner). The other partners participate in the capital stock, which is split into shares, and their liability is limited by these shares; they are thus not liable for the company’s debts (limited partners per § 278 (1) German Joint Stock Corporation Act (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).

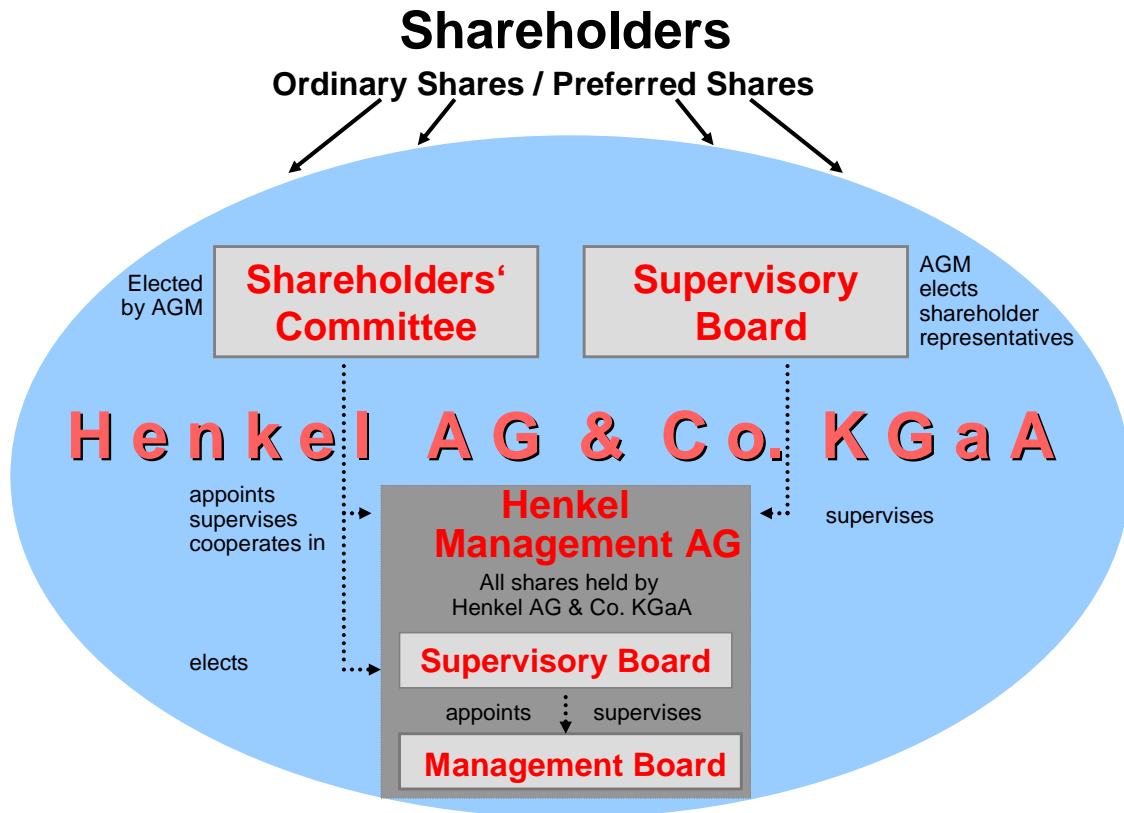
2.2 Structure and corporate bodies of Henkel AG & Co. KGaA

The sole **Personally Liable Partner** of the Corporation is Henkel Management AG (see 6.4), 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 6.1) and the **General Meeting** (see 8.). In addition, there is also a **Shareholders’ Committee** (see 5) 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).

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

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 8.3.).

3.2 Authorized capital/Share buy-back

According to Art. 6 (5) of the Articles of Association, there is an authorized capital limit. Acting within 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 18, 2015, 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 pre-emptive rights. However, these may be set aside in three cases: (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 up to April 18, 2015. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may be used to operate the Stock Incentive Plan of the Henkel Group or transferred to third parties for the purpose of acquiring companies or investing in companies. Treasury stock 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 stock without further resolution in General Meeting being required.

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

3.3 Major shareholders

According to notifications received by the Corporation, more than 50 percent of the voting rights are held by parties 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 (Art. 7 of the Articles of Association).

3.4 Interlocking relationships

There are no interlocking relationships/shareholdings.

4. 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 ensures 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 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.

The members of the Management Board are responsible for managing Henkel's business operations in their entirety. To this end, 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.

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. 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.

5. 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).

The Shareholders' Committee passes its resolutions on the basis of a simple majority of the votes cast. It has established a Finance Subcommittee and a Human Resources Subcommittee, each of which comprises five members of the Shareholders' Committee. The Finance Subcommittee deals principally with the financial matters, accounting issues including external auditing, taxation planning and accounting policies, and the internal auditing and risk management of the corporation. It also carries out the necessary preparatory work for decisions to be taken by the Shareholders' Committee in such affairs. The Human Resources Subcommittee principally discusses personnel matters relating to the members of the Management Board, human resources strategy, and remuneration. It is further concerned with succession planning and identifying management potential within the individual business sectors, taking into account relevant diversity aspects.

6. Supervisory Boards

6.1 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.

The Supervisory Committee passes its resolutions on the basis of a simple majority of the votes cast. In the event of a tie, the Chairperson has the casting vote. 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 elected by the Supervisory Board on proposals of their fellow shareholder or fellow employee representatives on the Supervisory Board; the Chairperson of the Audit Committee is elected from candidates proposed by the shareholder representatives. The Chairperson of the Audit Committee is someone other than the Chairperson of the Supervisory Board or a former member of the Management Board, and should be an expert in the fields of accountancy and auditing, and in the application of internal checks and balances. The Audit Committee prepares the proceedings and resolutions of the Supervisory Board relating to the adoption of the annual financial statements, and also the auditor appointment proposal to be made to the Annual General Meeting. It is also concerned with monitoring the accounting process the effectiveness of the internal checks and balances, the risk management system, and with compliance issues. It further discusses with the Management Board, in the presence of the auditor, the quarterly reports and the financial report for the half-year prior to their publication, issues audit mandates to the auditors and defines the focal areas of the audit or review.

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 Chairperson of the Supervisory Board is also Chairperson of the Nomination Committee. The Nomination Committee prepares the proposals to be submitted by the Supervisory Board to the Annual General Meeting for the election of members to the Supervisory Board (shareholder representatives).

In line with the recommendations of the German Corporate Governance Code the Supervisory Board passed a resolution detailing the following objectives for its composition giving due consideration to the specifics of Henkel and taking into account the international activities of the company. These objectives, to be reviewed at regular intervals, will be taken into account by the Supervisory Board in proposing election candidates to the Annual General Meeting with respect to all re-electable and 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. Particularly required are experience and expertise in one or several of the fields of corporate management, book-keeping and accountancy, financial control/ risk management, corporate governance/ compliance, research and development, production/ technology, and marketing/sales/distribution, as is knowledge of the industrial or consumer business in 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. Consequently, efforts will be made to retain those current members with an international background. The mix of candidates proposed for election should also contain an appropriate number of women. The current share of 25 percent is generally regarded as adequate. Efforts will therefore be made to maintain or, if possible, increase this proportion for upcoming new and ad-hoc replacement elections.
- In addition, the Supervisory Board should have a sufficient number of independent members. In future, therefore, the Supervisory Board is to contain not 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 relationship with the corporation or members of the Management Board could give rise to conflicts of interest. Further, no persons shall be proposed for election who, at the time of the election, have already reached their 70th birthday.

At regular intervals, the Supervisory Board – and the Shareholders' Committee – carry out an internal review to determine the efficiency with which they and their committees/subcommittees are performing their duties. This self-assessment is performed on the basis of a comprehensive checklist which also contains items relating to corporate governance and improvement indicators. Pursuant to the German Corporate Governance Code, conflicts of interest must be disclosed in an appropriate manner to the Supervisory Board or Shareholders' Committee, particularly those that may arise as a 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 more than just temporary are required to resign their mandate.

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.

6.2 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 is responsible for appointing not only Henkel Management AG as the Personally Liable Partner but also its Management Board (through the members of the Supervisory Board of Henkel Management AG), 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.

7. Interaction between Management Board ,Supervisory Board, Shareholders' Committee and other committees

The Management Board of Henkel Management AG, which is responsible for the corporation's operating business, the Supervisory Board and the Shareholders' Committee of the corporation cooperate closely for the benefit of the organization.

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

In keeping with good corporate management practice, the Management Board informs the Supervisory Board and the Shareholders' Committee 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, 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 (Article 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 spheres of authority of the corporation's General Meeting.

8. 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.

8.1 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).

8.2 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. Furthermore, the Annual General Meeting is partly broadcast live on the internet.

8.3 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).

9. Principles of corporate stewardship/Compliance

For our company to be successful, it is essential that we share a common approach to entrepreneurship. The company's vision provides its management and employees worldwide with both direction and a primary objective. It reaffirms our commitment to be the best and meet the highest standards in everything that we do.

Our vision:

A global leader in brands and technologies.

Our vision provides the foundation for building a company with a common ethic: "One Henkel." The company's values guide its employees in all the day-to-day decisions they make, providing a compass for their conduct and actions.

Our values:

We put our customers 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 build our future on our family business foundation.

Henkel is committed to ensuring that all business transactions are conducted in an ethically irreproachable, legal fashion. Consequently, Henkel expects all its employees to respect not only the company's internal rules and all relevant laws, but also to avoid conflicts of interest, to protect Henkel's assets and to respect the customs, traditions and social values of the countries and cultural environments in which the company does business. The Management Board has therefore issued a series of Group-wide codes, standards and guidelines with binding precepts of professional conduct and behavior. These regulatory instruments are regularly reviewed and amended as appropriate, evolving in step with the changing legal and commercial conditions that affect Henkel as a globally active corporation. Our Code of Conduct supports our employees in dealing with ethical and legal issues; our Code of Teamwork and Leadership defines the approach, actions and attitudes to be adopted by management and employees in their interpersonal dealings; and the Code of Corporate Sustainability describes the principles that underlie our approach to sustainable, socially responsible development. These codes also enable Henkel to meet the commitments derived from the Global Compact of the United Nations.

Ensuring compliance in the sense of obeying laws and adhering to 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 Chief Compliance Officer. The CCO manages and controls compliance-related activities undertaken at the corporate level, coordinates training courses, oversees fulfillment of both internal and external regulations, and supports the corporation in the further development and implementation of the associated standards. He is assisted in this capacity by Internal Audit, and also by a Compliance Committee of interdisciplinary composition.

The remit of the local and regional compliance officers includes organizing and overseeing the training activities and implementation measures tailored to the specific requirements of

their locations. They report through the locally or regionally responsible presidents to the Chief Compliance Officer. The CCO and the head of Internal Audit report regularly to the Management Board and also 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 in the Group. Because of their seniority, 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 adopted in the event of complaints or suspicion of malpractice also constitute an important element of the compliance regime. In addition to our internal reporting system and complaint registration channels, employees may also, for the purpose of reporting serious violations to the CCO, anonymously use a Compliance Hotline operated by an external service-provider. The CCO is mandated to initiate the necessary follow-up procedures.

Our corporate compliance activities are focused on the fields of safety, health and the environment, antitrust law and the fight against corruption. 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 company has an Ad-hoc Committee comprising representatives of various departments. In order to ensure that all insider information is handled as required by law, this 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 Board of Management, 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. An insider register is kept, listing the people involved.

For further information relating to the principles guiding our corporate stewardship, we would like to refer you to the respective codes.

10. 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. The compensation system for the members of the Management Board was approved by the Annual General Meeting (§ 120 (4) AktG).

10.1 Remuneration of the Management Board

Regulation, structure and amounts

The compensation for members of the Management Board of Henkel Management AG is regulated 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 the emoluments accruing to the Management Board 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 Henkel organization. The compensation package is further determined on the basis of the functions, responsibilities and 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 ongoing business development and a sustainable increase in shareholder value within a dynamic operating environment. The Supervisory Board of Henkel Management AG regularly reviews the compensation arrangements applied to the Management Board.

The remuneration of the members of the Management Board is based on a so-called target compensation amount (total remunerations excluding other ancillary emoluments and pension entitlements) which accrues to a member of the Management Board in the event of 100 percent achievement of the underlying performance targets, this "at-target" amount coming in at around 2.1 million euros in total per financial year. Of this target compensation, around 30 percent is in fixed salary, some 35 percent is performance-related over the short term and about 35 percent is performance-related over the long term.

Fixed salary: 30 percent	Short-term components: 35 percent	Long-term components: 35 percent
	35 percentage points in variable annual remuneration (cash component)	25 percentage points in variable annual remuneration (own investment in Henkel preferred shares)
		10 percentage points in long-term incentive

This target compensation amount is supplemented by other emoluments and pension benefits. The components in detail:

Fixed salary

The annual non-performance-related fixed salary accounts for around 30 percent of the target compensation amount. It is paid on a monthly basis. The amount paid reflects both the function and responsibilities of the position and relevant market conditions.

Variable annual remuneration

Overall, the variable annual remuneration accounts for around 60 percent of the target compensation amount. The variable annual remuneration is made up of annual performance-related components which account for around 35 percent of the target compensation amount, and a long-term variable incentive which accounts for around 25 percent of the target compensation amount and takes the form of an investment by the recipient (own investment) in Henkel preferred shares with a minimum vesting period of three years.

Determination of variable annual remuneration

The performance criteria governing the variable annual remuneration are primarily return on capital employed (ROCE) and earnings per preferred share (EPS) in the relevant fiscal year, adjusted in each case by exceptional items. The further factors used in establishing the variable annual remuneration payable to the Management Board members are: the Group results and the results of the relevant business sector or corporate function, and the quality of management demonstrated in those functions and the individual contribution made by the Management Board member concerned. The target amount is adjusted on the basis of a performance factor related to the degree of target achievement. In determining the variable annual remuneration, the Supervisory Board of Henkel Management AG also takes into due account the apparent sustainability of the economic success and the performance levels of the Management Board members.

Variable annual remuneration is also subject to an overall cap, with the result that the amount paid may only range between 0 percent and 250 percent of the target amount.

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

The variable annual remuneration is paid annually in arrears once the corporation's annual financial statements have been approved by the Annual General Meeting. Of the variable annual remuneration, around 60 percent is paid in cash, which in turn corresponds to a proportion of the target compensation of around 35 percent. For the remaining 40 percent – corresponding to 25 percent of the target compensation – the members of the Management Board acquire Henkel preferred shares (own investment) at the price prevailing at the time of acquisition. These shares are placed in a blocked custody account with a three-year drawing restriction. This own investment ensures that the members of the Management Board participate through a portion of their compensation in the long-term performance of the corporation.

Therefore, around 35 percent of the target compensation amount is short-term performance-related and – due to the own investment portion and the long-term incentive described below – a further 35 percent is aligned to components of a long-term performance-related nature.

Long-term incentive (LTI)

The long-term incentive, which accounts for 10 percent of the target compensation amount, 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 earnings per preferred share (EPS) over three consecutive years (the performance period). Together with the recipient's own investment from the variable annual remuneration, performance related components aligned to the long term make up 35 percent of the target compensation amount.

On completion of the performance period, the degree of target achievement is ascertained by the Supervisory Board of Henkel Management AG on the basis of the increase in EPS achieved. The amounts included in the calculation of the increase, are in each case, the earnings per preferred share adjusted for exceptional items, as disclosed in the consolidated financial statements of the relevant financial years.

Depending on the level of target achievement ascertained by the Supervisory Board of Henkel Management AG, the target amount is adjusted by a performance multiplier. The long-term incentive is also subject to an overall cap, with the result that the amount paid may only range between 0 percent and 250 percent of the target amount.

Pension benefits

The retirement pension for members joining the Management Board of the former Henkel KGaA before January 1, 2005 amounts to a certain percentage of the last paid 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 on attainment of their 62nd birthday. The actual percentage individually determined for each executive is made up of two components: (1) the so-called base percentage rate derived from the vested pension entitlement earned prior to entry into the former or latter Management Board, and (2) an incremental annual increase of the base percentage rate for each year of the executive's membership of the Management Board.

Effective January 1, 2005, we changed the pension entitlement for new members of the Management Board to a defined contribution scheme. Once a covered event occurs, the beneficiaries receive a superannuation lump-sum payment combined with a continuing basic annuity. The superannuation lump-sum payment comprises the total of annual contributions calculated on the basis of a certain percentage of the target compensation amount, this percentage being the same for all members of the Management Board. The annual contributions depend to a certain degree on developments in the annual total cash compensation paid in

the financial year in question. Any vested pension rights earned within the corporation prior to the executive's joining the Management Board are taken into account as start-up units. The defined contribution pension system ensures appropriate retirement and welfare benefits while also incorporating a performance-related element.

In the event that a member of the Management Board (executive) receives 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. In addition, the executive's surviving spouse receives pension payments amounting to 60 percent and each dependant child benefit payments amounting to 15 percent – up to a maximum of 100 percent for all beneficiaries – of the executive's pension entitlement. The surviving child's benefit is generally paid until the child's 18th birthday or, if longer, until completion of their professional training, but only up to their 27th birthday.

Other emoluments

The members of the Management Board also receive other emoluments in the form of benefits arising out of standard commercial insurance policies and the provision of a company car.

Other regulatory provisions

In the event of retirement being taken by members of the Management Board whose contracts of employment were concluded before 2009, they are entitled to continued payment of their fixed salary for a further six months, but not beyond the month of their 65th birthday.

In the event of a member's position on the Management Board being terminated without good cause or reason, the executive contract provides for a severance settlement amounting to the remuneration for the remaining contractual term in the form of a discounted lump-sum payment. Since the 2008 AGM, however, severance payments have been limited to two years' compensation (severance payment cap) with respect to newly concluded contracts of employment or contract extensions of more than two years. In addition, the executive contracts include a post-contractual non-competition Section with a term of up to two years. The associated discretionary payment can be up to 50 percent of annual compensation after allowing for any severance payments. No entitlements exist in the event of premature termination of executive duties resulting from a change in control.

The corporation maintains on behalf of members of the corporate management bodies and employees of Henkel a third-party group insurance policy (D&O insurance) protecting against consequential loss, which policy also covers members of the Management Board. For members of the Management Board there is an own-risk deductible amounting to 10 percent per loss event up to a maximum of one and-a-half times their fixed salary for loss events occurring within a financial year.

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).

10.2 Remuneration of Henkel Management AG for assumption of liability, and reimbursement of expenses to same

For assumption of the liability and management of the businesses of the corporation, Henkel Management AG in its function as Personally Liable Partner shall receive 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 the corporation of all expenses incurred in connection with the management of the latter's businesses including the emoluments paid to its management bodies.

10.3 Remuneration 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 has been approved in General Meeting; the corresponding provisions are contained in Articles 17 and 33 of the Articles of Association.

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 the Shareholders' Committee respectively.

The remuneration package comprises three components: a fixed fee, a variable dividend-related bonus and an annual, variable, performance-related, long-term incentive (LTI) based on the company's performance. The components in detail:

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 prior year exceeds 0.25 euros.

Long-term incentive (LTI)

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 year of payment is compared to the EPS of the second financial year following the year of payment. If the increase is at least 15 percent, an amount of 600 euros is paid for each full percentage point of the total achieved increase. 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 is based on the approved and endorsed consolidated financial statements of the respective financial years as duly audited and provided with an unqualified opinion, with EPS having been 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/(sub)committee 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 additionally receive double.

Members of the Supervisory Board who are also members of one or more committees shall each additionally receive a fee of 50 percent of the cash amount accruing to a member of the Supervisory Board (fixed fee plus dividend bonus); if they are the Chairperson of one or more committees, they receive an additional fee of 100 percent of this amount. Activity in the Nominations Committee is not remunerated separately.

Other regulatory provisions

The members of the Supervisory Board or a committee 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 value-added tax (VAT) payable on their total remunerations and reimbursed expenses.

The corporation maintains on behalf of members of the corporate management bodies and employees of Henkel a third-party group insurance policy (D&O insurance) protecting against consequential loss, which policy also covers members of the Supervisory Board and of the Shareholders' Committee. For members of the Supervisory Board and Shareholders' Committee there is an own-risk deductible amounting to 10 percent per loss event up to a maximum of one-and-a-half times their fixed annual fee for loss events occurring within a financial year.

10.4 Remuneration of the Supervisory Board of Henkel Management AG

In accordance with Article 14 of the Articles of Association of Henkel Management AG, the members of the Supervisory Board of Henkel Management AG receive an annual fee of 10,000 euros, although members of this body who are also members of the Supervisory Board or Shareholders' Committee of Henkel AG & Co. KGaA do not receive such further compensation.

As the Supervisory Board of Henkel Management AG is comprised of members of the Shareholders' Committee, no fees were paid to members of that Supervisory Board.

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.