

Sustainability Report  
**2016**



**Henkel**

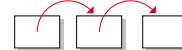


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## Traditional navigation

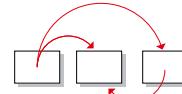
Read the Henkel Sustainability Report traditionally, like a book. Start at page 1 and navigate through until the end.




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“Creating sustainable value – our purpose at Henkel – is both the essence of our heritage and the ambition that guides our actions.”

**Kathrin Menges**

Executive Vice President Human Resources  
and Chair of Henkel’s Sustainability Council

*Dear Friends of the Company,*

The responsibility that we as a business feel toward our customers and consumers, our people, and society as a whole, has shaped the history of our company. In conducting our business, we want to create sustainable value through innovative solutions.

This conviction is the foundation on which the strong engagement of our people and the long-term successful development of Henkel are built. Our ambition to operate sustainably throughout the company and along our entire value chain boosts our growth, helps to improve our efficiency, and reduces risks.

With its global sustainability and climate protection goals, the international community has made enormous progress toward a common understanding of the priorities. We want to actively contribute to the implementation of these goals. To achieve this, however, sustainability must also be firmly embedded throughout business and society. In playing our part, we are relying on the knowledge and engagement of our people, the strength of our brands and technologies, and partnerships in all areas of our business activities.

*Kathrin Menges*

Kathrin Menges

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More than  
**50,000**  
employees

**42 %**

of our sales  
generated in  
emerging markets



→ Further data on our regional centers.

More than  
**140**  
years of brand and  
technology success

More than  
**120**  
nations represented  
by our people

Around  
**€ 18.7 bn**  
sales

## Brands & Businesses

### Adhesive Technologies

As a market leader, the Adhesive Technologies business unit creates high-impact solutions worldwide through groundbreaking innovations and close partnerships with its customers.

Our top brands

**LOCTITE**

**TECHNOMELT**

**BONDERITE**

### Beauty Care

Worldwide, the Beauty Care business unit is successfully active in the Branded Consumer Goods business area with Hair Cosmetics, Body Care, Skin Care and Oral Care, as well as in the professional Hair Salon business.

Our top brands

**Schwarzkopf**

**syoss**

**Dial**

### Laundry & Home Care

The Laundry & Home Care business unit sells laundry detergents and household cleaners around the globe, from detergents, dishwashing products and surface cleaners through to insect control products.

Our top brands

**Persil**

**Purex**

**Pril**

# Sustainability at Henkel

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Our commitment to leadership in sustainability is anchored firmly in our corporate values. The balance between economic success, environmental protection and social responsibility has been an integral part of our corporate culture for decades.



In 1940, Henkel opened a company childcare facility and established a voluntary on-site medical service.



There has been a first-aid center at Henkel since 1912.



Henkel has been carrying out regular environmental quality checks for detergents and household cleaners since 1959. This picture shows a water quality check of the river Rhine in 1961.

## Sustainability milestones at Henkel

The focus on sustainability has evolved continuously at Henkel. When the merchant Fritz Henkel founded his laundry detergent company in 1876, he had the vision of making people's lives easier, better and more beautiful. From the beginning, the company assumed responsibility for its employees, the communities it operates in, and society. Today, Henkel has set up management systems worldwide for safety, health and the environment, and has firmly anchored the mindset of sustainability in its corporate values. → [All of our sustainability milestones](#)

## Our corporate value

We are committed to leadership in **sustainability**.

# Overview of our sustainability strategy

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## What are our sustainability aspirations?

We are committed to leadership in sustainability – this is one of our corporate values. As sustainability leaders, we aim to pioneer new solutions while developing our business responsibly and increasing our economic success.

## What strategy are we pursuing?

Our ambition is to achieve more with less. This means we create more **value** for our customers and consumers, for the communities we operate in, and for our company – at a reduced **environmental footprint**.

## What targets have we set ourselves?

Our 20-year goal for 2030 is to triple the value we create for the footprint made by our operations, products and services. We call this ambition to become three times more efficient **Factor 3**.

## What are our priorities for the coming years?

### Strengthen foundation

We already have a strong foundation with a successful track record. On the road to our long-term goal, we intend to further improve our performance over the coming years.

### Boost engagement

We want to further develop and foster the commitment of our employees to sustainability. Our employees make the difference – with their dedication, skills and knowledge.

### Maximize impact

We want to strengthen our contributions to addressing major global challenges and maximize the impact we can achieve with our operations, brands and technologies.

## Deliver more value



at a reduced footprint

We concentrate our activities along the value chain on six focal areas that reflect the challenges of sustainable development as they relate to our operations.

# Overview of our targets

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## Strengthen foundation



Become three times more efficient

by 2030

## Boost engagement



Activate and train all employees for sustainability

## Maximize impact



Reduce the CO<sub>2</sub> footprint of our production by 75 percent

by 2030



Become 75 percent more efficient

by 2020



Reach 200,000 children with our education initiatives

by 2020



Help our customers and consumers to save 50 million tons of CO<sub>2</sub>

by 2020



Each new product must continue to make a contribution to sustainability in at least one of our focal areas.



Reach 20 million people through our social engagement activities

by 2020



Improve workplace conditions for one million workers in our supply chains, by working together with our partners.

by 2020

# Our value chain

Together with our partners, we advance sustainability along the entire value chain:



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### 1. Raw materials

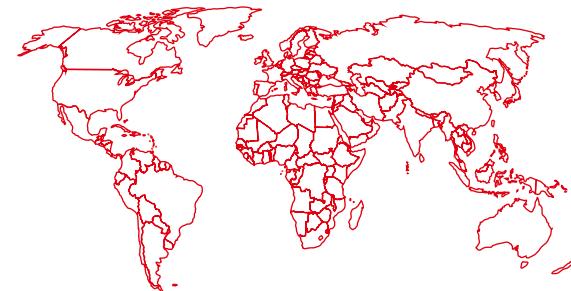


### Suppliers from around 130 countries

We develop innovative solutions and set standards for sustainability together with our suppliers and partners from around 130 countries.



### 2. Production



### 3. Logistics



### Reduce transport emissions

We aim to reduce transport emissions by using improved logistics policies worldwide, such as through intermodal transport.

### 4. Industry and retail



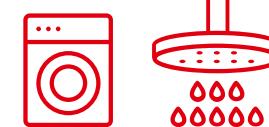
### Close cooperation

It is important to us to work hand-in-hand with our retail partners. We support our retail partners in their sustainability activities, for example, with eLearning and measuring instruments.

### 5. Consumers

# 90 %

Our products are used daily in millions of households. Up to 90 percent of the environmental footprint of our products is generated during their use. For this reason, we seek to encourage responsible product use through targeted communication.



### 6. Disposal



# -30 %

By 2020, we want to reduce our waste volume by 30 percent per ton of product.

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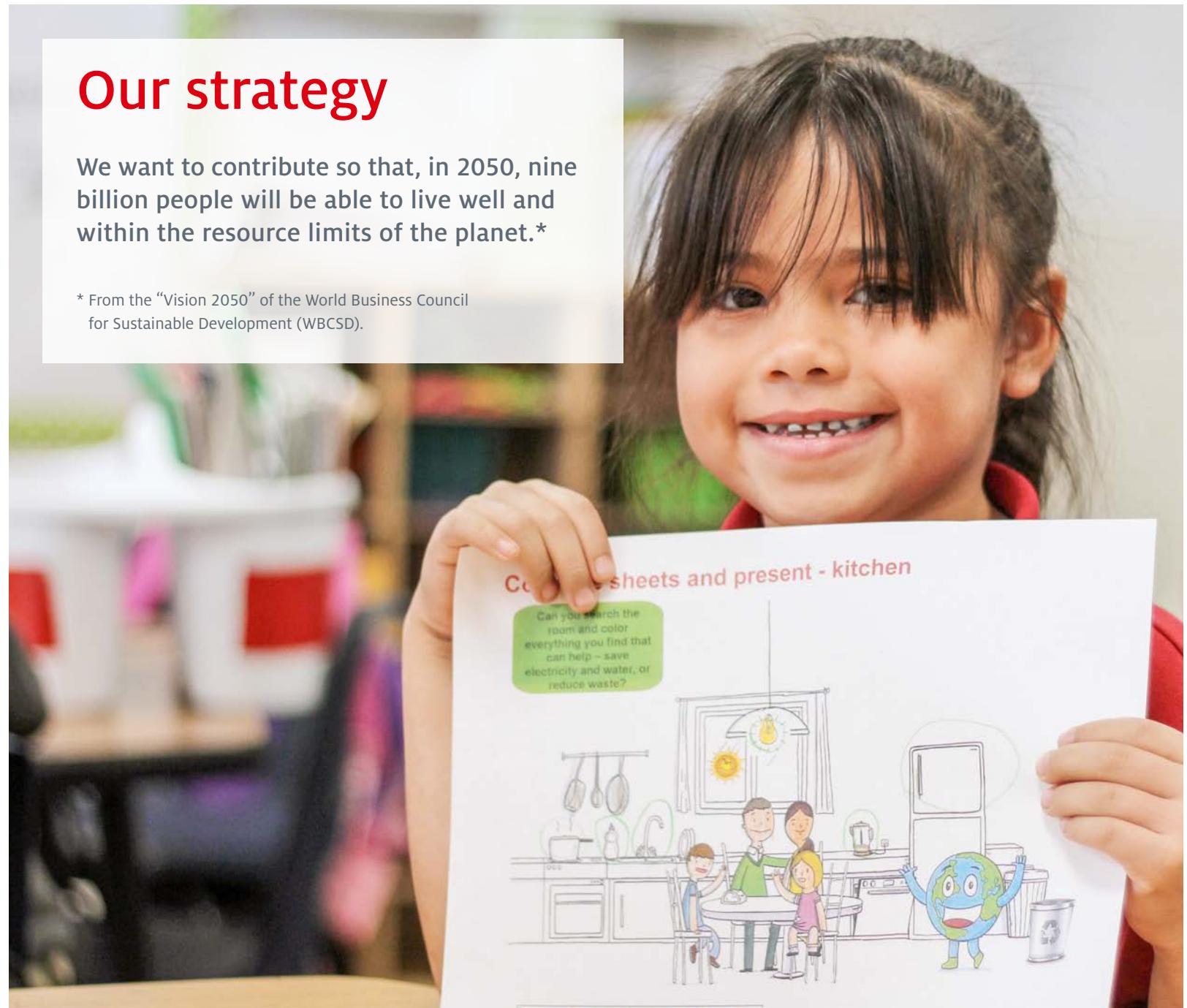
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# Our strategy

We want to contribute so that, in 2050, nine billion people will be able to live well and within the resource limits of the planet.\*

\* From the "Vision 2050" of the World Business Council for Sustainable Development (WBCSD).



# Our strategy

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## Our ambition

Our commitment to leadership in sustainability is anchored in our corporate values. We want to create more value – for our customers and consumers, for the communities we operate in, and for our company – while, at the same time, reducing our environmental footprint. We aim to pioneer new solutions for sustainable development while continuing to shape our business responsibly and increasing our economic success. Our sustainability strategy provides a clear framework for this aim and reflects the high expectations of our stakeholders.

We are facing immense challenges. The global environmental footprint of humankind is already greater today than the planet's resources can sustain. By the year 2050, the world's population is expected to grow to nine billion. The accompanying acceleration in global economic activity will lead to rising consumption and resource depletion. As a result, competition for the available resources will intensify in the coming decades. For this reason, we need innovations, products and technologies that enhance the quality of life while consuming less input materials. We aim to use our decades of experience in sustainability to develop and implement solutions fit for the future together with our partners. Our long-term goal is to triple the value we create through our business operations in relation to the environmental footprint of our products and services by 2030. We refer to this goal as "Factor 3".



*"We want to further strengthen our leadership in sustainability, achieve tangible progress and reach ambitious goals. In doing so, we rely on the commitment of our people and on close collaboration with our customers, consumers and partners."*

**Hans Van Bylen**  
Chairman of the  
Management Board

## Our focal areas

We are concentrating our activities on six focal areas that reflect the key challenges of sustainable development as they relate to our operations. Three of them describe how we want to create "more value" for our customers and consumers, our employees, our shareholders and for the communities we operate in – for example, by enhancing occupational health and safety and encouraging social progress. The three other areas describe the ways in which we want to reduce our environmental footprint, for instance through reduced water and energy use and less waste. In order to drive progress in these focal areas along the entire value chain, we rely on the commitment of our people, our products, and collaboration with our partners.

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Our 20-year goal for 2030 is to triple the value we create for the footprint made by our operations, products and services. We refer to this goal as "Factor 3".

## Increasing relevance

Sustainability continues to gather increasing importance for our stakeholders. Our business partners and consumers are placing more and more focus on understanding the impact of our processes and products along the value chain. We continuously align our goals and initiatives with global and national priorities to ensure we are working on the issues that are relevant to our business and to sustainable development. There is also increasing media attention on topics ranging from climate change through to human rights, and these subjects are increasingly discussed on public platforms, especially social media. At the political level, we have seen great progress toward a shared understanding of the global priorities over the last

few years, particularly in 2015. Significant developments within this context include the global climate agreement reached in Paris in 2015, as well as the 17 Sustainable Development Goals (SDGs) that were adopted by the 193 United Nations Member States in September 2015. Henkel actively supports the implementation of the SDGs and the climate agreement. We are convinced that the goals provide a shared focus that can empower collaborative action and will drive much stronger progress toward sustainability.



Henkel supports the implementation of the United Nations Sustainable Development Goals. We have tracked the development of the SDGs, and continuously review our targets and initiatives to ensure they reflect the priorities set out by the [17 SDGs](#).

## Three key drivers for the coming years

We are convinced that our focus on sustainability is more important than ever before. It supports our growth, helps to increase our cost-efficiency, and reduces risks. We already have a strong foundation on which to build, and can demonstrate a successful track record. To reflect the growing importance of sustainability for our stakeholders and our long-term economic success, in 2016 we developed key drivers for the coming years: We aim to **strengthen** our **foundation**, **boost** employee **engagement** and **maximize** our **impact**. Using the energy of our more than 50,000 employees and the unique scope of our business, we aim to further expand our leadership and intensify our contribution to sustainable development.

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## Strengthen foundation

Our long-term goal reflects the global challenges of sustainable development: We will have to significantly improve our efficiency in order to reconcile people's desire to live well with the resource limits of the planet, and to allow us to build on our economic success. Taking 2010 as the base year, our aim is to triple the value we create through our business operations in relation to the environmental footprint of our products and services by 2030. We refer to this goal as "Factor 3". One way of improving our efficiency would be by tripling the value we create while keeping our environmental footprint the same. Alternatively, we could keep the value the same and reduce our footprint to one third, or improve both value and footprint.

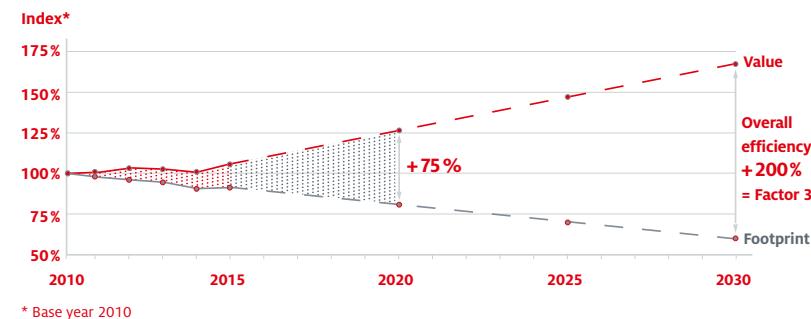


Our long tradition in the field of sustainability – which is embedded in our values – together with our clear strategy and our performance form a strong foundation from which to further expand our leadership and intensify our contribution to sustainable development. We rolled out our current sustainability strategy worldwide via workshops in 2011.

### Tangible progress

We reached our targets for 2011 to 2015, improving the relationship between the value we create and our environmental footprint by 38 percent overall. By 2016, the efficiency increase had risen to 42 percent. On the road to achieving our long-term goal of "Factor 3", we also want to improve our performance in these areas still further in the coming years. To this end, we have defined medium-term targets:

### What we want to achieve by 2030



To reach our goal by 2030, we will have to improve our efficiency by an average of 5 to 6 percent each year. For this reason, we set five-year interim targets for our focal areas.

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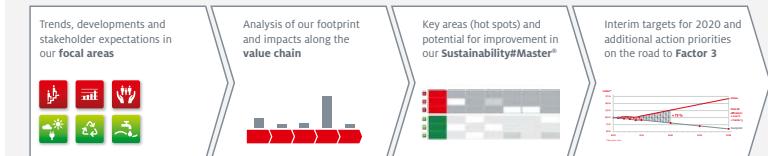
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	Achieved 2016 <sup>1</sup>	Targets 2020 <sup>1</sup>
	More net sales per ton of product <b>+8 %</b>	<b>+22 %</b>
	Safer per million hours worked <b>+17 %</b>	<b>+40 %</b>
	Less energy / CO <sub>2</sub> emissions per ton of product <b>-22 %</b>	<b>-30 %</b>
	Less waste per ton of product <b>-26 %<sup>2</sup></b>	<b>-30 %</b>
	Less water per ton of product <b>-23 %</b>	<b>-30 %</b>
Overall efficiency	<b>+42 %</b>	<b>+75 %</b>

In addition to our focal area targets, we have defined a comprehensive set of targets and goals for further areas ranging from purchasing through to packaging and recycling. You can find these targets and goals in the individual chapters of this report, together with our solutions to the specific challenges in the various areas.

<sup>1</sup> Compared to the base year 2010<sup>2</sup> Waste footprint of our production sites, excluding construction and demolition waste.**Process applied to define our targets for 2020**

In a very comprehensive process, our → **Sustainability Council** defined the interim targets for 2016 to 2020. Working groups evaluated trends, developments, and stakeholder expectations, and analyzed our footprint along the entire value chain. The groups then identified key areas where we can create more value – at a reduced environmental footprint.

**Steering and reporting**

We are continuously evolving our reporting and measurement systems so we can evaluate and steer our progress toward the 20-year goal for 2030 in an integrated way across the whole company and along the entire value chain. In pursuing this aim, we are focusing on the most comprehensive data coverage, as well as data quality. This will provide us with an increasingly clear picture of our footprint and our performance – from raw materials and packaging development through to the use phase and disposal.

In 2016, we collected data from 171 sites, representing 100 percent of our global production volume. To assess our footprint along the entire value chain, we use representative → **life cycle analyses** that cover around 70 percent of our sales across all product categories. We also assess data on the raw ingredients and packaging materials we use, and the transport operations.

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Henkel works with various measurement and evaluation methods in order to identify the measures that have the greatest influence along the value chain. Viewed across our entire portfolio, improvements in input materials and in the use phase are the most crucial factors when it comes to our water and carbon footprints.

Our → **Henkel Sustainability#Master®** is a key analysis tool in optimizing the “value” and “footprint” dimensions. The core element is a matrix in which changes in both of these dimensions and along the value chain can be analyzed. After all, it is only by considering the entire system that we can ensure that the measures taken lead to an overall improvement in our sustainability profile.

In accordance with our requirement that every new product should make a contribution to sustainability, we analyze our products systematically in our → **innovation process**. In order to make it easier to optimize our products during development, we integrate the environmental profile of possible raw materials and packaging materials into our product and packaging development information systems, enabling the footprint of a new formulation to be calculated even in the development phase.

## Reputation

→ **Ongoing dialog** with stakeholders and experts, and benchmarking our performance, are key foundations for our work. Open dialog with opinion leaders and stakeholders helps us to obtain insights and perspectives from outside our business and fosters a common understanding of priorities and challenges. At regular intervals, sustainability analysts and specialist institutions evaluate how companies balance the relationship between economic, environmental and

social aspects. We welcome these → **external evaluations** of our sustainability performance, as they lead to greater transparency in the market and show us how our performance is assessed.

## Boost engagement

When it comes to implementing our sustainability strategy, it is our people who make the difference – through their dedication, skills and knowledge. They make their own contributions to sustainable development, both in their daily business lives and as members of society. They interface with our customers and drive innovation, develop successful strategies, and give Henkel its unique identity. Because of this, we want to further develop and boost our people's engagement in sustainability.



Learning by playing – Elementary school children are taught how to handle the resources of our planet responsibly. Sarah Ramos, who attends Frank Elementary School in Guadalupe, Arizona, USA, is proud of what she has learned.

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## Train employees as sustainability ambassadors

Our Sustainability Ambassador program was launched in 2012 to encourage our employees to engage even more strongly with the topic of sustainability. Since then, Henkel has trained more than 10,000 ambassadors in 79 countries. To anchor our understanding of sustainability even more firmly within the company, we want to train all of our employees and encourage them to become sustainability ambassadors. We are therefore expanding our training programs accordingly. In addition to an eLearning program on our central global learning platform, we also reach our employees through team training sessions that we organize worldwide using standardized training materials. In addition to discussing the fundamental principles of sustainability – from concept to key global challenges – the training program also explains how Henkel is responding to these challenges and implementing sustainability along its value chain.

## Motivate ambassadors to make a contribution

We want to do more than just communicate knowledge to our employees about sustainability: We also want to motivate them to become involved in sustainability. With their skills and knowledge, they can act as ambassadors to make a contribution to sustainability at our sites, as well as by engaging our customers and in our business environment. Henkel's sustainability ambassadors are encouraged to visit schools to teach children about sustainable behavior in the home. This helps the next generation to understand how to use resources efficiently from an early age. At the same time, the children multiply the impact by imparting their knowledge and their enthusiasm to others around them. By the end of 2016 we had reached over 84,000 schoolchildren in 47 countries. We aim to reach more than 200,000 schoolchildren by 2020.



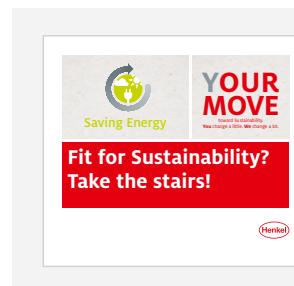
Our Sustainability Ambassador program gives our employees targeted training on sustainability issues. The various learning platforms also include team training, like this workshop with our apprentices in Düsseldorf, Germany.

We also aim to promote healthier lifestyles and greater awareness of water and energy consumption, and of waste generation across our sites. One element of this commitment is our “(Y)our move toward sustainability” initiative, which was introduced in 2014. It encourages employees to put sustainability into practice in their day-to-day work, for example by saving energy and eating healthily.

Our customers are an important target group. Together with them, we drive the development of solutions for a more sustainable future. Our “Say yes! to the future” initiative, for example, provides Henkel sales representatives from all businesses all around the world with training in sustainability topics that apply to sales, going beyond the content of the Sustainability Ambassador program. They then apply this knowledge in joint projects with our trade customers – in logistics, for example, or by promoting sustainable purchasing decisions.

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The sustainability initiative "(Y)our move toward sustainability" aims to encourage sustainable behavior among Henkel employees in the office – such as by providing stickers that can be used throughout Henkel worldwide.

Above and beyond our existing programs, we also want to give our employees opportunities to engage in volunteer projects and make their own contribution to the communities in which we operate. We aim to reach 20 million people through our employees' → [social engagement](#) activities by 2020.

## Maximize impact

We want to strengthen our contribution toward overcoming major global challenges, and to maximize the impact we can achieve through our operations, our brands, and our technologies. For this reason, we have set ourselves additional ambitious goals that address two of the most pressing global challenges.

## Become climate positive

With the Paris Agreement, the global community clearly committed to limiting global warming to well below 2 degrees Celsius. Given the required reduction in emissions and decarbonization of the economy, Henkel is striving to become a climate-positive company. We are aiming to reduce the carbon footprint of our production by 75 percent by 2030 and to leverage the potential of our brands and technologies to help our customers and consumers to reduce CO<sub>2</sub> emissions. To do so, we also want to continually improve our energy efficiency by using more energy from renewable sources.

In addition, we want to leverage the potential offered by our brands and technologies along the value chain to help our customers and consumers save 50 million metric tons of CO<sub>2</sub> between now and 2020. On the one hand, some of our products can only be used in



We are aiming to become a climate-positive company. As a first step, we want to reduce the carbon footprint of our production by 75 percent by 2030 and help our customers and consumers to save 50 million metric tons of CO<sub>2</sub> by 2020.

conjunction with energy – laundry detergents, shower gels or hot-melt adhesives, for example. Here, we want to lower energy consumption and reduce the associated CO<sub>2</sub> footprint by developing products that enable people to use energy efficiently and by providing clear information on how to use the products responsibly. We

also have other products, however, which make a relevant contribution toward avoiding energy consumption and CO<sub>2</sub> emissions – when insulating buildings, building lighter vehicles, or eliminating the need for superfluous wash cycles, for example.

## How we help our customers and consumers to reduce CO<sub>2</sub> emissions



### Ceresit – building insulation

We provide external thermal insulation composite systems for facades for use in the construction industry. The products are mutually compatible and ensure easy application, durability and reliable performance. The systems help to reduce the energy used in buildings and save energy costs. Last year, we contributed toward saving around 90,000 metric tons of CO<sub>2</sub> emissions in Poland – one of our key markets.



### Dry shampoo

Dry shampoo can be used instead of washing hair. As it is only sprayed on the hair and then combed out, no energy is needed for heating water. This energy causes a much greater CO<sub>2</sub> footprint than the production and use of the dry shampoo. The dry shampoos under the Syoss, Schauma, Taft, Got2b, Gliss and Osis brands helped consumers save around 8,500 metric tons of CO<sub>2</sub> emissions in 2016.



### Somat dishwasher cleaner

Automatic dishwashers should be cleaned regularly to keep them working properly. The Somat dishwasher cleaner that was developed in 2016 helps to save time, water and energy as it is the first of its kind that can be used when the machine is fully loaded. The amounts of energy saved by using Somat dishwasher cleaner helped to save around 8,000 metric tons of CO<sub>2</sub> emissions in our markets in 2016.

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## Create shared value

While the middle class is growing worldwide, large sections of the global population are still facing poverty, poor labor conditions and a lack of development prospects. We are therefore striving to encourage social progress, and working with partners along the entire value chain to create shared value.

- We are committed to improving the income opportunities of people who come into contact with our supply chains and our business, such as smallholders in → [palm oil production](#), or craftsmen and hairdressers.
- We want to help girls and women create a positive future for themselves, for example, through our → [“Million Chances”](#) initiative.
- Together with our partners, we want to improve labor standards for one million workers in our supply chain by 2020. Our Sustainable Sourcing Policy and the → [“Together for Sustainability”](#) initiative involving 19 companies in the chemical industry form an important basis for this effort.

We also create value in other areas. In addition to payments in the form of salaries and taxes, our business operations and their related value-adding activities contribute to regional development. With production sites in 57 countries, we promote economic and social development as a local employer, purchaser and investor. Through the transfer of knowledge and technologies, we foster the responsible economic activity of our more than 50,000 employees and of our customers. The issue of the social added value of products is especially important in emerging markets. Products that focus on the needs of



We want to drive progress toward sustainable palm oil and palm kernel oil, and make a positive contribution to both the environment and the communities involved. We place a strong focus on the rights of people who work in or are directly affected by the palm oil industry.



The “Shaping Futures” project is part of the overarching “Million Chances” initiative of our Schwarzkopf brand. Since 2010, Schwarzkopf Professional and SOS Children’s Villages have been offering young people the opportunity to obtain basic training in hairdressing techniques. Zinhle Evelyn Dlamini (pictured) successfully participated in the program.



At Henkel, our suppliers are assessed in a comprehensive process that also covers sustainability performance and risks. The systematic development of our audit programs for suppliers as part of the “Together for Sustainability” purchasing initiative is a main focus area in this context.

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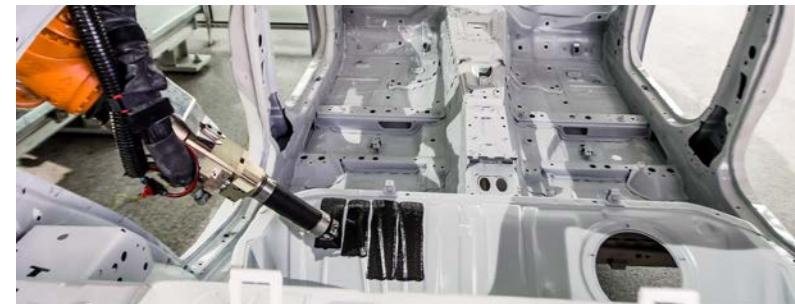
people with lower incomes have great economic potential in these markets and also make positive contributions to society, for example regarding household hygiene and health.

## Strengthening the contributions of our brands and technologies

Our brands and technologies are used a million times over, every day, in households and industrial processes. For this reason, we want to expand their contributions to sustainability by focusing more strongly on pioneering innovations. In order to strengthen the part played by our products, we define brands and technologies that have the potential to make relevant contributions to meeting environmental or social challenges through groundbreaking innovations or by engaging customers and consumers.

We will make more use of communication with our customers and consumers to demonstrate how our brands and technologies contribute to sustainability, where consumers can play a part, and how we can help them use resources more efficiently and reduce costs.

Specific examples of the contributions made by our brands and technologies can be found in the chapters of the three business units:



→ Adhesive Technologies



→ Beauty Care



→ Laundry & Home Care

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# Management

The implementation of our sustainability strategy is based on globally uniform codes and standards, integrated management systems, and an organizational structure with clearly defined responsibilities.



# Management

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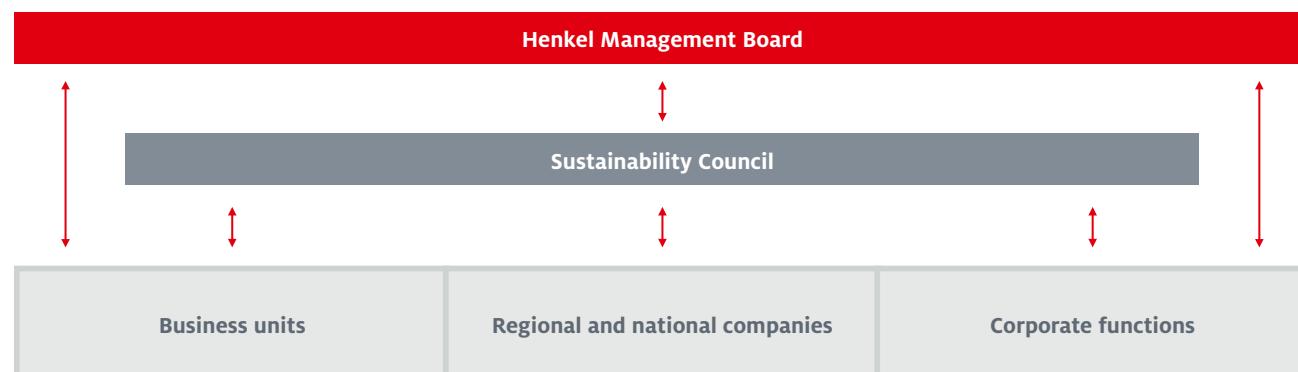
The Henkel Management Board bears overall responsibility for our sustainability strategy and for our Compliance organization. The latter ensures compliance with legal regulations and internal guidelines.

Our Sustainability Council steers our sustainability activities as a central decision-making body. It is chaired by a Management Board member and reflects all areas of the company. The business units are responsible for putting our sustainability strategy into operational action. The regional and national companies steer implementation in their respective regions. The corporate functions are responsible for ensuring implementation of our sustainability strategy in their areas.

### Business units

The research and development departments of our three business units work on key technologies and supply the basis for tomorrow's sustainable products. The business units are also responsible for adapting our sustainability strategy to their operating needs, as well as providing the resources needed for its implementation. They align their brands and technologies, and the sites involved, to sustainability in line with the specific challenges and priorities of their product portfolio.

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## Regional and national companies

Managers in the regional and national companies steer the implementation of Henkel standards and compliance with legal requirements in their respective regions. With the support of the corporate functions and the operating business units, they develop an implementation strategy appropriate to the individual sites and their local circumstances.

## Corporate functions

Through their representatives, the corporate functions bring both their expertise and their needs to the Sustainability Council. At the same time, they are responsible for the implementation of our sustainability strategy in their respective functions. For example, they develop appropriate supplier management instruments, or ensure compliance with our standards for product safety. Overarching sustainability issues are coordinated by the corporate communications department, which serves as the company-wide interface for sustainability.

## Corporate Governance

The controlling company of Henkel is Henkel AG & Co. KGaA, headquartered in Düsseldorf. Responsible corporate management and controlling, aimed at a long-term increase in shareholder value, has always been a part of our identity. Taking into account the special aspects specific to its legal form and articles of association, Henkel AG & Co. KGaA complies with the main recommendations of the German Corporate Governance Code, with one exception. So as to protect their legitimate interests and privacy, we do not list the individual shareholdings of members of the Henkel family on the Supervisory Board or on the Shareholders' Committee unless they exceed one percent of Henkel shares. The remuneration of the Management Board also complies with its guidelines. The full wording of the [declaration of compliance](#) is available on our website.

The remuneration report in [Henkel's 2016 Annual Report](#) (pages 39–51) explains the main components of the compensation system for the Management Board, Supervisory Board, and the Shareholders' Committee of Henkel AG & Co. KGaA and indicates the level of the remunerations paid. More information about Corporate Governance can be found in our Annual Report, pages 29–51.

## Codes and standards

The implementation of our sustainability strategy is based on globally uniform codes and standards, integrated management systems, and an organizational structure with clearly defined responsibilities. An important aspect for us is the interplay of company-wide steering instruments and regional action programs, which are aligned to social challenges and priorities of a specific region or market.

We are convinced that our continued focus on sustainability will help to grow the long-term value of our company and to realize our strategic priorities. Sustainability is becoming a more and more important driver of economic growth and competitive advantages in the market. Within Henkel, efficient and safe processes not only contribute to environmental protection and occupational health and safety, but also reduce resource consumption and costs. By sharing our decades of experience in sustainability, we can position Henkel as a leading sustainability partner for retailers, consumers and our industrial customers. Corporate social responsibility strengthens the motivation of our employees and their identification with the company – and thereby creates the basis for a strong global team.

The group-wide risk management also makes an indispensable contribution to our strategic focus on sustainability and enables us to identify possible risks and business opportunities at an early stage.

### Globally uniform standards

From our purpose, vision, mission and values, we have formulated globally binding behavioral rules which are specified in a series of codes and corporate standards. These apply to all employees worldwide, in all business areas and cultural spheres in which we operate.

The Code of Conduct contains the most important corporate principles and behavioral rules. It is supplemented by guidelines for dealing with potential conflicts of interest. These guidelines are a key element of our preventive measures against corruption. Further corporate standards address specific topics such as compliance with competition and antitrust laws; safety, health, environment and social standards; human rights; as well as public affairs. The codes and corporate standards also provide the basis for implementing the  [United Nations Global Compact](#), which Henkel joined as early as 2003.

You can find the following  [codes and standards](#) on our website:

- Purpose, Vision, Mission and Values
- Code of Conduct
- Code of Corporate Sustainability
- Sustainable Sourcing Policy
- Safety, Health, and Environmental Protection Standards (SHE)
- Social Standards
- Public Affairs Standard

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## Management systems

Globally uniform standards for safety, health, environment (SHE) and integrated management systems provide the basis for our worldwide optimization programs. Our SHE Standards and our Social Standards apply to all sites. Our management systems ensure that these standards are implemented consistently across our global production network. Since our employees' behavior plays a key role in this respect, we conduct regular environmental and safety training sessions on a variety of topics at all sites.

We carry out → **regular audits** at our production sites and, increasingly, at our subcontractors and logistics centers to verify compliance with our codes and standards. All audit results, including the monitoring of our SHE and Social Standards, are included in the Internal Audit department's annual report to the Henkel Management Board.

We have our management systems externally certified at the site level wherever this is expected and recognized by our partners in the respective markets. At the end of 2016, around 90 percent of our production volume came from sites certified to ISO 14001, the internationally recognized standard for environmental management systems. 91 percent of our production volume is covered by the ISO 9001 quality management standard and 53 percent is covered by the ISO 50001 energy management standard. Furthermore, around 89 percent of our production volume came from sites certified to the OHSAS 18001 standard for occupational health and safety management systems.

## Compliance

Our Compliance organization has global responsibility for all preventive and reactive measures. It is supported by integrated management systems and an organizational structure with clearly defined responsibilities.

The Chief Compliance Officer reports directly to the Chairman of the Management Board. He is supported by the Corporate Compliance Office, our interdisciplinary Compliance & Risk Committee, and 50 locally appointed compliance officers all over the world. Our Corporate Data Protection Officer is also part of our Compliance organization. Together, this team coordinates the flow of information and helps our employees to implement our requirements locally – for example, through specially adapted training courses. The Chief Compliance Officer reports on any infringements, as well as the measures taken to deal with them, to the Management Board and the Audit Committee of the Supervisory Board on a regular basis.

Our internal reporting and complaints channels are also augmented by a compliance hotline, which was set up to enable employees to report infringements of our Code of Conduct, internal standards, or applicable laws. It is run by an independent external provider and is available in 76 countries.

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## Focus on communication and training

Since we operate on a global scale, our employees find themselves working within a variety of legal and value systems. Many of our employees work in countries where, according to surveys by organizations such as Transparency International, there is a greater risk of encountering corrupt practices. Even in these locations, the same expectations apply to all employees without exception: Henkel strictly opposes infringement of laws and standards, and rejects all dishonest business practices. To impart clear rules of conduct to our employees, and especially to avoid any conflicts of interest in everyday working situations, we focus on regular training courses and communication measures.

Our managers play a key role with regard to compliance. Given their position within the company, they bear a special responsibility to set an example for their staff. For this reason, all of our managers across the globe must participate in our mandatory Compliance eLearning program twice a year. The program addresses many different compliance topics: The main emphasis in 2016 was on antitrust law, safety and human rights topics.

## Zero tolerance for violations of regulations

Improper conduct is never in Henkel's interest. The Management Board and senior management circles at Henkel all subscribe to this fundamental principle. Improper conduct undermines fair competition and damages our trustworthiness and reputation. Our employees attach great importance to a correct and ethically impeccable business environment. We react forcefully to violations of laws, codes and standards. Where necessary, we initiate appropriate disciplinary measures. In 2016, 16 employees received written warnings, and 38 contracts were terminated as a result of conduct violating compliance rules.

## Compliance Management System audited externally

Henkel's compliance culture involves continuous monitoring and improvement of the compliance process. In this context, our global

 [Compliance Management System](#) was audited by external auditors in 2013, based on the IDW PS 980 assurance standard with respect to the appropriateness, implementation and effectiveness of the compliance processes in the areas of competition law and anti-corruption. A complete description of the Compliance Management Systems in place at Henkel can be found on the Henkel website.

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## Results of our audits

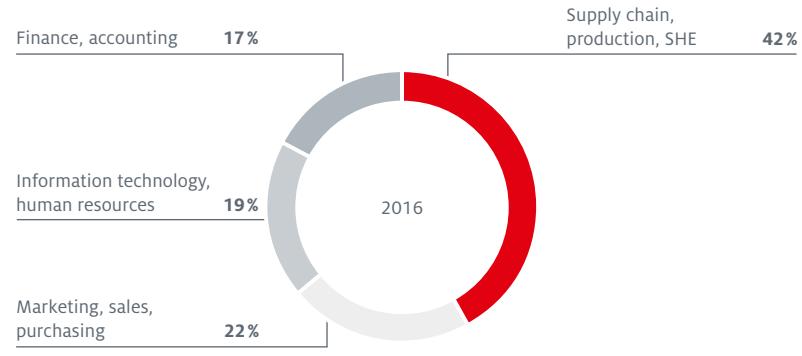
The Head of the Corporate Audit department reports directly to the Chairman of the Management Board. We carry out regular audits based on our risk-based audit planning at our production and administration sites, and at our subcontractors and in logistics centers, to verify compliance with our codes and standards. The audits are a key instrument for identifying risks and potential improvements.

In 2016, we conducted 77 audits around the world. In the course of the audits, a total of 1,641 corrective actions were agreed upon. In 2016, the main emphasis was on the following areas: Sales (audit checks of the corporate standard established in 2015); finance processes in shared services; IT-security; compliance at toll manufacturers and subcontractors; and processes relating to safety, health and environment (SHE).

Compliance with the SHE Standards was audited at 98 sites, resulting in the initiation of 551 optimization measures. We examined the maintenance of our Social Standards in 19 assessments and one Diversity & Inclusion Policy audit.

## Main focus of audits in 2016

Percentage distribution of the 2016 Henkel audit program



All audit results are included in the Corporate Audit department's annual report to the Henkel Management Board and the Audit Committee of the Supervisory Board. In addition to the regular audits, we also conducted four assessments of internal control systems, elaborated in more detail with the help of internal auditors. We also trained 1,154 employees on aspects of compliance, risk management, and internal monitoring in seminars, and during our audits in 2016.

## Human rights and social standards

### Our commitment to human rights

Henkel has a clear policy of doing business in an ethical and legal manner. This is inseparably linked with our commitment to supporting the protection of internationally acknowledged human rights.

In 1994, Henkel's Mission and Principles emphasized that our commitment to respecting the social values and standards of the countries we operate in is an integral part of our company policy. In 2000, we introduced the Henkel Code of Conduct including a clear statement on human rights, and underscored this by joining the United Nations Global Compact in 2003. This is now referenced as a fundamental principle in Henkel's Code of Conduct, and detailed in Henkel's Code of Corporate Sustainability and Social Standards. We summarize our progress and commitments on human rights in our annual Sustainability Report.

### Embedding human rights in our business

Our comprehensive set of codes, standards and processes provide our employees, customers, suppliers, investors and the communities we operate in with a clear definition of the ethical and social values we uphold – and underscore our commitment to respecting human rights along the entire value chain. They also provide a framework for decision-making and engagement within our sphere of influence worldwide, alongside local legal requirements.

Our key policy  documents include: Code of Conduct, Code of Corporate Sustainability, Social Standards, Safety, Health and Environment (SHE) Standards, Sustainably Sourcing Policy

These documents reflect our commitment to the Universal Declaration of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, together with the expectations set out by key documents such as the UN Guiding Principles on Business and Human Rights. We will further evolve our policy documents in line with the approach set out by the National Action Plans on Business and Human Rights, which are currently being developed.

We further promote human rights awareness across our organization by embedding relevant topics into  **eLearning and face-to-face training**. Alongside this, we have clear due diligence and compliance processes in place to identify and assess social and human rights impacts, and ensure that – if necessary – access to remedy is available. These processes include our company-wide  **Corporate Audit** approach as well as  **supply chain auditing**. Violations of our codes and standards can be reported directly to one of the relevant contacts listed on our website, or through two anonymous channels: our email contact form and our compliance hotline. You can find more information on Henkel's approach to  **human rights** on our website.

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# Purchasing and supplier management

Together with our partners, we want to promote sustainability along the entire value chain. Our sustainable supplier management processes address economic, social and environmental aspects.



- What we expect from our business partners
- Honoring our suppliers
- Sustainable Sourcing Process
- Initiatives for greater sustainability

# Purchasing and supplier management

## What we expect from our business partners

Our supplier base is one of our most important resources. It constitutes millions of workers around the world, and has a significant impact on our environmental footprint. To accommodate increasingly globalized value chains and more complex procurement activities, we require a holistic supplier management process. Together with our partners, we are working to drive this process forward. Environmental and social aspects are becoming increasingly important as they take their place alongside key commercial and operating indicators. Our target for 2020 is to work with our partners to improve the working conditions for one million people employed in our supply chains. Henkel currently has suppliers and other business partners from around 130 countries. More than 75 percent of our purchasing volume comes from countries that belong to the Organization for Economic Cooperation and Development (OECD). However, we are increasingly opening up new purchasing markets in countries that are not OECD members. We place the same exacting demands on suppliers worldwide.

We expect our suppliers and business partners to conduct themselves in a manner consistent with our sustainability requirements. In selecting and developing our suppliers and other business partners, we also consider their performance in regard to safety, health, environment, social standards and fair business practices. This is based on our globally applicable  **Safety, Health and Environmental Protection (SHE) Standards** that we formulated in 1997, demon-



*"We anchor environmental and social principles in our supply chains, and work on this together with our partners. This helps us to ensure the quality of our products, avoid risks for our business, and enhance our reputation."*

**Carsten Knobel**  
Executive Vice President  
Finance (CFO) / Purchasing /  
Integrated Business Solutions

strating our commitment to assuming responsibility along the entire value chain. Our corporate purchasing standards apply worldwide, and we supplemented these with a Sustainable Sourcing Policy in 2015. Our aim is that 100 percent of our procurement spend is sourced in line with our Sustainable Sourcing Policy.

### Binding supplier code

Compliance with the cross-sector Code of Conduct of the  **German Association of Materials Management, Purchasing, and Logistics (BME)** is mandatory for all of Henkel's suppliers worldwide. Henkel joined the BME in 2009, as its code is based on the 10 principles of the  **United Nations Global Compact** and can therefore be used internationally. The BME code serves as the basis for contractual relation-

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ships with our strategic suppliers. This means that they have either recognized the cross-sector BME code – and hence the principles of the Global Compact – or produced their own comparable code of conduct. The BME code has already been translated into 12 languages.



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

## Honoring our suppliers

As part of our supplier management activities, we collaborate intensively with our strategic suppliers to ensure the procurement of smart, sustainable raw materials. We aim to initiate positive changes throughout the value chain, through joint projects on process optimization, resource efficiency, and environmental and social standards. Furthermore, Henkel has been honoring sustainable innovations by its suppliers for five years.

The Adhesive Technologies business unit presented its sustainability award in 2016 to Evonik Resource Efficiency GmbH for its ongoing contribution to the sustainability of the product and project pipeline at Henkel. The award also recognized the company's outstanding performance in the area of life cycle analysis and an excellent Eco-Vadis rating. Evonik Resource Efficiency develops and produces sustainable materials that help Henkel reduce its consumption of resources in the expansion of its laminating adhesives business.



Sustainability Award for Evonik (from left to right): Thomas Holenia, Corporate Vice President Purchasing at Henkel, Claus Rettig, Chairman of the Board of Management at Evonik Resource Efficiency GmbH, Dietmar Wewers, Senior Vice President and General Manager at Evonik Resource Efficiency GmbH, Jürgen Lorösch, Strategic Account Coordination Manager at Evonik Resource Efficiency GmbH, Mike Olosky, Corporate Senior Vice President and Global Head of Innovation at Henkel Adhesive Technologies and Jan-Dirk Auris, Executive Vice President Henkel Adhesive Technologies.

The Beauty Care business unit recognized chemical company Lonza in 2016. A collaboration with Lonza resulted in the development of more environmentally compatible ingredients for Dial brand antibacterial soaps. In addition, Lonza increased efficiency and transparency by providing comprehensive safety data on the alternative ingredients.

The Laundry & Home Care business unit presented BASF with an award in 2016 for the development of unique, high-performance ingredients that have gone into the development of phosphate-free automatic dishwashing products. As a result, Henkel premium brand Somat contributes to a reduction in water pollution.

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## Sustainable Sourcing Process

Our six-stage “Sustainable Sourcing Process” is a core element of our supplier assessment approach. This focuses on two main challenges: First, ensuring that all of our suppliers comply with our defined sustainability standards. Second, we aim to purposefully work with our strategic suppliers to continuously improve sustainability standards in our value chain – for example, through knowledge transfer and continued education about process optimization, resource efficiency, and environmental and social standards. This process is an integral part of all our purchasing activities. We perform this process both at the beginning of our relationship with a supplier and as a regular check of our existing suppliers. Using this process for the assessment of sustainability performance, we currently cover more than 85 percent of the volume we source from our suppliers in the areas of packaging, raw materials, and contract manufacturers.

### Step 1: Pre-check and risk assessment

Henkel uses an early warning system for sustainability risks in global purchasing markets. We begin by estimating the potential risks in a market or a region. In doing so, we concentrate on countries identified by international institutions as being associated with heightened levels of risk. The assessment includes the criteria of human rights, corruption, and the legal environment, as well as risk value chains. These are industries and sectors that we consider to potentially represent a risk for our company. This helps us to identify countries and purchasing markets that may require special precautions.

### Step 2: Onboarding

The results of the pre-check and the risk assessment then flow into our supplier onboarding process. We expect our suppliers to recognize our supplier code (BME code) and our SHE annex. Our onboarding process is anchored in a globally uniform registration system and provides a standardized summary of our sustainability requirements.

### Step 3: Initial assessment or re-assessment

We use supplier self-assessments based on questionnaires and have them examined as assessments by the independent experts EcoVadis. These cover our expectations in the areas of safety, health, environment, quality, human rights, employee standards, and anticorruption. We also regularly request repeat self-assessments, referred to as re-assessments. In 2016, 65 percent of our re-assessed suppliers had improved their sustainability performance.

### Step 4: Analysis

Based on the assessments and the suppliers' self-assessments, we classify suppliers according to a “traffic light” system. A red score always leads to an audit. In the case of a yellow score, the areas where improvement is needed are identified and the supplier is audited if necessary.

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### Step 5: Audit

Henkel works with independent audit companies to audit compliance with the defined standards in TFS audits. Our audits include on-site inspections, e.g., at production sites, and discussions with local employees. Follow-up measures after an audit ensure that suppliers implement the corrective actions that have been specified. Repeated serious non-compliance leads to prompt termination of the supplier relationship. In this area, we also actively participate in cross-sectoral initiatives with the aim of improving the transparency and efficiency of supplier audits and helping to establish cross-company standards. In 2016, we conducted a total of 1,013 assessments and audits.

### Step 6: Development or termination of the supplier relationship

As part of our supplier management activities, we work intensively with our suppliers to improve sustainability performance. We strive to initiate positive changes throughout the value chain, through training programs and joint projects. Overall, we did not receive any notification throughout 2016 of an infringement by any of our strategic suppliers that would have given cause for terminating our relationship with that supplier.

### Sustainable Sourcing Process



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## Early warning system for risk markets

One example of a risk market is the purchasing of raw materials for soldering pastes and similar products for the electronics industry. These contain metals – mainly silver, copper and tin – to make them electrically conductive. In some countries, the mining of cassiterite (the main source of tin) is often associated with military conflicts and human rights violations. In recent years, we have repeatedly reviewed our direct suppliers of metals and requested them to supply documentary evidence that they do not purchase or process metals from critical regions.

## Initiatives for greater sustainability

In 2011, Henkel and five other companies in the chemical industry established the initiative  “[Together for Sustainability – The Chemical Initiative for Sustainable Supply Chains](#)” (TfS). It is based on the principles of the United Nations Global Compact and the Responsible Care Initiative of the International Council of Chemical Associations (ICCA). The TfS initiative aims to harmonize the increasingly complex supply chain management processes with regard to sustainability and to optimize the dialog among worldwide business partners. Above all, synergies are to be created so that resources can be used more efficiently and with a minimum of administrative effort, not only among the member companies but also with all of our shared suppliers.

Since the formation of TfS, the sustainability performance of more than 6,000 suppliers has been assessed using the EcoVadis assessment process as part of the initiative. Moreover, the initiative had also received 724 audit reports.

At the heart of the initiative is the idea: “An audit for one is an audit for all.” Suppliers only have to undergo one assessment or one audit. These are conducted by independent experts. An internet platform is then used to make the results available to all members of the initiative for information and approval. Since 2014, TfS has a new legal identity: Through partnering with the Brussels-based European Chemical Industry Council (CEFIC), the initiative now has the status of an independent, non-profit organization. This collaboration will generate even more synergies across the chemical industry.

The TfS grew once again in 2016 and the number of members has more than tripled from the original six to 19. In 2015, the first companies from the USA joined the initiative.

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Global expansion of the assessment and audit program, driven in part by supplier conferences, was again a main focus of activities in 2016. The shared challenges of supply chains in India were discussed at a supplier meeting with more than 500 participants in Mumbai.



International expansion of the TfS initiative continued in 2016. A suppliers' conference in Mumbai was attended by more than 500 people. From the left: R. S Shukla and Vinod Mahendra (Shree Resins), Dr. Janine Voss, Prashant Dhake, and Avinash Gcharge (Henkel).

In October 2016, TfS and the China Petroleum and Chemical Industry Federation (CPCIF) signed a framework agreement to jointly promote and improve the supply chain sustainability in China.



One key element of the master agreement between TfS and CPCIF is to motivate further Chinese companies to join the TfS initiative. From the left: Pang Guanglian, Vice Secretary-General and International Affairs Manager of CPCIF, Shuosheng Li, President of CPCIF, Dr. Klaus Engel, CEO of Evonik Industries and Rüdiger Eberhard, President of TfS and CPO at Evonik.

## Purchasing and supplier management

## Joint platform for sustainable, efficient supplier management

TfS members are responsible for using supplier codes and risk analyses to define their supplier requirements. Assessments and audits are then performed by independent experts for the initiative. Performance is assessed in the areas of management, environment, health

and safety, employment rights, human rights, and ethical corporate governance topics. The measures subsequently introduced are reviewed via re-assessments or audits. Follow-up controls and subsequent supplier management are the responsibility of the individual member companies.



## Responsible sourcing – "AIM-PROGRESS"

Henkel is also a member of  **AIM-PROGRESS**, a forum of companies in the consumer goods industry. Like the TfS initiative, AIM-PROGRESS encourages member companies to share experiences and utilize

synergies. The forum also seeks to develop and promote shared evaluation methods to determine CSR performance along the value chain.

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# Production

We are working continuously at all production sites toward reducing our environmental footprint while maintaining high quality and safety standards.

- Ambitions for our production operations
- Sustainable right from the start
- Worldwide optimization programs
- Contributions to resource efficiency
- Leveraging industry 4.0 and smart factories
- Subcontractors



# Production

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## Ambitions for our production operations

Henkel operates 171 production sites worldwide. We work continuously at all of these sites to reduce our environmental footprint while maintaining high quality and safety standards. We have set concrete targets for our production sites to maximize our impact and help steer progress toward our long-term goal to become three times more efficient by 2030 (“Factor 3”). We have achieved all previous interim targets by the end of 2015 and are now focusing our efforts on working toward our new interim targets up to 2020. Until then, we want to increase net sales by 22 percent per ton of product and improve our worldwide occupational accident rate by 40 percent per million hours worked, while reducing the direct and indirect CO<sub>2</sub> emissions from our production sites, our water use and our waste volume, in each case by 30 percent per ton of product relative to the base year 2010.

We have also defined additional priorities for our programs: increasing the amount of renewable energies we use, cutting the volume of waste for landfill, and a stronger focus on saving water in regions where water is in short supply. We want to become a climate positive company and reduce our carbon footprint by 75 percent until 2030. Therefore, we will focus on the continuous improvement of energy efficiency and increase the use of renewable energy. In particular, we want to get 100 percent of the electricity we consume from renewable sources by 2030, through on-site generation as well as external procurement. Another priority is the reduction of production waste for

	Achieved 2016 <sup>1</sup>	Targets 2020 <sup>1</sup>
 More net sales per ton of product	+ 8 %	+ 22 %
 Safer per million hours worked	+ 17 %	+ 40 %
 Less energy / CO <sub>2</sub> emissions per ton of product	- 22 %	- 30 %
 Less waste per ton of product	- 26 % <sup>2</sup>	- 30 %
 Less water per ton of product	- 23 %	- 30 %
<b>Total efficiency</b>	<b>+ 42 %</b>	<b>+ 75 %</b>

<sup>1</sup> Compared to the base year of 2010.

<sup>2</sup> Amounts of waste from our production sites excluding construction and demolition work.

landfill: By 2020, we want the production sites of our consumer business to contribute zero waste to landfill. By 2030, we will expand this target to cover all production sites, including our industrial business. By the end of 2016, 39 percent of our sites already achieve this ambition.

## Sustainable right from the start

When building new plants for our production network, it is our ambition to integrate sustainability from the very beginning. In 2013, the Laundry & Home Care business unit decided to build a new plant close to Cairo in Egypt. We took this opportunity to design and construct a smart factory with minimal environmental impact in one of our important emerging market countries.

- **Choice of site location in 2014:** We decided to build the liquid detergent plant in Polaris Industrial Parks, which is considered to be a pioneer in setting environmental and social standards for industrial parks in the Middle East. For example, Polaris Parks uses solar street lighting and offers a health center as well as a daycare facility. In addition, the park operator looks at the environmental impact of businesses when choosing new users of the industrial park.
- **Construction phase in 2015-2016:** More than 2,360 hours of safety training and strict safety procedures have resulted in zero lost time cases and zero restricted work cases for more than 200,000 working hours. In addition, Henkel worked with a construction contractor who managed to reduce construction waste by more than half compared to the market average. All this has contributed to make the construction phase as sustainable as possible.
- **Set-up for efficient operation starting mid-2017:** The Cairo plant has been designed as a smart factory and will be equipped with the newest, real-time measurement systems to monitor energy and

water consumption as well as waste generation. Given that Egypt is one of the sunniest countries, we will install skylights to save energy needed for lighting. Taking into account that the region is characterized by water scarcity, we placed a particular focus on integrating best practice measures to reduce water usage during operation of the plant. In addition, the plant is designed to produce zero waste to landfill enabled by a modern waste management and recycling system. Furthermore, we have enhanced health and safety at the plant, for example, by implementing innovative traffic solutions and by avoiding the use of combustible construction materials.



The new liquid detergent plant near Cairo in Egypt is designed as smart factory, where filling lines operate fully automated and are steered centrally to maximize resource efficiency, safety and quality. We have considered sustainability aspects right from the start when choosing the site location, during the construction phase up until the plant's official opening in mid-2017.

## Worldwide optimization programs

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### Company-wide lean management

Aiming to continuously improve our entire production network, we have begun to introduce the Henkel Production System (HPS) in 2015. Through this Group-wide optimization program, we want to systematically identify and eliminate inefficiencies of all kinds along our value chain, such as waiting times, excess production or defects, in order to generate more value for our customers and our shareholders. To this end, we have set standards for all three business units on the harmonization of production workflows. HPS is based on lean principles and on engaging all employees to ensure that they can implement the new standards effectively while saving on resources.

For example, at the Laundry & Home Care and Beauty Care site in West Hazleton, USA, implementation of HPS and its lean tools has delivered strong results in the areas of resource efficiency, production improvements and safety. This includes a reduction of water usage for the filler cleaning process of almost 1.2 million liters annually in parallel with an increased production output. Redesigned forklift work flow patterns have created safety zones in the packaging area. Through HPS, we want to drive lean thinking and tools in all operations throughout our production network by the end of 2017.

### Journey toward zero waste to landfill

We target our ambition of zero waste to landfill by 2030 by systematically identifying waste streams and creating closed-loop systems where possible. Our focus lies on increased recycling within our plants and on collaboration with our packaging suppliers. In doing so, our Laundry & Home Care plant in Cork, Ireland, has managed to halve its waste volume already in 2014. One year later, the plant was equipped with an additional compactor, which supports the recycling process and further reduced waste going to landfill. In a last step, the remaining hazardous waste is now sent for fuel recovery. As result, this plant is zero waste to landfill since August 2016.

Another project was successfully implemented at our Beauty Care site in Wassertrüdingen, Germany: Thanks to a unique partnership with UPM Raflatac and parent company UPM, the site was able to reduce siliconized paper liner waste to zero. This paper liner is used to transfer labels onto our cosmetics products and uses adhesives from Henkel, amongst others. The process generates more than 400 metric tons of siliconized paper liner waste per year, equivalent to around 20 truckloads. Participation in the new RafCycle® program from UPM Raflatac enables us to recycle all of this waste into new graphic printing paper for books and magazines. Henkel waste now accounts for 10 percent of all the waste recycled through RafCycle® at UPM. This partnership demonstrates the importance of collaboration on our journey towards zero waste to landfill.

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### Development of the industrial site in Düsseldorf

We are continuously optimizing the existing infrastructure and processes at Henkel's Düsseldorf production site, the largest in the world, in order to service our customers' increasing delivery needs. In 2016, we doubled truck capacity by means of extensive construction work and enabled faster and more efficient throughput of delivery traffic via the use of advanced logistics systems. The construction works produced a total of around 48,000 metric tons of construction waste. Of this, more than 90 percent was taken for recycling via processing plants, while the remainder was disposed of properly. These measures evidence an important investment in the development of our factory premises as an industrial and chemical park.

### Becoming a carbon positive company

We want our operations to become carbon positive. Therefore, we are complementing further energy efficiency improvements with the procurement and on-site generation of renewable electricity. In doing so, we are aligning with national and regional energy markets as well as climate action plans. In 2016 we conducted a global assessment of the energy needs of our production sites worldwide and evaluated the local potential for renewable energy. Based on this, we are now preparing the implementation of our ambition to source all electricity from renewable sources by 2030.

### Standards and management systems

Globally uniform standards for safety, health, environment (SHE) and integrated management systems provide the basis for our worldwide optimization programs. The SHE Standards and our Social Standards apply to all sites. Our → **management systems** ensure that these standards are implemented consistently across our global production network.

**External certification of our management systems, status 31.12.2016:**

Code	Standard for	Percentage of production volume covered
ISO 14001	Environmental management systems	90 percent
ISO 9001	Quality management systems	91 percent
ISO 50001	Energy management systems	53 percent
OHSAS 18001	Occupational health and safety management systems	89 percent

## Selected examples of contributions to resource efficiency

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Focal areas	Measures
	<b>Danyang, China: intelligent wastewater recycling</b> The adhesive coatings production site has implemented a new wastewater recycling system based on advanced technologies that create a “point-of-source” water recycle system. It individually identifies the contaminants in each water effluent stream and selects the separation processes best able to handle those contaminants. As a result, all chemical wastewater in the coatings line is treated by this system and the regenerated water will be used again, saving around 2,000 cubic meters per year.
	<b>Bogotá, Colombia: re-use of packaging waste with suppliers</b> The Beauty Care site worked with their packaging suppliers to install a “closed loop” reuse for the outer corrugated board boxes in which the aluminum tubes and plastic bottles are delivered. Compared to the former boxes, the new ones are more robust and when emptied not send for recycling anymore but returned to the supplier with the next packaging material delivery to be directly reused. With this initiative, the site was able to save more than half its total waste.
	<b>Montornès, Spain; Ferentino and Lomazzo, Italy: more efficient thermal energy</b> The Laundry & Home Care business unit installed new generation boilers in its plants in Montornès (Spain), Ferentino and Lomazzo (Italy). In a thermal boiler, gas is burned to produce heat which is exchanged with water to generate hot water and steam. In the new boilers, an economizer is installed downstream of the combustion process and allows to utilize the heat content of emitted fumes to preheat water fed into the boiler. This increases overall efficiency of the thermal boilers from previous 85 percent to more than 92 percent, reducing thermal energy consumption in Spain and Italy by around 5 percent.
	<b>Düsseldorf, Germany: highly efficient on-site energy generation</b> Every year, the Henkel combined heat and power plant generates around 1.5 million tons of steam and 285 gigawatt hours of electricity. Thanks to cogeneration the efficiency of converting gas, coal and oil into energy is at around 83 percent – compared to 40 percent in conventional power plants. We use the generated electricity directly in the plant and, dependent on grid load, feed any surpluses into the public grid or obtain additional electricity from it. In 2016, we have added two highly efficient block heating stations together with BASF to expand our capacities. The generated electricity causes 60 percent less CO <sub>2</sub> emissions than compared to the public grid.

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## Leveraging industry 4.0 and smart factories

Digitalization is driving the so called fourth industrial revolution, which is characterized by increased automation and data exchange in manufacturing technologies. Henkel will leverage industry 4.0 to better plan, source, produce and deliver its products and solutions. A key element is the smart factory, in which intelligent machines control and optimize production processes based on real-time information and wireless interconnectivity. The digitalization of the integrated global supply chain will help to increase service levels for our customers, better utilize manufacturing plants, improve production and logistics processes, and further improve Henkel's sustainability footprint.



Fully automated robots take over the stacking of finished products on transport pallets.

Over the past years, the Laundry & Home Care business unit has implemented a "Digital Backbone" system at all of its plants. One element was the installation of more than 1,000 energy meters, all

connected to one global server. This enables us to collect, store and visualize energy consumption data globally and to generate KPIs and reports for real-time analysis. The system automatically develops an energy consumption pattern analysis and shows optimization potential on hourly, daily, weekly, or monthly basis. As a result of this increased transparency, the business unit was able to reduce its specific energy consumption by 22 percent per metric ton of product. This translates into more than 100,000 metric tons of CO<sub>2</sub> saved as well as into significant energy cost savings. We plan to extend online monitoring of our global energy consumption to our business units.

Based on close collaboration between its Supply Chain and R&D teams, the Beauty Care business unit has launched a "Data Analytics" pilot at its plant in Viersen-Dülken in Germany. In order to improve plant operations, we use big data analytics of raw material data, process parameters (such as temperature) and product quality data. The resulting transparency in our manufacturing processes enables us to quickly detect causes of errors and to correct them. Thereby, we can significantly reduce the amount of products that need to be reworked as they do not meet the product specifications right from the start. This avoids the use of additional raw materials as well as extra cycle times involving more energy consumption, labor hours, and costs. As soon as we have completed the pilot successfully, we will expand this approach to more sites.

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Our Adhesive Technologies business unit is rolling out a smart factory platform across Asia Pacific. The first pilot was launched in 2014 in the Dragon Plant in Shanghai, China. The goal is to foster operational transparency through process digitalization and structured monitoring of the machinery's performance. Interconnected digital devices such as scanners and KPI dashboards provide real time updates, which allow teams to constantly review the process performance and take action when necessary. As a result, machine utilization has increased significantly, enabling us to double the productivity of specific production lines. This means we can achieve the same production volume with less number of shifts, which allows us to operate fewer machines. In this way we managed to reduce both energy consumption and operating costs. By the end of 2016, we have rolled out this smart factory platform to 10 sites across five countries in the Asia-Pacific region.



KPI dashboards with real time updates, like this one at the Dragon Plant in Shanghai, allow teams to constantly review the process performance and take action when necessary.

## Subcontractors

Third-party manufacturing is an integral part of our production strategy. For example, we sometimes use toll and contract manufacturers when entering new markets or introducing new products and technologies. In these cases, the corresponding production volume is often still small.

The use of external partners also helps to optimize our production and logistics network and to increase resource efficiency. Currently, we source around 10 percent additional annual production volume from toll and contract manufacturers.

Our requirements regarding quality, environmental, safety and social standards are an integral part of all contractual relationships and order placements. We monitor them using audits carried out by our own staff and, increasingly, by specialized third-party service providers. We aim to establish long-term collaborations with our toll and contract manufacturers. This also includes adding them to our environmental data recording systems.

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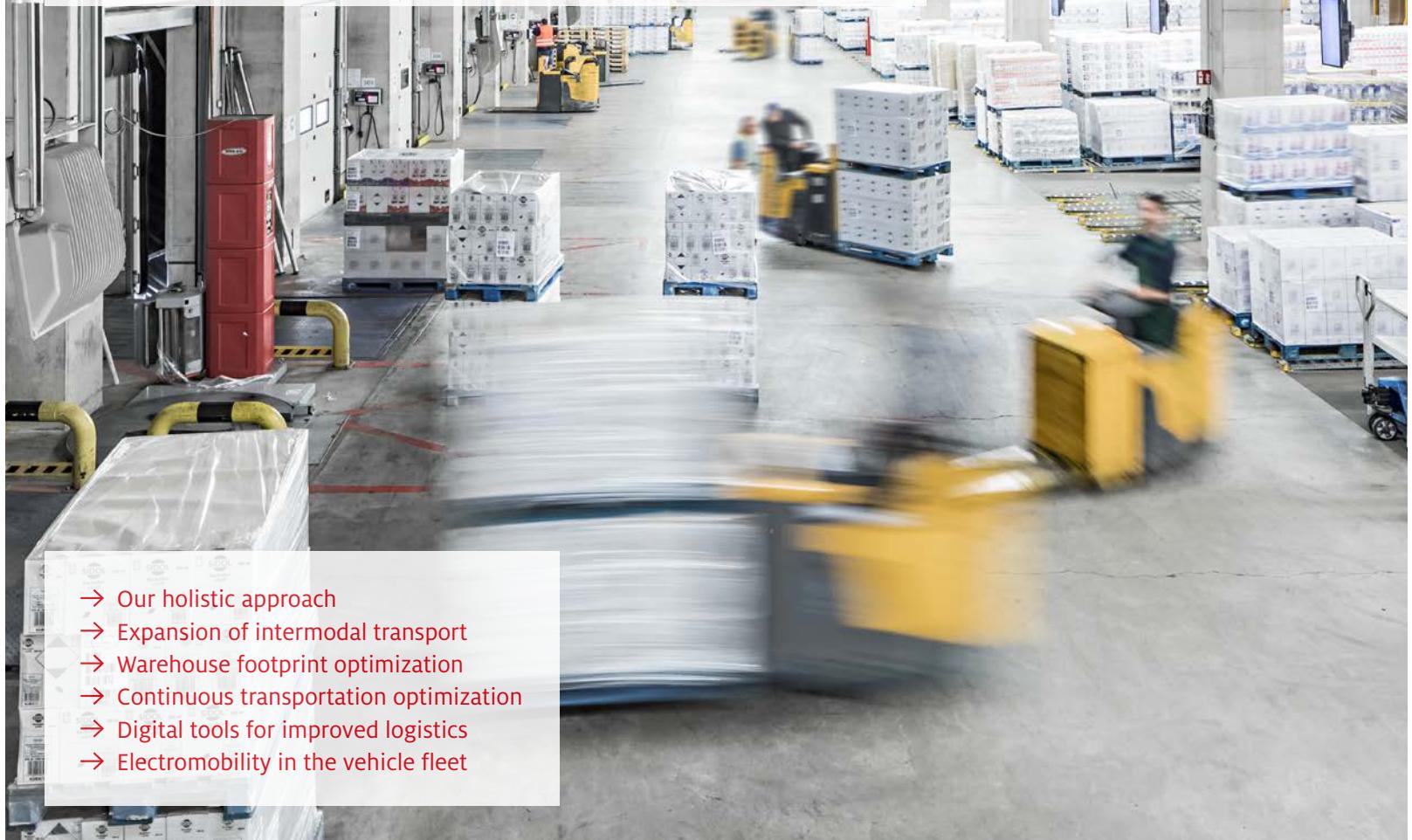
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# Logistics and transport

Reducing our emissions is an important goal within our transport and logistics concept. We focus on expanding intermodal transport, on improving our warehouse network and on transportation optimization.



# Logistics and transport

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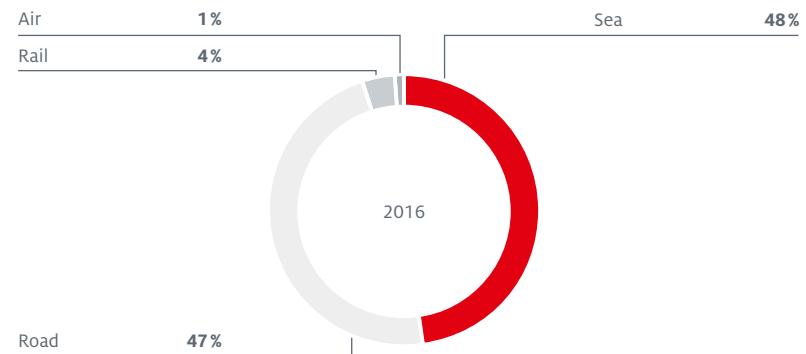
Optimizing our logistics footprint starts with the product development stage. We work on product and packaging optimization in terms of weight and volume, provided this is possible without compromising their performance, convenience and stability. Concentrates and lighter packages reduce transport weight and hence carbon emissions. We also strive to reduce complexity in our product ranges. For example, the use of base formulations and similar packaging materials for different brands and countries can result in less material usage and less waste.

Next to product and packaging optimization, improving our logistics structures helps us to reduce transport emissions. This includes optimizing the location of our production sites: For bulkier products, we reduce transport mileage and environmental impact by operating regional production sites. Compact products make fewer demands on transport, so we produce them centrally whenever possible to leverage efficiencies in production. For the transportation of finished goods, we focus our efforts on three major drivers:

- Expansion of intermodal transport
- Improving our warehouse network
- Continuous transport optimization

We leverage these drivers by collaborating with our providers and customers to realize joint logistics projects. In particular, we have extended our established → **“Say yes to the future”** program to the logistics area to foster best-practice exchange between our business units and to initiate logistics projects in close collaboration with our customers. When choosing our transport partners, we take efficiency as well as environmental and safety performance into account. Relevant criteria are included in our request for proposal processes and tenders for the purchase of logistics services. These include energy-saving targets and measures for modernizing vehicle fleets.

### Product transports per transport mode in 2016



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## Expansion of intermodal transport

Intermodal transport involves using more than one mode of transportation. At Henkel, this means that more and more transports are being shifted from road to rail: A truck carries the goods to the nearest rail loading terminal. Next, the long distance is travelled by train. A second truck collects the goods at the destination terminal and delivers them to the recipient. This allows us to make use of the lower CO<sub>2</sub> footprint of a train compared to a truck: per tonne-km, the train generates only around one third of the CO<sub>2</sub> of a truck. Intermodal transportation has therefore become the key driver for CO<sub>2</sub> reduction in logistics at Henkel.

In North America, intermodal routes already cover 23 percent of our transports. We are now focussing on further expanding such routes in Europe. In 2016, we implemented 14 intermodal projects covering all business units and switched more than 50 million tonne-km to intermodal transport, reducing CO<sub>2</sub> emissions by around 1,700 metric tons. The Beauty Care business unit has been a main contributor by switching more than 30 million tonne-km from truck to train. To leverage intermodal solutions in the future, we have started to systematically test the applicability of intermodal transportation to all relevant routes throughout Henkel.

## Warehouse footprint optimization

We position warehouses and distribution centers to minimize the distance between our production sites and our customers. We also achieve synergies by consolidating transports between individual

plants and warehouses. Further, we make use of the mega warehouse concept, where a few main distribution centers store products until the required quantities are due for on-time delivery to regional warehouses and retailers.

One recent project included the consolidation of warehouses in our Adhesive Technologies business in the UK, where we merged several smaller warehouses into one larger one. As a result, only one facility needs to be heated and lighted, enabling significant CO<sub>2</sub> savings. Moreover, we were able to reduce the number of truck loads in the UK because shipments to customers can now be combined. The consolidation initiative also led to improved warehouse processes and set-up. The warehouse was equipped with a modernized refrigeration area with improved insulation to reduce energy consumption. By using optimized forklift routes the energy consumed by them could be decreased as well. We plan to install LED lighting in the warehouse, which will enable savings in energy consumption and CO<sub>2</sub> emissions from lighting of around 70 percent.

## Continuous transportation optimization

We continuously increase the capacity utilization of our cargo containers by expanding our pooling activities. This includes the targeted grouping of transports and storage of similar product categories within Henkel as well as combining transports with those of other suppliers at the same logistics service provider's facilities. The resulting synergistic effects in storage, order picking and transporta-

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tion ensure that more fully loaded trucks travel to the central warehouses of our customers. We also improve our pallet management, for example, by hiring pallets instead of buying them. This results in more efficient pallet collection and improves the handling of damaged pallets. Where possible, we also make use of reusable cardboard pallets instead of wooden pallets. Due to their lighter weight they are easier to handle and reduce fuel consumption.

In 2016, we focused on the reduction of direct store deliveries by closely collaborating with our customers. When Henkel delivers its products directly from the warehouse to customer stores, separate trucks are generally used to serve each store, often requiring a different set of products to be delivered to each destination. Overall, this results in more trucks being on the road, while in many cases their capacity is not being fully used. This can be improved by switching from direct store delivery to delivering to distribution centers or cross-docking stations run by Henkel, a logistics service provider or the customer, before the goods continue on to the stores using the customer's logistics network. As a result, shipments to the distribution center or cross-docking stations can be consolidated on the Henkel side in terms of routes and products transported, leading to less kilometers driven and higher truck capacity utilization. Then, Henkel products can be combined with other products by the service provider or customer for an optimized delivery to the stores. In 2016, the Laundry & Home Care business collaborated with three main customers around the world to optimize delivery flows accordingly. This has resulted in saving around 430 tons of CO<sub>2</sub> per year.

## Digital tools for improved logistics

With the new Transport Management System ONE!TMS, we have introduced a Group-wide IT solution for more efficient handling of our transport planning and execution across all business units and countries. Higher truck capacity utilization and optimized routes decrease the transport mileage, reduce fuel consumption and thus diminish CO<sub>2</sub> emissions. Implementation of the tool started in 2015 at sites in the Benelux countries, Spain, Portugal, Slovenia, Germany, China and Taiwan. During 2016, the tool was rolled out in further European countries. As a next step we are working on the roll-out to North America.

To demonstrate our progress, it is especially important to systematically record the CO<sub>2</sub> emissions of our logistics operations. In 2016, we therefore implemented EcoTransIT World, which calculates carbon emissions of finished goods transportation by all transport modes on the basis of the DIN EN 16258 standard. Benefits of this tool include the use of real distances based on GPS data and country-specific emission factors as input as well as the possibility to use the data relating to each carrier. This step enables Henkel to foster transparency and data comparability across the entire industry and helps track progress against our emission reduction target.

## Electromobility in the vehicle fleet

As a pioneer in sustainability, we encourage the use of electromobility at our sites by testing the operational capability of electric vehicles before any new purchase. Hereby, we take regional aspects and driving profiles into consideration. At our headquarters in Düsseldorf, we have incorporated more than 20 electric vehicles into the internal fleet since 2012, replacing conventional vehicles with internal combustion engines. We have built a corresponding infrastructure with over 30 charging stations in and around the Düsseldorf-Holthausen industrial park, some in cooperation with the utility company Stadtwerke Düsseldorf.

Due to the cogeneration of the Henkel power plant in Düsseldorf, CO<sub>2</sub> emissions, which originate from the energy generated for recharging the vehicle batteries, amount to 40 grams per kilometer. In comparison, CO<sub>2</sub> emissions are 80 grams per kilometer for electricity from the public grid and between 120 and 180 grams per kilometer for a conventional gasoline engine. We have also installed new solar technology in a facade of one of our site restaurants, which generates carbon-neutral electricity. The amount generated in a year could be used for the carbon-neutral charging of over 700 electric vehicles, equating to a distance driven of around 100,000 kilometers and a reduction in CO<sub>2</sub> of around 14 metric tons.

Other projects to encourage electromobility include the systematic replacement of forklift trucks with internal combustion engines with electric forklifts and the adoption of a new car policy that enables those of our managers in Germany who are entitled to a company car to order vehicles with electric drives. In 2016, Henkel was awarded for its performance in the field of electromobility in the “Mobile with style – environmentally friendly driving” competition organized by the City of Düsseldorf.

Electric vehicles mean there is less noise at the Düsseldorf site, and powering them with our energy mix makes them a carbon-reducing alternative to company vehicles with conventional drives. They have proved their worth with lower servicing costs, good cold running on short journeys, and high acceptability by the drivers. As a result, we are working on the further development of electromobility and are creating a structure for new and integrated mobility solutions.



The increasingly electrified corporate fleet and the expansion of the charging infrastructure at the Düsseldorf site are important steps towards promoting environmentally compatible mobility.

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# Sustainability stewardship

Our ambition is to ensure that all of our products contribute to sustainability. We are conscious of our responsibility when purchasing and using ingredients derived from renewable raw materials – such as palm and palm kernel oil.

- Our research and development
- Sustainable consumption
- Sustainability measurement
- Product safety
- Raw materials
- Packaging and disposal
- Emerging markets



# Sustainability stewardship

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If we are to decouple increased quality of life from resource use, product innovations will play an essential role. Our products therefore provide key leverage points for implementing our sustainability strategy. They should offer customers and consumers more value and better performance at a smaller environmental footprint.

For us, this is not a question of developing individual “green” products where only the environmental profile has been improved. Our aim is to continuously improve all products across our entire portfolio, taking every aspect into account. A high degree of innovativeness is very important in achieving this. In 2016, Henkel employed around 2,700 people on average in research and development and invested 463 million euros in these activities. In order to steer product development in line with our sustainability strategy from the outset, criteria for assessing sustainability have been systematically anchored in the Henkel innovation process since 2008. The focus is on innovations that will help our customers and consumers to reduce their energy use and thereby their own carbon footprint.



Henkel is committed to ensuring that its products are safe for people and the environment. Comprehensive assessments and tests of all raw materials and finished products before launch using recognized scientific methods assure a high level of safety during production, use and disposal.

## Sustainable consumption

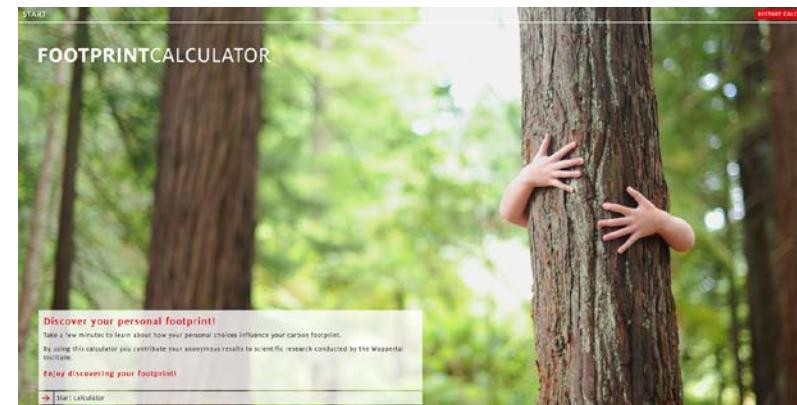
An important objective of our strategy is promoting sustainable consumption that conserves resources. Our products are the key here. They are used in millions of households and industrial processes every day. This is why we concentrate on developing products that enable the efficient use of resources such as energy and water. Our aim is to save 50 million metric tons of CO<sub>2</sub> emissions by 2020 through our products and by helping our customers and consumers with our expertise.

Through targeted communication, we additionally strive to encourage responsible-minded behavior while using our products. This is especially important, because the environmental footprint of many of our products largely depends on their being used correctly.

Besides providing appropriate products, our collaboration with retailers and distributors also plays a crucial role. Retail groups are important partners for Henkel on the road to more sustainable consumption. They offer us an excellent platform for informing consumers about more sustainable products and encouraging them to use these products in an environmentally responsible way.

Under the slogan “No longer niche. The future of sustainable consumption”, representatives from industry, science, and non-governmental organizations discussed the topic of how consumers

can be motivated toward sustainable consumption at the REWE Dialogforum in Germany. Henkel participated for the seventh time as a premium partner during the REWE Group’s “Sustainability Weeks” and in the associated Dialogforum.



### Henkel footprint calculator

Not only companies, but also every individual, can contribute to more environmental compatibility through their behavior. The  **Henkel footprint calculator** summarizes this in a vivid manner: By answering simple questions, consumers can quickly estimate how much CO<sub>2</sub> they generate through their own lifestyle in the areas of living, nutrition, mobility, as well as vacations and recreational activities. At the end, they see how their results compare to the German average.

## Sustainability measurement

Henkel first published an Environment Report in 1992. It reviewed our achievements and the progress made in the area of environmental protection in respect of our products and at our production sites. Henkel subsequently began preparing an annual report on the company's major sustainability activities.

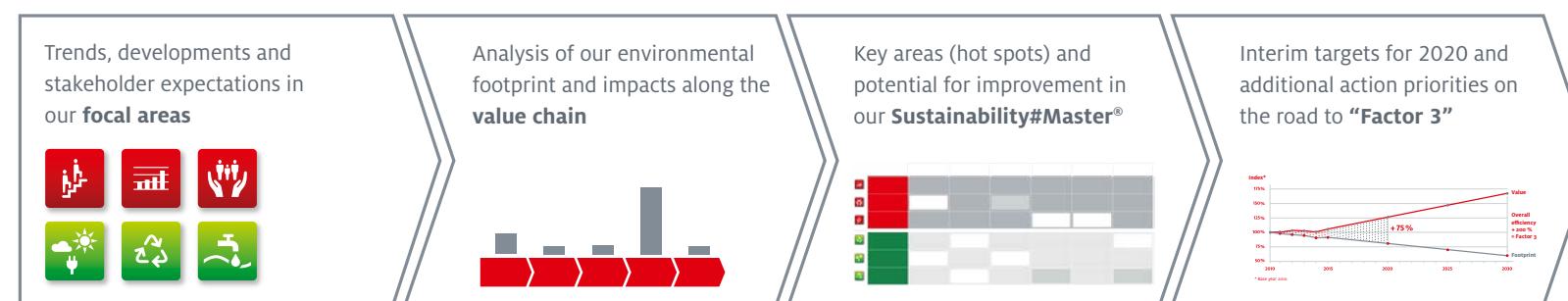
In 2016, we collected data on 171 sites, representing 100 percent of our global production volume.

To assess our footprint along the entire value chain, we use representative life cycle analyses that cover around 70 percent of our sales across all product categories. We also assess data on the raw ingredients and packaging materials we use and the transport operations. We are currently using the knowledge we have gained to further improve our assessment and measurement systems to allow us to make an integrated assessment of our progress toward our 20-year

goal for 2030 across the entire company and our value chain. In 2016, our work was mainly concentrated on improving the data basis for the raw ingredients and packaging materials we use; updating the emissions factors for the energy usage figures for our sites worldwide; and further developing our computing models for logistics emissions.

### Development of our targets and action priorities by 2020

Led by our Sustainability Council, we set up working groups to evaluate trends, developments and the expectations of our stakeholders and to analyze our environmental footprint along the value chain. The next step was to identify the key areas where we can create more value for our customers and consumers, for the communities we operate in, and for our company – at a reduced footprint. On this basis, we defined our priorities for 2020 in order to contribute to our long-term goal of "Factor 3" and drive sustainability along our value chain.



## Important topics and opportunities for improvements along the value chain – an overview

	Value	Raw materials	Production	Logistics	Retailing / industrial processing	Service/Use	Disposal
Foreword	 <b>Performance</b>				← Prerequisite →		
Henkel overview	 <b>Health and Safety</b>	Occupational safety	Health (including occupational safety)	Safety standards	Responsible use of chemicals and transparency on the substances used in our products and their safety		
Our strategy	 <b>Social Progress</b>	Social standards Support for smallholders	Diversity and inclusion Employee development	Social standards	Education and training of professional users Corporate citizenship: Social initiatives and education		
Management	 <b>Materials and Waste</b>	Amount and choice of raw materials (e.g. "conflict-free")	Waste footprint and disposal "zero landfill"				Packaging waste and recycling
Purchasing and supplier management	 <b>Energy and Climate</b>	CO <sub>2</sub> footprint of the raw materials used	Energy use and CO <sub>2</sub> footprint	CO <sub>2</sub> footprint	CO <sub>2</sub> footprint of our customers and consumers		
Production	 <b>Water and Wastewater</b>	Impact and potential not sufficiently clear yet	Water use* and wastewater load		Water use* and wastewater load	Impact and potential not sufficiently clear yet	Biodegradability of ingredients
<b>Sustainability stewardship</b>	<b>Footprint</b>	<span></span> Only relevant for specific product groups, brands or regions				* Hot water covered by carbon footprint.	

### Analysis of our impact along the value chain:

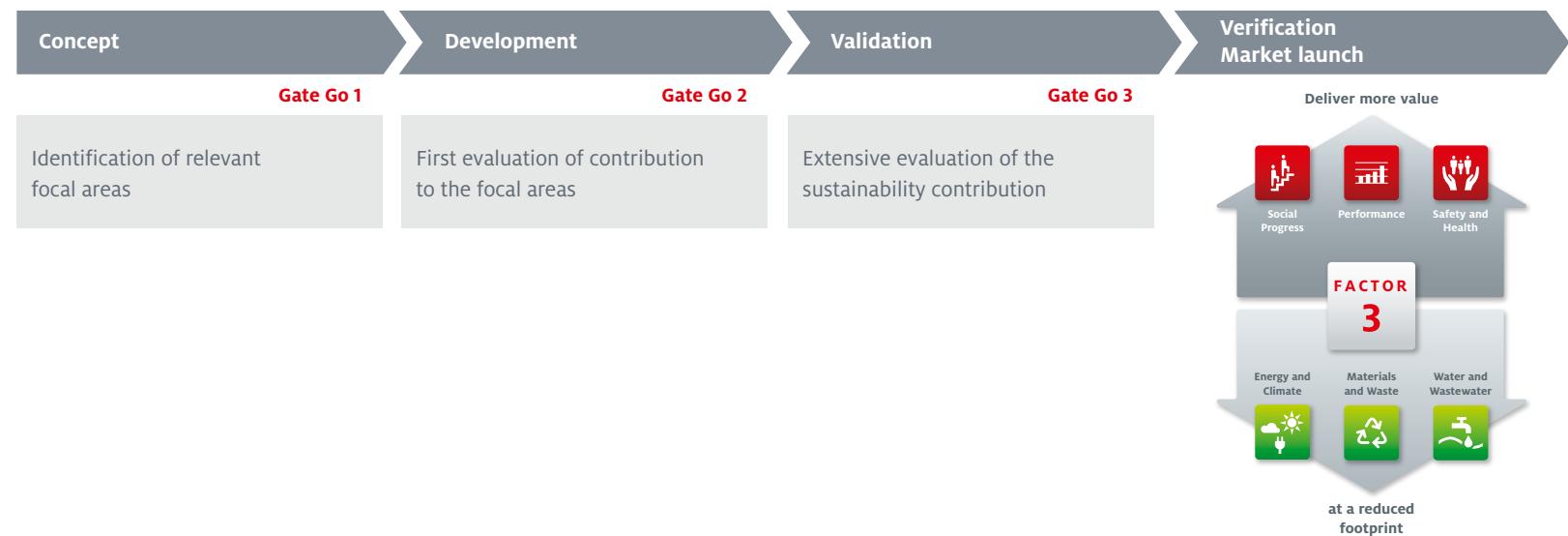
From measuring our own production through to comprehensive quantification



## Sustainability evaluation in the Henkel innovation process

The Henkel focal areas have been systematically anchored into our innovation process since 2008. This means that, at a given point, our researchers must demonstrate the specific advantages of their project

in regard to product performance, added value for customers and consumers, and social criteria ("more value"). They also have to show how it contributes to using less resources ("reduced footprint"). One of the tools they use to assess the different contributions is the → **Henkel Sustainability#Master®**.



## Measuring, assessing and managing progress

Henkel works with various measurement methods to optimize the "Value" and "Footprint" dimensions. These allow the actions to be identified that have the greatest effect on sustainability along the value chain. Considering our portfolio as a whole, it is evident that improvements in the raw materials and during the use phase have a significant impact on the water and carbon footprint.

We use the results to develop innovations with improved sustainability performance. Only by considering the entire life cycle can we

ensure that the action taken will improve the overall sustainability profile of our products. In line with our ambition that each new product must make a contribution to sustainability, we assess our products systematically throughout our innovation process. To make it easier to optimize our products while they are being developed, we integrate the environmental profiles of possible raw ingredients and packaging materials into the information systems of our product and packaging development departments. This allows the footprint of a new formulation to be computed as early as the development phase.

## Henkel Sustainability#Master® – sustainability assessment of products and processes

The Henkel Sustainability#Master® combines various instruments for measuring sustainability. This evaluation system centers around a matrix based on the individual steps of the value chain and on our six focal areas. The goal is to increase the value of the product and simultaneously reduce its environmental footprint. Hot spots can be identified for every product category on the basis of scientific measurement methods. These are the fields with the greatest relevance

for sustainability – this applies to both the “Value” and the “Footprint” dimension.

The specified hot spots can also be used to compare the sustainability profile of two products or processes. This allows sustainability profiles to be prepared for each product category. Henkel's researchers use these findings for innovation and continuous product improvements.

Henkel focal areas		Assessment along the entire value chain					
		Value	Raw materials	Production	Logistics	Retailing	Service / Use
	<b>Performance</b>					<b>e.g., improved product performance</b>	
	<b>Health and Safety</b>						
	<b>Social Progress</b>					<b>e.g., easier to use</b>	
	<b>Materials and Waste</b>	<b>e.g., less raw materials</b>			<b>e.g., less outer packaging</b>		<b>e.g., less plastic</b>
	<b>Energy and Climate</b>			<b>e.g., reduced emissions</b>		<b>e.g., reduced dosage</b>	
	<b>Water and Wastewater</b>					<b>e.g., lower water requirement</b>	
<b>Footprint</b>							

Hot spot = Field with the greatest relevance for sustainability. It is particularly important to assess changes at these points.

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## Improvement based on life cycle analysis

Sustainable development needs a systematic approach. With the help of life cycle analyses and the knowledge they have acquired during many years of work on sustainability, our experts analyze the complete life cycle of our products. Only by considering the entire life cycle can we ensure that the action taken will improve the overall sustainability profile of our products. As early as the product development phase we can assess what environmental impacts occur, to what extent, and in which phase of a product's life. Building on these results, improvement measures can then be applied where they are most needed and can be most efficiently implemented. In preparing life cycle analyses, we use our own primary data as well as data from our partners along the supply chain. If such data is not available, we draw on secondary data from existing databases on life cycle analyses, average values, and emission factors. To further develop metrics and indicators, we collaborate with external partners on topics such as product carbon footprints and water footprints. We also participate in international initiatives such as "The Sustainability Consortium" and the Consumer Goods Forum's Measurement Group.

## Product carbon footprint

In order to measure the contribution of individual products to climate protection, experiments are being carried out worldwide to measure product carbon footprints. Unlike complete life cycle analyses, this involves determining only the climate-relevant greenhouse gas emissions throughout the value chain of a product – from the purchase of the raw materials through production and use to disposal. However, until now there has been no standardized method for determining the carbon footprint of a product. Henkel therefore participates in pilot projects in the USA and Europe with a view to driving forward the development of a reliable and internationally harmonized method of determining carbon footprints.

The focus of our research in cooperation with Arizona State University in Phoenix, Arizona (USA), is the environmental impact of laundry washing, taking into consideration the special conditions in American households. The scientific findings reveal how consumers can contribute to conserving resources through the use of efficient washing machines, tumble dryers and laundry detergents, as well as by changing their laundry washing habits. As a partner in the German Product Carbon Footprint project, we calculated the carbon footprint of various Henkel products. We then contributed the experience gained during the project as input to a working group of the DIN standards organization with a view to developing an international ISO standard (ISO 14067).

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Since 2013, the Laundry & Home Care business unit has been supporting [A.I.S.E.](#), the European detergents and cleaning agents association, in the pilot phase of the European Commission's Product Environmental Footprint initiative. This aims to develop meaningful environmental information specifically for liquid detergents that can be easily understood by consumers and leads to more environmentally conscious washing habits. The general desire of the European Commission's pilot project is thus to reduce a product's environmental footprint at every stage in its life cycle, including the use phase. The results from the individual pilot projects, which also included, for example, market research in 2016, should be available in 2017.

Another project was voluntarily carried out in 2016 under the direction of the European cosmetics association, [Cosmetics Europe](#), to which the Beauty Care business unit made a significant contribution. This involved the assessment of the shampoo product category. In addition to the scientific results of the life cycle analysis, communicating the results was also considered an important aspect. A video explains that the use phase of a shampoo accounts for a significant part of its entire environmental footprint. It also shows ways in which this proportion can be reduced.

## Product water footprint

The Earth's water resources are unequally distributed and are threatened by increasing pollution and overuse. For us, therefore, reducing water consumption during the production and use of our products is an important aim. In order to identify suitable approaches for achieving improvements in this area as well, we participate in efforts to develop methods for water footprinting. In 2010, for example, we worked together with the Swiss Federal Institute of Technology (ETH) in Zurich, to study the consequences of the water demand for laundry detergent production at our sites in the Middle East and North Africa. At the heart of this was a consideration of the different amounts of water required for the production of powder and liquid laundry detergents, taking into account regional factors such as water availability, scarcity and quality.

We feed the experience we gain from such pilot projects into the discussion on the development of an international ISO standard (ISO 14046) on water footprints.

## Product safety

Our customers and consumers can be certain that our products are safe when used as intended. All raw materials and finished products are subjected to numerous assessments and tests to ensure a high level of safety during production, use and disposal. This is based on ensuring compliance with legal regulations and far-reaching Henkel standards.

Our product developers and experts for product safety assess ingredients according to the latest scientific findings and safety data. They continuously track Henkel products on the market and incorporate the insights gained into the assessments. We follow a risk-based approach when assessing the consumer safety and environmental compatibility of materials and products. An important step of this assessment process is estimating the exposure of people or the environment to a substance for the purpose of comparison with the associated no-effect level, corrected, if necessary, by safety factors in accordance with recognized scientific standards. For substances where exceeding this level can lead to a risk for people and/or the environment, we minimize the risk by establishing suitable constraints, such as lowering the concentration limits and restricting use to certain product categories only. In individual cases this can also lead to a substance not being used at all.

Since many of our products pass into wastewater after use, their composition has been designed so that their use has the least possible impact on the environment. Wastewater from chemical engineering applications is treated using state-of-the-art technology to remove harmful substances and is then disposed of properly.

In selecting and using ingredients, we also follow controversial discussions in the general public about the safety of chemical ingredients in consumer products. As a rule, we respond by critically reviewing the scientific basis of our assessments with particular care. If there are serious reservations about the continued validity of the scientific data and findings regarding product safety, we either avoid using a substance altogether or restrict its use so that it will still meet our stringent safety criteria.

At the same time, it is becoming increasingly important to enable consumers to learn about the ingredients contained in our products. We will therefore enhance the transparency on the substances used and their safety on a global scale.

You can find  [safety data sheets](#) for our products at:

- Adhesive Technologies and Laundry & Home Care (excluding North America)
- Adhesive Technologies, Beauty Care, and Laundry & Home Care (North America only)
- Adhesive Technologies (links to North America and other countries)

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## Product safety assessments



### Implementation within the company

Regular audits are carried out to verify compliance with corporate product safety requirements and procedures. The business units are responsible for the implementation of measures relating to product safety.

### Identifying hazards – assessing risks

In assessing the safety of a product, the first step our experts take is to determine whether its ingredients could pose a hazard to people or the environment. An exposure analysis is carried out in a second step to clarify the extent to which people or the environment could be exposed to this substance. This analysis is important as, in most cases, a harmful effect will only occur when the quantity and concentration of the questionable substance reach a certain level. The results of these two steps have to be combined to arrive at a comprehensive risk assessment. It is only by considering this overall picture that our experts can make reliable statements about whether a product will be safe under use conditions. A simple example is acetic acid, which represents a potential hazard, because it can cause serious harm in high concentrations due to its caustic properties. When used in diluted form in our food, however, it does not pose a risk.

### Evaluation of the substances used

Regarding substances with certain dangerous properties, we have decided that these shall not be used at all for specific applications. For other substances, we have introduced strict internal constraints and restrictions and, by doing so, we often exceed legal requirements. In other cases, we work to further improve health compatibility by developing alternative ingredients. One example of this is the switch from solvent-based to water-based formulations for our consumer and contact adhesives.

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## Assessment of the products

Once they have evaluated all the individual ingredients, our experts perform a further safety assessment focusing on the overall formulation of a product. This looks at the properties of the individual constituents, their concentrations in the product and the conditions under which the product will be used. Products for use on the human body are additionally evaluated dermatologically. The results of these evaluations and assessments then form the basis for defining the required precautionary and protective measures for safe use of the product. These measures are specifically adapted as appropriate, taking account of whether the product is to be used by consumers or industrial professionals, and can range from package design features, detailed instructions and warnings, to restrictions regarding use.

## Controversially discussed ingredients

Scientists and the general public often take different views regarding the risks that chemical substances might pose. The reasons for this are manifold. Particularly often, we see that a direct link is made between the potential hazard a substance may have for humans or the environment and the ensuing risk without taking into account the extent to which humans or the environment are actually exposed to that substance. It is our view that a differentiation must be made between hazard and risk and is in fact essential to ensure that safety assessments of ingredients will reflect reality. For this reason, Henkel does not concur with generalized substance lists that are designed to demand the abandonment of substances under controversial discussion, as such lists mostly do not take such differentiation into account.

## Innovations and alternative test methods

Henkel has been carrying out successful research since the 1980s to develop new methods for testing the safety and compatibility of raw materials and products without animal testing. Advanced molecular biological methods are used to thoroughly investigate aspects such as the effect of raw materials on human skin cells so that optimized formulations can be developed. This is one of the basic prerequisites for successful product innovations. Our goal is to be able to answer questions about the safety of our products and the ingredients we use exclusively without animal testing. As a matter of principle, Henkel only uses animal testing if this is stipulated by legal regulations and there are no accepted alternative test methods available for obtaining the necessary safety data. We naturally comply with statutory requirements that prohibit animal testing, such as the legal provisions on safety testing of cosmetic ingredients in the European Union.

Wherever possible, questions regarding the skin compatibility of ingredients are now also investigated with the help of in vitro tests. In vitro tests, such as the skin model (technical name: epidermis model), have been developed by Henkel over the past decades in collaboration with external partners and submitted for acceptance as alternatives to animal testing to the European validation agency. In 2016, Henkel published all its research results as an open source skin model. With the decision to make this specialist knowledge freely available, Henkel is demonstrating its commitment to corporate social responsibility in assuring unrestricted long-term access to innovative alternative methods, thereby making

an important contribution to the global use of alternative methods. Our scientists are currently working to make it possible for the skin models, which are as large as a 1-cent coin, to be used to research other  **issues regarding the safety of chemicals**. You can also find more information on the  **Scientific Committee on Consumer Products**' website.



Substances can be applied to this full skin model developed by Henkel, in order to systematically assess their effect on skin tissue.

## Raw materials

Henkel is committed to responsible management of raw materials, and especially the conservation of natural resources and biodiversity. We use ingredients based on renewable raw materials to optimize the overall characteristics of our products, wherever this is compatible with environmental, economic and social considerations. Renewable raw materials are already key ingredients in many of our products, such as soaps, shampoos, glue sticks and wallpapering adhesives.

## Renewable raw materials in our laundry detergents

Renewable raw materials are historically one of the major sources of raw materials for detergents and household cleaners. For centuries, soap – which has traditionally been used to wash laundry as well as for personal hygiene – has been made from vegetable or animal oils and fats. Today most detergents and household cleaners consist of a large number of ingredients, each with its own special function. Most bulk ingredients of detergents and household cleaners are inorganic and cannot be replaced by ingredients based on renewable raw materials. Surfactants are an important exception. They consist of a lipophilic – fat-loving – part, which is obtained from vegetable or mineral oils, and a hydrophilic – water-loving – part, which is usually based on mineral oil or is inorganic. Surfactants that consist only of renewable raw materials, such as alkyl polyglycosides, are the exception. To achieve the best washing performance, we use a mixture of different surfactants. In more than half of them, the lipophilic part is based on renewable raw materials – a result of our many years of experience with ingredients based on renewable oils – such as palm kernel oil, which can only be used for industrial purposes – and fats. The proportion of renewable raw materials in surfactants for our detergents and household cleaners is around 30 percent. The other 70 percent are accounted for by inorganic and mineral-oil-based ingredients.

## Cosmetics based on natural and renewable raw materials

In our cosmetics business, nature-based raw materials are used in all product groups. We refer to the use of individual nature-based active ingredients or fragrances in our products if these are associated with specific properties – for example, the care properties of shea butter and yoghurt or the soothing effect of aloe vera. Furthermore, we are

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working to increase the proportion of ingredients based on renewable raw materials in our cosmetic products, wherever this is both possible and appropriate. If mineral-oil-based ingredients in a formulation are replaced by starch-based ones, this increases the overall proportion of renewable raw materials and helps to conserve fossil resources. Regarding ingredients based on both renewable raw materials and mineral oil, only the renewable fraction is taken into account. Wherever possible, we calculate the percentage of renewable raw materials with reference to the dry weight of our products. More than two-thirds of the ingredients of the product formulations of our soaps, shampoos and shower gels are now based on renewable raw materials. The use of ingredients obtained from renewable raw materials is also on the rise in styling products. We are also committed to environmental and social considerations when purchasing renewable raw materials.

### Natural adhesion

Renewable raw materials such as starch, cellulose, dextrins, and proteins are used in many consumer and craftsmen adhesives and in industrial adhesives for a wide range of applications. For example, we utilize renewable raw materials in glue sticks, wallpaper pastes and packaging adhesives. Bottle labeling adhesives contain as much as 45 percent.

### Palm and palm kernel oil

At Henkel, we recognize our responsibilities regarding the purchase and use of ingredients based on renewable raw materials. As part of this responsibility, we strive to ensure that all of the materials related to palm oil and palm kernel oil that we buy and use in our products

are produced through sustainable practices. By 2020, for example, we aim to ensure that the palm materials we use do not contribute to deforestation of primary or secondary forests with significant ecological value – including peat lands and High Carbon Stock forests. Alongside environmental considerations, we place a strong focus on the rights of people who work in the palm oil industry or live in communities directly impacted by its activities. Our approach aims to drive physical progress toward sustainable palm oil and palm kernel oil – and make a positive impact on both the environment and the people affected by the industry. We are therefore focusing on targets such as certification in accordance with the Roundtable on Sustainable Palm Oil (RSPO)  **Mass Balance model**, traceability, and projects that support  **smallholder farmers**.

Our purchase of palm oil-related materials accounts for less than 0.2 percent of the palm oil and palm kernel oil produced worldwide. The majority of this is palm kernel oil, which forms the basis of the surfactants that we use in our detergent and cosmetic products. These materials are at the end of a long and often complex supply chain: For this reason, Henkel is committed to driving progress toward achieving sustainable practices across the palm oil industry – along the value chain.

Collaboration with representatives from across the industry is at the heart of our approach to supporting  **sustainable cultivation of palm and palm kernel oil**. Through partnerships, projects and dialog, we are able to engage with key players ranging from plantations, smallholder farmers and palm oil mills through to governments, non-governmental organizations and suppliers. These activities

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enable us to expand our contribution to sustainable practices in the palm oil industry. They also provide opportunities to gain valuable insights into changing industry developments and new scientific findings.

The Mass Balance model enables us to demonstrate our commitment to physical sustainable palm and palm kernel oil by enhancing the physical flow of certified materials into our value chain. In February 2017, our global supply chain organization and additionally six of our production sites located in Western Europe were audited in line with the RSPO's supply chain certification standard, which promotes the use of sustainable palm oil along the entire value chain by fostering further transparency and open dialogue.

We have set three palm oil goals that we believe address key priorities for the successful transformation of the palm oil industry, and target the specific challenges where we are able to make our strongest possible contribution. The targets for 2020 are:

**1. Cover 100 percent of our demand with Mass Balance certified oils:** All palm and palm kernel oil used in our products should be derived from sustainably cultivated sources in line with the RSPO's Mass Balance model in 2020. To date, around 50 percent of the oil and derivatives used in our products have been certified according to this model.

**2. Establish full traceability of palm oil and palm kernel oil used in our products:** We aim to be able to trace the palm oil, palm kernel oil and derivatives we buy to known sources – first to the mill and

then to the plantation – by 2020, to be sure that they are indeed from sustainably managed resources. In pilot projects we conducted together with partners in 2016, we achieved a traceability rate of 60 percent.



As part of its commitment to the sustainable cultivation of palm oil, Henkel is particularly committed to measures in favor of smallholders and local initiatives, as in Honduras, for example.

**3. Increase the supply of sustainable palm oil and palm kernel oil by a volume equal to Henkel's demand:** We aim to increase the availability of sustainable palm oil and palm kernel oil on the market through collaborative projects that enable small farmers to certify their crops as sustainable, increase productivity and improve their livelihoods. By September 2016, we had already confirmed partnerships that increased the supply of sustainable palm oil and palm kernel oil on the global market by a volume equal to our total expected demand for these materials in 2016 – with more projects planned.

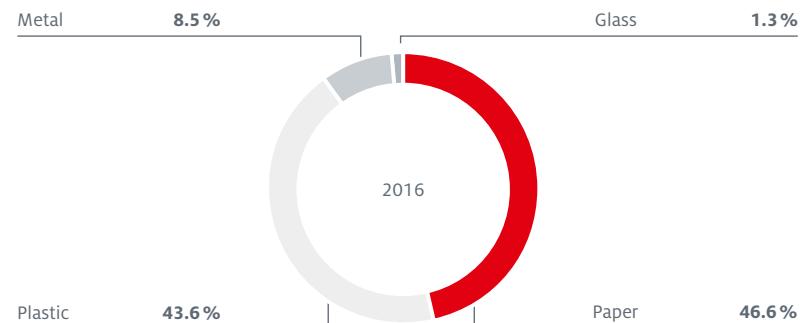
## Packaging and disposal

### Smart packaging solutions

The packaging for our consumer products fulfills many different functions: It ensures the hygiene and intactness of the products, protects them from external influences, provides space for necessary consumer information and often plays an important role in the purchasing decision through attractive packaging design and shelf appeal. In order to minimize the volume of waste, our packaging developers work constantly to design smart packaging that uses the least amount of material possible, and incorporates materials that can be recycled in public recycling systems.

Throughout the company, we follow three basic principles – prevention, reduction, recycling. We specified these principles in our focus fields “less packaging and waste”, “better packaging”, and “enabling a circular economy”.

### Henkel packaging: 2016 footprint<sup>1</sup>



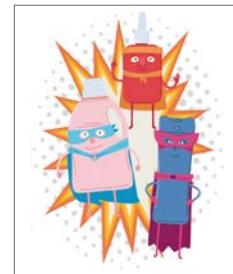
<sup>1</sup> Around 642,000 metric tons (estimated; based on expenditures for packaging materials).

In defining our new interim packaging targets for 2020, we concentrated on specific action priorities, building on the progress we had made up to 2015.

- All business units are working to reduce packaging weight. Our targets for 2020 include a reduction in packaging weight of 20 percent per sales unit (base year 2010).
- By 2020, we want to increase the proportion of recycled polyethylene terephthalate (PET) in bottles and recycled aluminum in cans.
  - Cans: We want to increase the use of recycled aluminum to 9 percent.
  - Bottles: Our goal is to increase the amount of recycled material in our PET bottles in Europe to 33 percent.
- Additionally, we want to reach more than 300 million consumers through more targeted information on recycling.

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In October 2016, Henkel hosted a sustainability week on the topic of "sustainable packaging". Henkel wanted to increase awareness of innovative – and above all sustainable – packaging solutions in a playful and fun campaign. Employees and customers worldwide were made aware of this through targeted information on the topic.



#### Henkel Sustainability Heroes

Have you already discovered that three Henkel packaging items have transformed into real **superheroes?**

Another example of targeted consumer communication was a four-meter tall dinosaur made of more than 4,000 PET bottles. This large outdoor installation was created by Hungarian, Slovakian, Polish, Czech, and Arab artists in order to increase consumer awareness of packaging waste. Henkel's Ceresit WhiteTeq PU foam was used in the implementation and fixing together of the individual elements. The artwork was initially on show in Budapest and was then shipped to Abu Dhabi.



#### Increasing awareness of recycling

4,000 PET bottles were needed for the **installation of a dinosaur sculpture** outdoors. Henkel supported the sculpture with its Ceresit WhiteTeq PU foam.

## Examples of sustainability in our packaging development



In a pilot project, run for the first time in Germany, bottles for premium brand Perwoll Wolle & Feines were manufactured with 15 percent recycled high-density polyethylene (HDPE). We were also able to retain the luminous pink color of the Perwoll bottle and the performance of the ingredients and fragrance without making any compromises.



In collaboration with our supplier Ardag, we reduced the thickness of the Drei Wetter Taft metal can while increasing its rigidity, resulting in a saving of over 15 percent of the material and water used in the production phase. As a result, we can save a total of up to 3,500 metric tons of CO<sub>2</sub> and around 900,000 cubic meters of water every year.



Buckets for Metylan wallpaper paste are made of 50 percent recycled material and 50 percent waste from industrial production that is fed back into the process for manufacturing new buckets. The resulting material is equivalent to conventionally used new goods in terms of processability and functionality in the final packaging.

We divide our progress into the following three areas:

### 1. “Less packaging and waste”

Reducing packaging material or avoiding it completely is the best way to minimize waste and thus negative environmental effects. This is why we aim to do away with all packaging that is not absolutely essential. We continually strive to reduce the quantity of packaging material in the entire product life cycle without impacting the quality, performance, or safety of our products. Packaging is designed in such a way that it delivers the performance expected by the consumer while using the least possible amount of materials. In order to achieve this goal, our packaging engineers work in close collaboration with partners along the entire value chain so they can make use of leading design techniques, modern production technologies, and advanced materials in the development process. For example, we cooperate with external research institutions on an ongoing basis to develop packaging formats that offer the consumer the same quality with less material.

### 2. “Better packaging”

The most widely used packaging materials made from renewable raw materials are paper and cardboard. We want to continually increase our use of these materials. We also test and assess new packaging materials, such as bioplastics. The polymers of these materials are based on raw materials obtained from plant sources, such as cane sugar or maize. Provided they can deliver the same technical performance as conventional polymers, they can offer a good alternative and offer long-term economic benefits.

We work together with external partner universities, raw material suppliers, and processors to identify possible bio-based materials and actively support their further development. We jointly assess where it makes sense to use biopolymers as packaging materials from a technical, economic and environmental point of view. Using life cycle analyses, we ensure that the environmental effects will be less than those of mineral-oil-based materials.

### Biodegradable plastics

Biodegradable plastics can be based both on renewable raw materials and mineral-oil-based sources or a mixture of the two. Ideally, renewable materials are produced using a sustainable cultivation method and can later be broken down into their natural constituent parts.

Unfortunately, biodegradable plastics have not yet been able to meet the stringent requirements that we place on our packaging materials with regard to reliable hygiene, product protection, quality, incentive to buy, and esthetic appeal. One problem is their limited life. In addition to the consumption period, we must also ensure a shelf life of several years for our consumer goods. This has not yet been achieved with biodegradable plastics. Technical aspects such as formability and dimensional stability still also need to be optimized. In addition, many materials are not compatible with existing recycling systems. Nevertheless, we follow developments in this sector carefully and actively search for suitable materials and possible uses.

## Dispensing with PVC

Polyvinyl chloride (PVC) is often criticized as a packaging material, as it is not collected via an official recycling system in some countries, but is disposed of without the use of industrial incinerators. This can lead to emissions that pose a possible danger for the environment and human health.

Henkel began to reduce the use of PVC in its packaging back in the 1990s. Today, we only use PVC in a few exceptional cases for which we have not yet found a workable alternative. Overall, materials containing PVC currently make up less than one percent of our total global expenditure on packaging. Our packaging engineers continue to work in close collaboration with our packaging suppliers to find alternative materials. Our goal has always been to fully eliminate PVC from our packaging material.

## 3. “Enabling a circular economy”

### Using recyclable packaging materials for markets with regional collection and recycling systems

As the majority of packaging becomes household waste after use, our packaging developers are continuously searching for smart packaging solutions that reduce the volume of waste on the consumer side. In order to create closed loops, we aim to make the materials used in our primary, secondary and tertiary packaging recyclable and/or reusable after the packaging has been used.

For this reason, we rely on packaging materials for which there are public recycling systems or that are compatible with the relevant

regional collection and recycling systems. For example, we support local collection systems such as the “Green Dot”, which allows our customers to recycle packaging without any fuss. We mainly focus on mono-materials, which can be recycled particularly efficiently.

We also inform customers and consumers about the recyclability of the materials. We mark all packaging accordingly and disclose the main materials used and whether they are recyclable or not. We also work in close collaboration with suppliers and industry partners to reduce the amount of secondary packaging (outer packaging) – by using recyclable transport containers, for example.

### Use of recycled paper and cardboard material or, where necessary, fresh fiber originating from sustainable forestry

As a signatory to a  Consumer Goods Forum initiative against worldwide deforestation and for the protection of biodiversity, Henkel undertook to take individual and collective measures to stop global deforestation and achieve the objective of “zero net deforestation by 2020”.

Paper-based packaging offers many benefits. With regard to packaging design, it is both structurally and visually the most versatile and can be used for a very wide range of products. It is also characterized by high material strength and is easy to handle in production, distribution and marketing. It is inexpensive and is very often perceived by consumers to be an environmentally compatible alternative. The greatest advantage of paper-based packaging is the fact it can be recycled, which is why it plays an important role in our primary, secondary, and tertiary packaging.

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Our paper-based packaging currently comprises more than 60 percent recycled paper and cardboard material. We strive to ensure that the paper-based packaging for our entire product range is made either from recycled material or – if fresh fiber is required – from sustainable forestry sources. To do this, we work in close collaboration with our suppliers.

### Disposal

The packaging for our branded consumer products becomes household waste after use. In order to reduce waste generation, we try to minimize the amount of materials we use and rely on materials for which public recycling systems are available. In Germany alone, we have been able to reduce the volume of our packaging materials by around half since the 1980s.

### Transport packaging

Transport packaging is developed so that pallets and containers can be optimally packed. The requirements of transport safety and transport capacity utilization impose limits on reductions in transport and secondary packaging. The packaging materials we use must be sturdy in order to ensure that our products are not damaged during transport, and that our trucks and freight cars can be optimally loaded in terms of volume and weight. For our industrial customers, we offer multi-use systems such as reusable transport containers and secondary packaging.

In 2015, in our Electronics business within the Adhesive Technologies business unit in North America, we began to replace Styrofoam coolers for the transportation of heat-sensitive products with reusable, thermal containers. The new containers have reduced the carbon footprint by 75 percent and waste per container by 95 percent. Savings were made, as no dry ice or Styrofoam packaging is used. In their place, the new process uses a system similar to a cooling box with cold packs that ensure the contents remain frozen. As this cooling box is reusable, we no longer need to dispose of cooling containers or dry ice. The project is currently being implemented at selected sites in North America. We intend to roll out the switch-over to the thermal containers still further.

### Partnership – from waste to a valuable building block

Henkel is a consortium partner of the  [GreenSolRes project](#), an initiative to convert biological waste into material that can be used in the production of adhesives and consumer goods. Base materials obtained in this way are a sustainable alternative to mineral-oil-based products. The objective of the GreenSolRes project is the sustainable and competitive industrial production of levulinic acid, a versatile chemical compound that can be converted into valuable building blocks for Henkel products. Levulinic acid is produced from lignocellulosic waste and fuels from forestry and agriculture. In contrast to some of the bio-based building blocks used to date, they therefore do not compete with food production. An additional advantage is that bio-based building blocks save up to 70 percent in greenhouse gas emissions compared to comparable fossil-based compounds.

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In fiscal year 2016, Henkel generated worldwide sales of 18,714 million euros, 42 percent of which was generated in the emerging markets of Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan). 53 percent of our people are employed in the emerging markets, and those regions account for 40 percent of our global purchasing volume from them. This makes us an important employer there and a local business partner.

The issue of the social added value of products is especially important in the emerging markets. Products that focus on the needs of the lower income classes have great economic potential, as well as making positive contributions to society, for example to household hygiene and health. In order to meet needs that differ greatly around the world, we pursue different strategies depending on the market situation:

- Globally standardized products: If the needs and expectations of our customers and consumers are standardized, we offer globally standardized products. Examples of this are the internationally standardized requirements for instant adhesives or our industrial adhesives.
- Locally adapted product offerings: If consumer needs, income levels or infrastructure differ in our markets, we adapt packaging or distribution channels to local conditions in order to make our services and quality accessible to the broadest possible group of people.

Consumers of the lowest income level, for example, buy small units as soon as they have enough money left over to do so. We take this into account when planning pack sizes and selling prices. In Latin America, for example, we put our Pril dishwashing liquid on the market in a pack size of 30 milliliters at a price equivalent to 10 cents. The same applies to our Mas laundry detergent in Mexico. In the South American market, we offer deodorant creams and shampoos in small retail units of between 10 and 20 milliliters.

- Locally adapted product performance: Different regional conditions may also require the adaptation of our product formulations. In North Africa and Latin America, for example, water is a scarce and valuable resource. So Henkel has brought a fabric softener for washing clothes by hand onto the market in Egypt, Tunisia and Mexico, whose special formulation rinses the suds away more quickly. Another example is our construction technology and DIY products in Eastern Europe. Since local building materials are often very different from those available in Western Europe, we offer locally adapted products such as CM9 tile adhesive and self-leveling floor material Thomsit DA. Cultural differences are also included in product development. White clothing is traditionally worn in many North African countries and in India. For this reason, the formulation of our Nadhif laundry detergent for the North African market contains ingredients for a particularly radiant white.

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# Adhesive Technologies

Our high-impact solutions and products are used in a comprehensive range of industrial and consumer applications – with sustainability playing a central role in our innovation processes.



# Adhesive Technologies

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## High-impact, customer-driven solutions

As a market leader, the Adhesive Technologies business unit creates high-impact solutions worldwide. Our technologies are used in a uniquely diverse range of industrial and consumer applications, from the automotive and aerospace industries through to consumer electronics, food packaging, DIY and many more. Our broad technology portfolio and deep technical expertise make us a strong partner for our customers around the world as they seek innovations to support their commitments to sustainability – and strive to meet the rising expectations of their customers and consumers. Sustainability is integrated into each step in our innovation process, as we support our customers by developing leading technologies that help them increase energy efficiency, cut waste and emissions, and increase worker safety.

## A strong partner

Our expert teams work together with our customers to develop tailor-made solutions that help them overcome the specific challenges they face in their markets. For over three decades, Henkel has been working with customers in the footwear manufacturing industry to continuously improve worker safety by promoting sustainable technologies and enabling manufacturing automation.

Together with our customers, we have been able to use our uniquely broad technology portfolio to create a high performance adhesive that is water-based – providing an innovative alternative to the solvent-based products that are still commonly used. The adhesive can be



*“With our unique portfolio and innovative technologies, we are excellently positioned to meet environmental and social requirements around the globe – within our own company and at our customers and partners.”*

**Jan-Dirk Auris**  
Executive Vice President  
Adhesive Technologies

used to bond different parts of the footwear together – from the sole through to the internal padding and the loops for the laces, delivering high bond strength and water resistance.

Our broad portfolio of both water-based and hotmelt adhesives also enables the reduction of volatile organic compounds (VOCs). For example, we have reduced VOC emissions for the entire manufacturing process for one of our largest local footwear customers in India by 70 percent. Henkel received the prestigious Green Label certificate from the Footwear Design and Development Institute (FDDI) in India, in recognition of the high safety performance and low environmental impact of our adhesives for the footwear industry.

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Henkel is also working on automated solutions for the production of footwear, enabling a safer working environment. Building on our experience in automation in other industries, our team of experts is actively partnering with our customers in order to drive this trend in footwear manufacturing. By combining our chemical and equipment expertise, we enable them to bring forward productivity increases and thereby create a long-lasting competitive advantage.



Water-based adhesives are becoming more and more popular in the manufacturing of footwear.

The hotmelt material is heated to its low-temperature melting point and then applied to circuit boards. It then forms a seal around the components that protects them against moisture and dirt, which can damage the components and affect the performance of the lighting – particularly when exposed to the full range of weather conditions.

The product was most recently used on a bridge on the West Coast of the USA, in a series of lighting units measuring over 18 meters each, and containing a total of more than 25,000 LEDs. This technology from Henkel makes it possible to use the lighting for a longer period of time without the need to replace and dispose of damaged LEDs. In addition to the energy saving that is made possible by its low application temperature, the hotmelt also significantly cuts material waste during the application process because any cured material that remains and is not part of the final product can be re-melted and re-used.

Our experts also worked together with our customer Siteco, a member of the Osram Group, to develop a more sustainable and cost efficient process for applying rust-protection to the metal casings used in street lighting. The customized technology under Bonderite M-NT developed through this partnership enables Siteco to use cleaning fluids at room temperature – replacing a previous technology that had to be heated to 60 degrees Celsius and that also required energy to power recirculation pumps and fans.

Our technology allows Siteco to cut energy use by 30 percent, and improves working conditions for employees by reducing noise and

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heat in the factory while also removing the need to use chemicals such as phosphoric acid. Bonderite M-NT increases corrosion resistance on metal parts and ensures the best possible paint adhesion.

### Enabling lightweight automobiles

Our customers across the automotive industry face the challenge of meeting increasing expectations for safety and comfort while producing lighter vehicles that consume less fuel and thus produce less CO<sub>2</sub> emissions. Our technologies for reducing noise and vibration in cars, known as Liquid-Applied Sound Deadeners, or LASD, are a strong example how our innovations and expertise create value for our customer. The liquid material is applied to the floor, doors or roof of a car body, and is up to 20 percent lighter than the bitumen mats that were commonly used previously. Our LASD technology also accelerates production processes and reduces material waste because, unlike the mats, it can be spray applied by  **automated robot arms** with high levels of precision. Our range of LASD technologies was recently expanded to include materials based on renewable oils, as well as a water-based acrylic system.

We work closely with our customers to ensure that our LASD technologies are applied to their specific production processes in the best possible way. Our customers' technical teams meet Henkel experts at our global network of LASD technology centers to qualify and optimize the most suitable materials and process systems for each customers' specific application. For example, our experts worked closely with the BMW Group and ABB to qualify our water-based acrylic sound deadener for the new BMW 3 series. The application will now be used in series production at a BMW pilot application line in Munich, Germany.



Weight-saving, clean and efficient: automated application of LASD.

## Henkel Sustainability#Master® – Teroson AL 7155 (LASD) in comparison to bitumen melt sheets

Value	Raw materials	Production	Logistics	Industrial Processing	Service / Use	Disposal
 <b>Performance</b>				Process stability through automation	Enables lightweighting	
 <b>Health and Safety</b>						
 <b>Social Progress</b>			Improved logistics process	Flexible application enables new designs		
 <b>Materials and Waste</b>		Elimination of waste from cutting of mats		Less scrap, requires less storage space		
 <b>Energy and Climate</b>				Less rework in paint shop	Less CO <sub>2</sub> emissions due to lower fuel use	
 <b>Water and Wastewater</b>						
<b>Footprint</b>						

 Significant improvement


Our Liquid-applied Sound Deadeners (LASD) provide a sustainable alternative to the bitumen melt sheets that are commonly used to reduce noise and vibration in vehicles. Bitumen melt sheets need to be cut to the right size and shape before being placed into the car body by hand. The process is not only labor intensive: The cutting leads to a considerable amount of wasted material and the sheets themselves can produce dirt and dust particles, which can lead to the need for repair processes in the paint application phase. Henkel's LASD technologies, like our water-based Teroson AL 7155 acrylic

system, can be fully automated spray applied by using application robots. This means it can be applied more precisely and cleanly, and also offers increased flexibility. Its paste-like form makes it more efficient to transport and reduces storage space in a warehouse. LASD also provides a 20-percent weight saving potential compared to bitumen melt sheets, which supports the trend toward reducing overall vehicle weight in order to reduce fuel consumption and the related CO<sub>2</sub> emissions when the car is being driven.

→ [Explanation of the Henkel Sustainability#Master®](#)

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## Powerful combination

Henkel is able to draw on its comprehensive portfolio to combine technologies to deliver top performance while also driving sustainability. The innovative formula for  **Bonderite dualCys**, for example, brings together two leading technologies from Henkel – a coolant and a cleaner – to enable manufacturers of metal components to maximize efficiency, improve sustainability, and significantly drive down costs. Our customer, Daimler Werk Berlin-Marienfelde, uses this technology to clean metal components during the machining process for powertrain parts for cars.

Bonderite dualCys empowers Daimler Werk Berlin-Marienfelde to simplify its production processes and enables them to make significant progress toward their commitment to sustainability. By combining two technologies into one solution, Bonderite dualCys enables our customers to reduce energy and water consumption, decrease waste and even further improve their workers' safety.

## Pioneering technologies

As a global leader, we actively drive health and safety standards worldwide by removing critical ingredients from our products. An important issue for us is the reduction of critical solvents in adhesives for consumers and professional craftsmen. Replacing solvent-based adhesives by alternative solvent-free systems is therefore a key goal of our researchers.

Our innovation leadership also means we create solutions that meet and even go beyond legal regulations in the most demanding marketplaces. One example of this is upcoming regulations related to oximes as curing agents in silicone sealants that are expected to be

introduced in many countries around the world within the next few years. In anticipation of this, we have developed Pattex FusionXLT, a new formulation for a neutral silicone that offers the same high performance as products with oximes, however without critical emissions. Using a new crosslinking agent (Henkel patent pending), our innovative technology for sealing offers excellent application properties and high performance.



Pattex FusionXLT is an oxime-free silicone sealant that combines high user safety and strong adhesion on virtually all surfaces and materials.

## Advice, training and dialog

Alongside our high-performance products, we provide customers all over the world with advice, training and service. We maintain a continuous dialog and train them in using our applications safely and efficiently. We use our close customer contact to strengthen customers' awareness of sustainability and demonstrate how our innovative solutions can help them reduce their footprint and increase resource efficiency.

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Sustainability is becoming an increasingly important topic for our customers and influences their decisions regarding strategy, as well as purchasing. We regularly engage in workshops with them to demonstrate our commitment to sustainability and consider ways of working toward our respective targets together. In 2016, for example, we met with our customer UPM Raflatac, a leading global supplier of pressure sensitive labeling solutions, where we created an action plan and began implementing initiatives to drive shared progress toward key sustainability topics.

Henkel provides stakeholders from the food and packaging industries with insights into the current legislation and developments relating to food safety. Our  [Food Safe Packaging knowledge platform](#) offers white papers, webinars, and videos in a range of languages. Since its launch in 2013, more than 3,000 participants have been able to communicate directly with Henkel experts during more than 50 webinar sessions offered on this platform. They ensure that producers are able to offer a very high level of safety in their food packaging. Our commitment to sharing knowledge by interacting and collaborating with partners along the entire value chain is central to this approach.

## Collaboration along the value chain

Working together with key partners along the value chain – from the sourcing of raw materials all the way through to disposal – is an important element of our strategy. Each year, for example, we recognize outstanding supplier performance with three annual awards in the categories of innovation, performance and sustainability. In 2016, we presented our supplier award for sustainability to Evonik's Resource Efficiency unit for its ongoing efforts to contribute to our sustainable product and project pipeline, as well as for delivering outstanding life cycle assessment data and achieving an excellent EcoVadis rating. Evonik Resource Efficiency develops and manufactures sustainable materials, enabling Henkel to extend its business in lamination adhesives with minimized resource consumption.

We also work closely with equipment manufacturers to drive innovative and sustainable solutions for our common customers. BOBST, a leading supplier of equipment and services to packaging and label manufacturers in the folding carton, corrugated board and flexible materials industries, recommends our next-generation adhesive aeration technology for litho-lamination, creating high quality corrugated board for packaging. This introduces controlled quantities of air into the adhesive, resulting in a significant moisture reduction in the corrugated board and allowing fast processing to produce the finished product without extensive storage. A life cycle analysis showed a 20 percent reduction in the carbon footprint of an aerated adhesive compared to a conventional one. Water consumption is also reduced by 30 percent on average. The technology produces a better result using fewer resources, which is in line with Henkel's sustainability strategy to create more value while simultaneously reducing the company's environmental footprint.

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## Recycling solution for anaerobic adhesive packaging

Henkel is also driving progress at the end of the value chain. In 2016, the Adhesive Technologies business unit launched a [partnership with TerraCycle](#) – a US company that offers recycling solutions for typically non-recyclable materials. This partnership has created the [Adhesive Recycling Program](#) for our customers in the USA: It makes it possible for them to recycle our famous red Loctite anaerobic adhesive bottles instead of sending them to a landfill or incinerator. Customers simply order a recycling box to collect their used adhesive containers, and it is then sent to TerraCycle to be recycled once it is full. Henkel is the first adhesive technologies company to offer this type of recycling program.

Teams from Henkel and TerraCycle worked together to develop a process that deactivates the adhesive, making it easier to remove from the plastic packaging. This material is then melted and turned into pellets that can be used to manufacture new products – from garbage cans to park benches and outdoor furniture. The partnership with TerraCycle was featured on the television series Human Resources in the United States: The teams worked together to solve the challenge of recycling bottles containing adhesive, based on their shared commitment to driving sustainability at all stages of a product's life.



Together with TerraCycle, Henkel has developed a zero-waste solution for empty anaerobic adhesive packaging. In the photo: At TerraCycle headquarters in Trenton, New Jersey, USA, TerraCycle's Rhandi Goodman (center) demonstrates the handling of the recycling boxes to her project partners from Henkel, Simon Mawson (left) and Chris Stanford.

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## Working together for social progress

We want to contribute toward social progress and work with local communities and our partners to create value along the value chain. The Adhesive Technologies business unit uses its strong brands to drive contributions to society. With the support of the Fritz Henkel Stiftung foundation, our consumer brand Pritt has been working together with Plan International to renovate and build two schools in two communities in the municipality of Codó in Brazil. The project takes a two-pronged approach to addressing the challenges in the region through improving the physical state of the schools themselves and educating the children on their rights.

In 2014, we launched our Ceresit Tiling Academy as a part of a two year EU-funded program. Over the two years that the program was running, Henkel offered free courses in Romania that helped 660 workers obtain licenses in their areas of expertise, such as interior finishing or mosaic and tile setting. Henkel also provided the training materials, and renovated classrooms and common areas in the vocational schools where the courses are held. Henkel continued the Academy in Romania in 2016, offering in-house training to craftsmen through its technical team.



Together with Plan International, our consumer brand Pritt has been working to build one school and renovate another in Brazil. The poor conditions of the schools are one of the reasons children either attend classes irregularly or stop going altogether. (Photo: Plan International).

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# Beauty Care

Through sustainable innovations and initiatives in our Branded Consumer Goods and Professional Hair Salon businesses, we want to create more value for society and to make people's lives better.



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For many years, the focus of our Beauty Care business unit has been on the development of innovations that make a significant contribution to sustainable development. We are intensifying our activities along the entire value chain in order to achieve measurable progress in the “reduced footprint” and “more value” dimensions. In doing so, our thoughts and actions are focused on the consumers of our cosmetic products. We develop high-performance, safe and attractive products that help our consumers save resources. At the same time, we increase awareness and motivate consumers to contribute to the responsible use of resources through their behavior.

We also consider it important to make a positive contribution to social development that extends beyond our business activities. This is why we support projects that improve the lives of individuals and create added value for society.

## Responsibility right from the beginning

Sustainability in the value chain of our cosmetic products starts with the use of raw materials. The comprehensive integration of our raw material data into the development process has enabled us to determine the CO<sub>2</sub> footprint of all our over 165,000 product formulas. So we are always in a position to analyze the optimization potential and, if possible, implement a more sustainable product profile. Based on the success of the raw material-based method, a comparable application is now being introduced for all packaging materials. The application, which is in the development stage, aims to help us reduce the



*“We want to inspire our customers and consumers with exciting innovations and brands. Beyond that, we also want to create more value for society. That’s why we support educational projects that help to make people’s lives better – especially those of young women.”*

**Pascal Houdayer**  
Executive Vice President  
Beauty Care

environmental footprint of our cosmetics packaging and make it fully transparent as of 2017.

We also improved the quality and reach of our management systems in the next step of the value chain, production. All of our seven production sites use a central management tool to continuously report sustainability indicators and initiatives. The monthly exchange allows us to record and influence how much progress is being made in reaching our global objectives. Comprehensive control and reporting help us realize optimization potentials earlier and work toward our overarching sustainability targets.

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Our efforts are focused on our products and their individual benefits for our consumers. Our ambition is for every innovation to be high-performance and attractive and to be environmentally compatible. As a company, we assume responsibility for promoting positive change in society.

Environmental compatibility was a guiding factor in our early decision to stop using solid microplastic particles (exfoliating plastic particles from one micrometer to five millimeters) in the formulations of our cosmetic products. Particles of this kind had been used in just a few rinse-off face care products. Even though cosmetic products account for only a very small percentage of any possible environmental impact, Henkel formulates all its cosmetic products worldwide without any such microplastic particles.



The skin care line Diadermine Lift+ Super Corrector offers high performance skin care and reduces age spots. At the same time, less energy is used during production, which reduces the CO<sub>2</sub> footprint.

### Diadermine Lift+ Super Corrector

The facial care product line Diadermine Lift+ Super Corrector includes a day cream, a night fluid, and a correction pen for application to age spots. The night fluid and the formula for the correction pen are cold

processed, which requires less energy than hot production processes. This reduces the CO<sub>2</sub> footprint. At the same time, this product line performs extremely well: Age spots can be reduced by up to 43 percent and the products have been awarded the ECARF (European Centre for Allergy Research Foundation) seal for excellent skin compatibility.



The bottles in the Syoss Purify & Care hair care line are made from 25 percent recycled PET, which has an 80 percent smaller CO<sub>2</sub> footprint than comparable new material.

## Syoss Purify & Care

In 2016, we introduced the first hair care product with packaging consisting of 25 percent recycled PET, under the Syoss brand. Our supplier obtains the material for this from the well-established recycling loop for PET beverage bottles, which, because it is a closed cycle, is particularly suitable with regard to the quality of material and availability. Recycled PET has an 80 percent lower CO<sub>2</sub> footprint than comparable new material. The plan is to gradually replace conventional PET new material in more and more bottle applications. Maintaining the optical and mechanical properties of the bottle is a particular challenge. At the beginning of 2017, production of all other Syoss PET bottles was switched to the new material, with 25 percent recycled content. In addition, our packaging developers are working intensively on increasing the proportion of recycled PET across all brands over the next few years.

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## Advice for consumers

In order to ensure safe product use at all times, our consumer advice service provides competent, quick and reliable information about product properties or ingredients over the telephone. The service has been set up in most countries where our products are sold. Consumers can also use our social media channels. There was a total of some eight million consumer contacts worldwide in 2016. Product-related feedback is documented in our quality assurance system and channeled into our ongoing product development process.

## Together with our consumers

Our goal is to achieve a better quality of life for as many people as possible within the limits of available resources, thereby creating more value for society. In addition to providing care for the hair, skin, body and teeth, our cosmetic products contribute primarily to the social and emotional aspects of quality of life. They help people to look well-groomed, emphasize their personal style and strengthen their self-esteem. Life-cycle analyses show us that our consumers can influence the carbon footprint of our products to a very large extent as a result of their consumption behavior. More than 90 percent of the energy and water used with our rinse-off products is accounted for in the use phase.



The "BeSmarter" initiative informs consumers about the responsible use of water resources, especially when using our products.

To raise our consumers' awareness of this, the Beauty Care business unit has launched the ["BeSmarter"](#) initiative. The primary focus of this initiative is the responsible use of water resources. Using a combination of notices on the products, a comprehensive informational website and supportive activities in the outlets of our retail partners, we want to encourage consumers to be as sparing of resources in the use of our products as possible. So far, the brands leading the initiative are Schauma, Fa, and Theramed. Information about the initiative has been available on the product packaging of these brands since the end of 2016. Our online [resource calculator](#) allows consumers to find out online just how much their behavior can influence not only water use and the environmental footprint, but also the cost of bathing, showering, drying their hair, brushing their teeth, and washing their hands. Short creative videos are an entertaining way to convey original ideas on how everyone can help save water. By using an emotional approach to consumer education, we aim to make sustainable lifestyles more attractive.

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## Partnerships for sustainable solutions

Our retail partners are regular visitors to our Beauty Care Lighthouse in Düsseldorf. This innovative customer center provides an ideal setting to inform our partners about our strategy, our expertise, and product innovations in a diverse and interactive way. Our sustainability strategy and initiatives are a particular focus in our dialog with our customers. The area devoted to this topic uses a range of product examples to demonstrate our sustainability contributions along the value chain. We use the dialog with our partners to advance our key issues, such as resource conservation and the creation of more value for society.

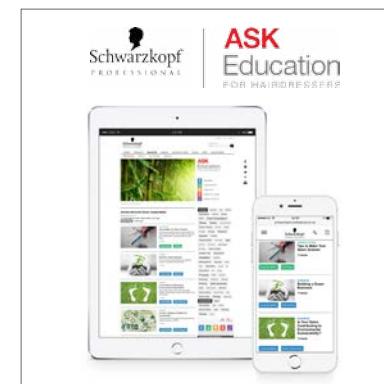
With 200 visits and more than 1,000 guests from 60 nations to date, a large number of initiatives have been established with retail partners, with the focus on sustainability and sustainable lifestyles. By dis-



From the left: Stephanie Lenzner, Emelie Elberg, and Etienne Peters offer in-depth customer dialog on sustainable solutions along the value chain in the Lighthouse's sustainability station.

cussing our ideas with our customers and working together to find solutions that go beyond the products and trigger consumer engagement, our employees, our partners and our products make an important contribution to sustainable development.

In our Hair Salon business, we also work closely with our clients on sustainability issues. The trainers on our Schwarzkopf Professional Team provide our hairdressers product information and specialist expertise on a daily basis. In addition, special seminars put on by our global network of  **ASK Academies** promote sustainability awareness and give concrete recommendations on how to enhance salon safety or use less resources. In 2016, our messages on these important topics reached more than 50,000 hairdressers. We also inform our customers regularly about blog articles relating to health and safety and environmental matters in relation to hair salons.



Through special seminars in its ASK Academies around the world, Schwarzkopf Professional promotes sustainability awareness in the hairdressing profession.

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## Brand engagement

In 2016, Schwarzkopf launched the “Million Chances” initiative. Together with international and local charitable organizations, we implemented projects that support girls and women around the world in building a successful future. At the start of the initiative, Schwarzkopf joined forces with Plan International, a global children’s relief organization, to launch three focus projects in China, Egypt, and Colombia. The objective of all three projects is to create positive professional and private prospects for young women through better educational opportunities. Another long-term project that helps young people around the world secure their future is  “**Shaping Futures**”, which acts as a vital support for the Schwarzkopf Million Chances initiative. Since 2010, Schwarzkopf Professional and non-profit organizations have offered young people the opportunity to obtain training in basic hairdressing techniques and thus establish livelihoods. After launching in Cambodia, “Shaping Futures” has now expanded to other countries, including South Africa, the Philippines,



The “Shaping Futures” initiative by Schwarzkopf Professional allows young people the opportunity to obtain training in basic hairdressing techniques and thus establish livelihoods.



India, Croatia, and Slovenia. Since the initiative was launched, more than 1,500 young people in 26 countries have been trained through the volunteer engagement of 280 hairdressers and employees. In 2016, a new partnership was launched in Germany. At the ASK Academy in Hamburg, students with an immigrant background from a neighborhood school with supervised after-school activities, refugees, and socially disadvantaged young people receive basic training in hairdressing once a week, including other cosmetic techniques. The aim of the program is to improve career prospects for young people, awaken interest in the hairdressing profession, and prepare them for a possible apprenticeship.

For the 11th year running, Schwarzkopf was an official partner to the Tribute to Bambi foundation, which helps children in need. The objective is to provide support to children and young people in need in Germany. This initiative supplements the “look good feel better” international assistance program for cancer patients, which the Beauty Care business unit has been supporting since 2006. The DKMS LIFE patient program offers cosmetics seminars to women with cancer to help them deal with the changes in their appearance resulting from cancer therapy.

## Henkel Sustainability#Master® – Igora Royal Highlifts

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Value	Raw materials	Production	Logistics	Retailing	Service / Use	Disposal
 <b>Performance</b>					<b>Better and gentler hair coloring</b>	
 <b>Health and Safety</b>					<b>Gentler hair lightening</b>	
 <b>Social Progress</b>						
 <b>Materials and Waste</b>	Less packaging Less raw materials used					<b>Less inventory and waste in the salon</b>
 <b>Energy and Climate</b>			Reduced transportation costs			
 <b>Water and Wastewater</b>		Less water used in production				
<b>Footprint</b>						

 Significant improvement

The Henkel Sustainability#Master® reveals the sustainability profile of the new Igora Royal Highlifts hair coloring line. Fibre Bond Technology integrated into the color cream professionally lightens hair and is particularly gentle. Hair breakage is minimized\*. Application is particularly simple and works without any additional steps, mixing, or weighing out of color additives. At the same time, the new colors produce the coolest shades of blonde. Integrating Fibre Bond

Technology into the color cream reduces its environmental footprint by avoiding the use of a separate product component. This also reduces packaging, resulting in an overall reduction of 11 metric tons of CO<sub>2</sub> every year. In addition, 67 metric tons of water can be saved in production each year. The elimination of this product component also has a positive effect on storage, both during production and for the customers. → [Explanation of the Henkel-Sustainability#Master®](#)



\* Compared to lightening with the Igora Royal 10 and 12 lines without Fibre Bond Technology.

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# Laundry & Home Care

Our brands, like Persil, Somat and Pril, have become an important part of the daily lives of many consumers. As such, all of our products are expected to satisfy the criteria of quality, environmental compatibility and social responsibility.



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## Working together to conserve resources

Consumers' expectations mirror our own ambition: We want our products to satisfy the criteria of quality, environmental compatibility, and social responsibility. This is because we view this trio as the driver for innovations and the basis for our future competitiveness. The Laundry & Home Care business unit's research and development strategy unites innovation and sustainability to focus on resource-efficient technologies and products. Each new product must make a contribution to sustainability in at least one of our six focal areas.

## Focus on the use phase

Another important objective is fostering resource-conserving consumption. Our products are the key here. They are used daily in millions of households and often require water and energy. As much as 80 percent of the environmental footprint of our products is generated during their use. This is why we concentrate on developing products that enable the efficient use of resources such as energy and water.

By using targeted information for consumers, we also work to promote responsible-minded behavior while using our products.

Through specific communication appropriate for the target group, including on the internet, we point out the advantages of our products while encouraging resource-efficient use. One example of this is our  [Persil resource calculator for laundry](#).



*"Our strong brands contribute to sustainability. Looking ahead, we intend to continue developing innovations that combine performance, environmental compatibility and social responsibility in equal measure."*

**Bruno Piacenza**  
Executive Vice President  
Laundry & Home Care

It is important to us to work hand-in-hand with our retail partners to advocate sustainable consumption together. As part of a sales initiative called "Say yes! to the future", we train our employees on sustainability topics that are relevant to sales. In 2016 the focus was on sustainable product innovations, efficient logistics planning, and joint projects for our consumers at the point of sale.

## Deliver more value with sustainable innovations

The innovation rate at the Laundry & Home Care business unit was 43 percent in 2016. In other words, the business unit generates 43 percent of its sales with products that have been on the market for less than three years. Moreover, Henkel has been using ingredients based on renewable raw materials for decades. In 2016, more than

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30 percent of the organic ingredients in our laundry detergents and household cleaners were derived from renewable raw materials.

### Industry meets science

In its innovation management, Laundry & Home Care is focusing increasingly on collaborative research and open innovation, harnessing the capabilities of external innovation partners such as universities, research institutes, suppliers and customers. In order to understand precisely what customers and consumers need and develop first-class innovations, collaboration often begins before the actual product development phase does.

Using renewable raw materials is a key part of sustainable laundry detergents and household cleaners. The “Henkel Innovation Campus for Advanced Sustainable Technologies” (HICAST), an exclusive cooperation between Henkel and RWTH Aachen University in Germany, has generated promising advances with respect to sustainable raw material bases. The starting point of the work is cellulose, the most common organic compound on the planet. Intermediates derived from biomass are fundamental building blocks for the development of innovative, sustainable ingredients for laundry detergents and household cleaners. Researchers have succeeded in converting these intermediates into novel surfactants with economically interesting properties. Patents are already pending for several substances. This represents a major contribution to the resource-conserving laundry detergents and household cleaners of the future.

### Award for outstanding research

Another cooperative effort was carried out with Friedrich Schiller University in Jena, Germany. Researchers developed new cellulose-based polymers. In her dissertation, doctoral candidate Kristin Ganske developed novel synthetic paths for bio-based polymers, which could improve dirt removal on contact with textiles. Her findings are an important component in the further development of resource-conserving laundry detergents with enhanced performance. In 2016, Dr. Kristin Ganske received the Henkel Laundry & Home Care Research Award for her work.



Prof. Dr. Thomas Müller-Kirschbaum (left), Global Research and Development Manager at the Laundry & Home Care business unit, and Dr. Michael Dreja, Global Research Manager at the Laundry & Home Care business unit, presented the 2016 Laundry & Home Care Research Award to Dr. Kristin Ganske.

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## Focus on liquid laundry detergents

In cooperation with its strategic partners, Henkel is developing increasingly sustainable, high-performance ingredients as the basis for a new generation of innovative formulations. The liquid detergent segment is a particular focus here. Compared to powder laundry detergents, liquid laundry detergents contain more ingredients based on renewable raw materials, use up to 80 percent less energy in the production process and thus contribute to sustainability. Since liquid laundry detergents dissolve instantly in contact with water, consumers are also more willing to reduce the washing temperature, which also contributes to resource conservation. If, for example, users were to select 30 instead of 40 degrees Celsius for all machine loads washed with Henkel products for colored laundry and synthetic textiles, this would have the potential to avoid around two million metric tons of CO<sub>2</sub> every year. This corresponds to the amount of CO<sub>2</sub> taken up every year by more than 40 million trees.



The acquisition of The Sun Products Corporation, which also includes the All laundry detergent brand, was a key step for Henkel's business in North America.

Liquid laundry detergents also play an important role in our Persil Power Mix Caps: These pre-dosed powder-gel capsules unite for the first time the product benefits of a concentrated gel with the whitening-power technology of a powder. This protects laundry especially well against graying. In 2016, PowerCore Packs, a combination of liquid and powder laundry detergent in gel capsule form, were launched on the US market as well, under the laundry detergent brand All. All is one of the brands of The Sun Products Corporation, which Henkel acquired in September 2016. Sulfate-free laundry detergents were also introduced for the first time under the All brand in 2016 to meet regional consumer needs in North America.

## Somat phosphate free – no compromise between performance and environmental sustainability

All of the European dishwashing products sold under Henkel's Somat brand, which is also marketed as Pril in some countries, have been phosphate-free since April 2016. The phosphates have been replaced with the power of citric acid. This made Henkel one of the first manufacturers of branded consumer goods to comply with an amendment to the EU Detergents Regulation, nine months before its entry into force, which requires that detergents for household dishwashers be phosphate-free starting in January 2017. Phosphate-free Somat products are currently available in over 20 countries. Full implementation at international level has commenced. The development of the phosphate-free formulations required laborious research, since automatic dishwashing products combine a variety of functions. Up to 30 different raw materials had to be intelligently combined. The performance of the formulation is critical, and its stability in tab form and the preservation of rapid solubility are also important properties. Our phosphate-free automatic dishwashing products make an

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additional contribution to environmental compatibility by reducing water pollution.

If the annual savings of 10,000 tons of phosphate were used as an ingredient in agricultural fertilizers, this amount would be sufficient, for example, to fertilize the annual harvest of potatoes for 40 million people in Germany. An additional factor in improving the environmental profile is the narrower packaging, which makes logistics more efficient.

The different versions of Somat can also be used in low-temperature programs without using the pre-wash setting. This reduces energy and water consumption and supports our consumers in their sustainable actions. The new Somat dishwasher cleaner also helps conserve resources. Somat's innovative product can be used when the



Together with their teams, product developer Dr. Inga Vockenroth (left) and marketing expert Nadine Franke worked toward an ambitious goal: for Somat to continue to offer its best cleaning performance without phosphates – nine months before the entry into force of the relevant EU Regulation at the start of 2017.



Pril Pro Nature Sensitive and Pril "double decruster" deliver excellent product performance and conserve valuable resources.

machine is fully loaded, making it no longer necessary to run an expensive empty cycle to clean the machine. So consumers save not only time, but also energy and water.

## Pril Pro Nature Sensitive and Pril "double decruster"

Pril Pro Nature Sensitive dishwashing liquid has been awarded the Blue Angel eco-label for its water-friendly formulation. As an eco-label owned by the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety, "The Blue Angel" designates products that meet high environmental, health, and consumer standards and are more environmentally compatible than comparable conventional products. Pril Pro Nature Sensitive meets these criteria. Its degreasing formula also protects the skin as a pH-neutral dishwashing liquid. The new version combines environmental compatibility, extra skin protection, and high grease-dissolving power. In addition, the closure cap on all Pril bottles has been changed. The new caps prevent the buildup of detergent residues on the outside and enable more accurate dosing. They also

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contribute to the conservation of resources through the reduced use of plastic. The potential saving is more than 1.3 million kilograms of plastic material compared to the previous dosing cap.

In 2014, Henkel developed powerful enzymes that enable users to quickly and effectively remove rice, pasta and other starch residues with hand dishwashing liquid Pril. Thanks to these enzymes and extensive measures to optimize the entire product formulation, Henkel has reduced its use of surfactants and significantly cut its CO<sub>2</sub> emissions. With its new formula, Pril “double decruster” removes grease and starches, makes lengthy soaking unnecessary, and targets stubborn, burnt-on food residues as well.

### A.I.S.E. Charter

Since 2005, when Henkel became the first company to fulfill the criteria of the A.I.S.E. Charter for Sustainable Cleaning, more than 200 other companies have committed to the Charter. All companies that sign the Charter pledge to continuously improve their processes and to report annually on their economic, environmental and social advances, using defined indicators.

As part of its further development, the A.I.S.E. Charter was expanded in 2010 to include the key dimension of products. It has thus become possible to show not only that a product was manufactured by a company with sustainable business practices, but also that the product itself has an advanced sustainability profile. In the laundry detergents category, for example, four criteria are of particular importance: environmental safety of the ingredients; resource efficiency with

regard to dosage and packaging materials; washing performance at low temperatures; and consumer information. Products that satisfy all of the requirements may place the A.I.S.E. Charter logo, introduced in 2011, on their packaging. Our liquid and powder laundry detergents, fabric softeners, automatic dishwashing products, hand dishwashing liquids, all-purpose cleaners, special spray cleaning products, and toilet cleaners all meet the criteria that have now been set for these products.

In 2016, Henkel supported the continuation of [A.I.S.E.'s “I prefer 30” campaign](#) in Belgium after it had already been implemented in selected countries in 2014. The objective is to encourage consumers to use lower temperatures when washing clothes.

Since 2014, Henkel has been supporting the Europe-wide A.I.S.E. online education initiative [“Keep Caps from Kids.”](#) A video and a website tell viewers why it is so important to keep liquid detergent capsules out of the reach of children. The website also provides tips on how to use liquid laundry detergent capsules safely. This online education campaign supplements the voluntary initiative “A.I.S.E. Product Stewardship Programme for Liquid Laundry Detergent Capsules.” In the USA, Henkel supports the online education initiative [“Take the pledge – be the key to a safe laundry room and routine”](#) launched in 2014 by the industry association American Cleaning Institute.

## Henkel Sustainability#Master® – Somat Gold compared to Somat Gold phosphate-free

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Value	Raw materials	Production	Logistics	Retailing	Service / Use	Disposal
 <b>Performance</b>			Efficient loading		Cleaning performance	
 <b>Health and Safety</b>						
 <b>Social Progress</b>					Low temperature programs	
 <b>Materials and Waste</b>	Targeted selection of raw materials	Recyclable cardboard packaging		Lighter packaging		Recyclable cardboard packaging
 <b>Energy and Climate</b>	Targeted selection of raw materials		Optimized transport		No soaking	
 <b>Water and Wastewater</b>						Phosphate-free
<b>Footprint</b>						

 Significant improvement



Henkel has not used phosphates in any European dishwashing product since April 2016, thus helping to reduce water pollution – nine months before the entry into force of a corresponding EU Regulation in 2017. Since Somat products deliver excellent performance even with low-temperature programs and without pre-soaking, they have

already made a significant contribution to reducing energy and water consumption in the past. An additional factor in improving the sustainability performance is the narrower and lighter packaging made of recyclable cardboard, which makes logistics more efficient.

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The commitment, abilities and experience of our employees build the basis for our international business success.



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## Strengthening our global team

Henkel aims to create sustainable value with its business activities. This purpose unites all of our employees and goes hand-in-hand with our  **corporate values**, which guide our decision-making and our actions. In order to continue to be successful, we want to acquire, develop and retain the best talents for Henkel. We offer an inspiring and challenging working environment with a value-oriented leadership style. Our performance culture is based on continuous open feedback and on appreciation for outstanding performance – both through attractive compensation and through individual and long-term development opportunities. We strengthen our global team by valuing diversity and cultural backgrounds, interacting openly and constructively with each other, and looking after the health and safety of our people. This results in a motivated and engaged team, whose individual skills and experience make a significant contribution to our company's success.

## Employee development

It is our aspiration to create an appreciative working environment where all employees can develop and excel long-term at Henkel and where they can give their best. To do so, we foster our employees' skills and knowledge and help them to reach their full potential. Reg-



*"We value, challenge and reward our people. They determine our success in leveraging the potential of digitalization. That's why we are integrating more and more digital formats and tools in our training and skills-building programs and in our daily interaction."*

**Kathrin Menges**

Executive Vice President Human Resources and Infrastructure Services

ular and open feedback on performance and potential serves as a foundation for their development. As a result, specific development measures can be defined individually that address the company's needs and the employees' potential. To meet our employees' needs even more specifically, we have further expanded our  **digital learning** offers, in particular. We are also strengthening the development of digital skills, so we can successfully leverage the opportunities presented by digitalization.

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### Our training programs

Henkel offers 25 vocational training and dual study programs in Germany. 159 new apprentices and students started work with Henkel in 2016. At present, a total of almost 500 apprentices and students are completing a vocational or professional qualification at Henkel in Germany.



### Assessment and feedback

To foster the targeted development of our employees, we make use of regular development meetings and individual development plans. This helps us to systematically identify and develop talents within the company and plan internal succession.

- **For our non-managerial employees**, we use locally customized evaluation and development systems. In many countries, supervisors assess their employees on the basis of their prior achievements and hold confidential feedback conversations with them. This enables our employees to recognize what is expected of them and where their strengths, weaknesses, and development potentials lie. The feedback meetings are followed by specific development measures. These can include training in the workplace, such as seminars and workshops, as well as job enlargement, for example by taking on management tasks.

- **Our managers** and selected non-managerial employees are assessed every year in the globally standardized Talent Management Cycle. The first step is for the employee to give a self-assessment of their performance and their future potential to their supervisor. Then several supervisors of the same department together discuss the performance and potential of their employees in order to ensure that the assessment is objective. It is made on the basis of uniform principles and clearly defined criteria relating to performance, such as customer orientation, and potential, such as being convincing and influencing. Supervisors discuss the assessment results with their employees in personal feedback meetings and, together, they agree on individual development measures. These feedback meetings not only foster professional and personal development, but also facilitate targeted and long-term career planning. In 2016, more than 1,100 managers were promoted.

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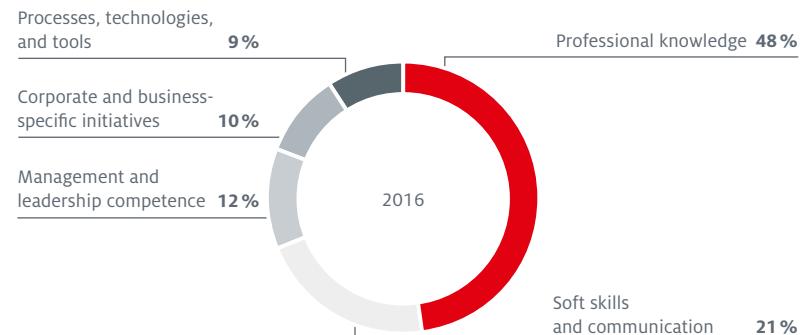
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## Life-long learning

We believe that life-long learning is a key element of employee development. An important element is learning as part of everyday work and through handling a varied range of tasks. Henkel encourages this, particularly through the opportunity to take advantage of new roles both locally and in other countries. We learn from supervisors, team members, and other colleagues. By making greater use of digital communication channels we support internal knowledge transfer. We have also extended our training courses with new digital and modular formats that can be integrated more easily into everyday working practices. Here the core element is the Henkel Global Academy, our learning center that is available worldwide, which provides access to in-person and virtual training courses.

## Training categories in 2016



- We structure the **learning content** in a way that allows us to react more quickly and individually to new requirements for knowledge within the organization. Via our global intranet, our employees

have access to the Henkel Global Academy which bundles all formal training courses. They include basic knowledge – such as management, process, and software training – as well as content specific to our business units. Against the background of digitalization, the learning content we provide focuses on current topics like digital marketing. This helps us support our employees in moving efficiently in the digital world and taking advantage of the opportunities associated with this. Leadership skills also represent a key element of the learning content. We want to foster a global, value-oriented leadership standard which takes account of different regional and cultural aspects. For example, we communicate the content via a globally standardized training program, which we use to prepare our leaders of tomorrow specifically and gradually for their leadership responsibilities.

- **Digital learning formats** play an increasingly important role for us in making training opportunities available flexibly worldwide. We increasingly complement general in-person training courses with interactive eLearning courses, videos, and webinars. Using these digital formats, our employees are more and more able to determine their own learning content and deploy training flexibly at a time that suits them. This means we can react more individually and flexibly to each employee's needs. We also use the benefits of digital formats to make leadership-related learning content available to as many employees as possible. For example, in 2016, for the first time we offered our employees worldwide the opportunity to take part live in "Massive Open Online Courses" and webinars in collaboration with the IESE Business School. Digital learning also reduces the need for travel.

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In order to drive forward the digital transformation in the company, special training and development programs have been developed for employees, and digital solutions have been integrated into everyday working practices.

## Working digitally

Digitalization is changing the world of work fundamentally. It creates new opportunities and challenges in the way in which employees collaborate, communicate, and contribute to the company's success. We use digital communication channels to promote knowledge transfer throughout the company. One example of this is our social network "Yammer", which is currently used by more than 25,000 of our employees. Many are now exchanging views in subject-specific groups and using the network to inspire each other. Particularly because employees from a wide range of departments make contact with each other, we can reinforce inter-disciplinary thinking and bet-

ter exploit our existing knowledge potential. Digital solutions not only help us to learn from each other, they also enable us to work together more efficiently. As a result, project work and virtual collaboration between teams is also increasingly supported digitally. This enables us to work together on projects quickly and flexibly, and to exchange information quickly and personally in a virtual context.

## Flexible working

Models of flexible working are supported by digital opportunities and can be deployed even better by our employees. We measure performance by results and not presence and have been encouraging flexible working models for years. For us, part-time, flexible working hours and mobile working are a natural part of the world of work. Being able to work where and when one needs to, regardless of time or place, improves the work-life balance. The trust we place in our people strengthens their motivation. Our managers are instructed to put the opportunities for flexible working into practice and to support them actively. By signing our global Work-Life Flexibility Charter in 2012, the Management Board made it clear that this is an important topic at Henkel.

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## Compensation and benefits

The holistic appreciation of our global team is an important element in our corporate culture so we can ensure our long-term and sustainable business success. In addition to the personal appreciation of our people through feedback and development, it is important to recognize their performance through fair compensation in line with market practices. We use performance-based components of compensation in order to reward individual contributions. In contrast to the globally standardized remuneration system for our managers, the compensation systems for our non-managerial employees are based on local requirements and existing collective agreements. There is no systematic difference between the compensation received by male and female employees. In addition to fixed and performance-based components of pay, our remuneration system also includes benefits in kind and social security components.

### A remuneration system that rewards individual performance

Our remuneration system has as its foundation an appropriate and competitive level of basic pay, which all employees receive in accordance with market conditions and the collective agreements in place. This is aligned with the requirements of the position, local market conditions, individual performance, and the development potential of the employee. In addition to the basic pay, we strive to reward the individual performance of our employees with attractive incentives.

- **For our non-managerial employees** we use locally adapted compensation components to reward their performance and their con-

tribution to the company's success. So, depending on the nature of the job and region, there are various bonus systems for employees in sales, research, and production. These systems cover almost all of our non-managerial employees worldwide.

- **For our managers**, we use short-term variable compensation components to reward individual contributions to the company's success. The Short Term Incentive (STI) paid out annually takes into account both our medium-term financial targets and each person's individual performance. Our employees not subject to collective agreements and managers with direct responsibility for sales are compensated through separate bonus arrangements, instead of the STI, which focus on success in selling. Our top managers are only entitled to payments under the STI.

- **For our top management** there is a Long Term Incentive (LTI) in addition to the annual STI. Over a term of four years, we encourage forward-looking behavior that increases our company's value and rewards the achievement of long-term goals.

- **For Management Board members** we also use an annual bonus and one related to the company's long-term success as variable compensation elements. Details of this can be found in the remuneration report in the [Annual Report](#), pages 39-51.

We always assess the performance of our employees in the context of our vision and corporate values. We are committed to leadership

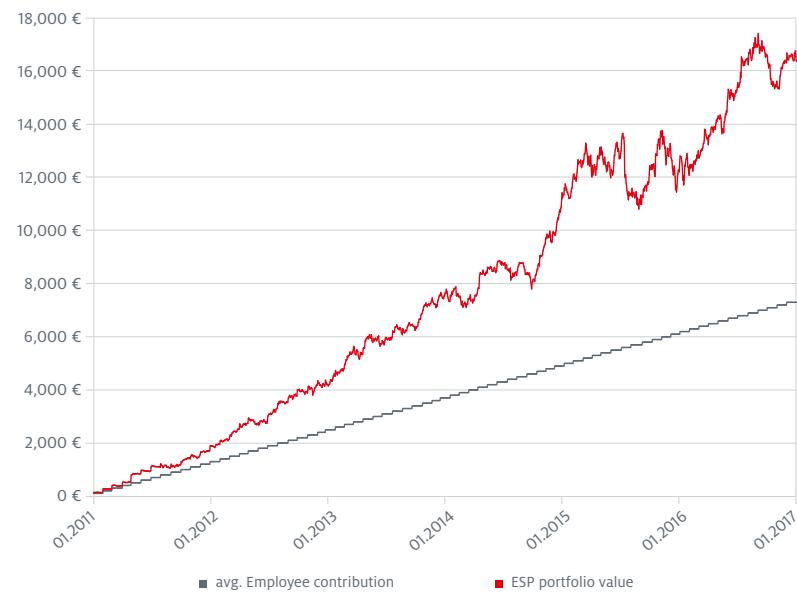
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in sustainability – this is one of our five corporate values. Correspondingly, contributions to Henkel's sustainability strategy and to its targets form part of the holistic annual performance assessment which influences variable compensation. Where specific aspects of our sustainability performance, such as the reduction of energy use and waste volumes, fall within the sphere of influence of the employee concerned and have a clear bearing on business performance (as in the case of site managers), these are included in the individual performance assessment of this employee. In addition, almost every manager has to confirm compliance with the → **Henkel standards** in writing during their annual review. These include our Code of Corporate Sustainability, the SHE Standards, and Social Standards.

### Our employee share program

We believe it is important for our employees to share in the success of our business. This not only improves motivation, but also identification with the organization. Since 2001, Henkel has offered an employee share program (ESP). The intention of this is to align the interests of the company and of our employees even more closely, while giving employees an attractive opportunity to provide individually for their future and their retirement. For each euro invested in 2016 by an employee (limited to 4 percent of salary up to a maximum of 4,992 euros per year), Henkel added 33 eurocents. Around 11,500 employees in 53 countries purchased Henkel preferred shares under this program in 2016. At year-end, some 14,800 employees held a total of around 2.5 million shares, representing approximately 1.4 percent of total preferred shares outstanding. The lock-up period for newly acquired ESP shares is three years.

### Development of an employee share portfolio for a monthly investment of 100 euros since January 2011



### Our contribution to social security

Our employees benefit worldwide from a high level of social insurance provisions. In countries where no state social insurance system exists or such a system covers only basic needs, we organize our own measures and initiatives to supplement state health and pension insurance provisions. In the USA, for example, we cover our employees almost completely with private health insurance plans. In addition, in many countries where this is usual market practice, Henkel provides company pension provision plans.

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## Diversity and inclusion

The diversity of our employees with their individual differences and perspectives is essential to our strength and innovative capabilities. We want to create an inclusive working environment in which every employee is valued and individual performance is recognized. We address the topic of diversity worldwide based on our values and codes of conduct. With numerous programs, training courses, and workshops, we strengthen understanding of diversity and appreciative behavior. Our → **flexible working models** also contribute to our employees being able to maximize the use of their abilities in various life stages.

### What we mean by diversity and inclusion

On principle, we fill our job vacancies exclusively according to ability, potential, and performance. We do not tolerate discriminatory behavior either when we hire new employees or in our daily interaction with each other. We aim to develop the full potential of our employees, regardless of external circumstances. To do so, we want to identify and remove barriers in our thinking and in our processes.

#### Integrating people with disabilities

At Henkel we foster a culture of inclusion which focuses on the skills and individual talents of people with disabilities. Via targeted programs we want to increase the number of employees with disabilities – including in our emerging markets. In 2015, Henkel Brazil took a stronger stand in hiring people with disabilities and, to this end, developed a special program in cooperation with external partners and non-profit organizations, as well as the government and the labor ministry. It includes training courses and workshops both for employees and leaders, as well as a specific hiring process to identify people with disabilities for future positions. Since the start of the program, around 20 people with disabilities have already been hired in the areas of production, customer service, and logistics.

From this understanding and beyond, we are convinced that a diversified workforce and an open and appreciative corporate culture are important success factors in a globalized world. With our Global Diversity & Inclusion policy, we have promised to further strengthen diversity and appreciative behavior at Henkel. We want to proactively create an inclusive working environment that fosters all dimensions of diversity. We pursue a holistic approach, which includes individual personal characteristics as well as experience, knowledge, and skills. Examples are:

- **Cultures:** An international workforce composed of people with different cultural backgrounds is important in a global company like Henkel, as it enables us to develop an understanding of our markets and anticipate local consumer needs. In order to meet the challenges of culturally mixed teams, we provide intercultural

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training courses and workshops. These aim to increase awareness of different value systems and their influence on our daily behavior. Henkel also encourages international transfers within employees' career paths. The experiences thus gathered open up new ways of thinking and perspectives, which also improve the performance of our employees. With employees from a total of 123 countries, cultural diversity is a well-established part of everyday working life at Henkel. 64 countries are represented at the corporate headquarters in Düsseldorf alone.

- **Gender:** Our goal is to continually increase the share of female representation at all levels of the organization worldwide. To do so, we use targeted measures in employee acquisition and development. We support the career development of women at all management levels. We have continuously increased the share of women in management positions from around 24 percent in 2006 to around 34 percent by the end of 2016.
- **Generations:** Societal changes, such as the aging population in industrialized countries, pose substantial challenges for companies. To address this demographic development, Henkel, in collaboration with the Rhenish-Westphalian Technical University in Aachen, Germany, has developed a "demography radar", which we can use to simulate the age structure of our workforce in Germany under particular conditions. With this information, we can better meet the challenges posed by demographic changes. As a matter of

principle, we encourage life-long learning across all generations through appropriate → **training measures**. Quite specifically, we use mentoring in different business units and countries to promote knowledge transfer and a change of perspective between experienced and less experienced employees. We also offer our employees a wide range of programs for → **maintaining health**.

### Semi-retirement at Henkel

At Henkel we want to use our TANDEMS concept (part-time work and training normalize demography in shift work) to take an active role in the demographic change. The semi-retirement model enables our employees involved in shift work and in the fire service at all German sites to move gradually away from shift work, which increasingly takes its toll over the years. At the same time, we encourage the targeted training of qualified young people by having their experienced colleagues coach them in direct preparation for a specific role. This ensures that we keep many years of knowledge within Henkel and improves the company's future viability.

- **Life stages:** Our employees are defined by training, career paths, and social relationships in their different life stages. The resulting activities and obligations pose the challenge of combining personal and working life in a reasonable way. We support our employees by offering them flexible working models and have done so for a long time. We also actively help families in achieving a work-life balance, for example, through the provision of childcare. Henkel in Austria joined the "Companies for Families" network in 2016 in order to make an active contribution towards being more family-friendly

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within its own sphere of responsibility and to act as a role model and incentive for others. The measures involved include flexible working models, such as part-time work, flexible working hours, mobile working, and job sharing. To make it easier to achieve a work-life balance, support is also provided in the form of unpaid leave for educational or paternity purposes and free advice for employees with personal or work-related problems.



### Childcare at Henkel

Good childcare is a decisive factor in striking a work-life balance, particularly for young parents. Henkel offers its employees support as soon as they return to work after maternity or paternity leave. At the Düsseldorf site there are 240 childcare places in three nurseries. In 2015, the first Henkel company daycare center outside of Germany was opened in Bratislava, Slovakia. Childcare places for 100 children from two years of age were created here. Henkel also offers various forms of childcare support to its employees in other countries.

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# Dialog and culture

We are committed to communicating openly with our employees and their representatives and pursuing a constructive dialog. Our goal is to inform them early on about important issues and to involve them in the process.

## Our leadership culture

Our managers have a special importance in ongoing employee dialog, as they embed our values and corporate culture in the workforce. An appreciative leadership style that respectfully integrates the skills and views of all employees is important to us. With the help of our managers, we want to create a culture in which everyone can be heard and where these opinions are valued and respected. At Henkel, we particularly value personal feedback for our employees in the context of our active feedback culture. This includes individual assessment and development meetings, as well as feedback as part of daily work. These are complemented by regular team meetings, staff gatherings, and our digital communication channels.



## Global introduction of our strategic priorities "Henkel 2020+"

In November 2016, Henkel presented its new ambitions and strategic priorities which are to shape the company up to 2020 and beyond – "Henkel 2020+" for short. Right from the start of the year, we intensively involved selected employees and our management team in order to mutually identify our ambitions and strategic priorities and to plan their communication to all employees. At a global management meeting, which was broadcast live to 200 sites, our Management Board presented the new strategic priorities for the first time. Shortly afterwards, around 170 top managers enlarged upon the contents at an event lasting several days and thus prepared intensively for the worldwide introduction of "Henkel 2020+". In the following weeks, each Management Board member went on tour to explain "Henkel 2020+" in person. Altogether they visited 22 sites in 20 key countries. Through live broadcasts, we ensured that the reach of their message was increased to over 90 sites. At the other sites, the relevant site manager presented our new ambitions and strategic priorities. In order to actively involve our employees, they were able to put questions directly to the Management Board or the site manager at all meetings, via digital channels during the live broadcasts.

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## Employee representation

Our various employee representative bodies play a key role. In 2017, we will celebrate the centennial of our employee representation in Germany.

An in-depth exchange of views and consultations with the management take place both at the operational level, for example, with the local works councils, and across companies with the trade union. We inform our employee representatives regularly and on a timely basis and give them as much detail as possible, for example, regarding the corporate strategy or planned acquisitions. In countries where no employee representation is planned or established, the social dialog with the respective management serves as a voluntary and informal instrument for close communication. This enables us to improve communication with our employees, include their perspectives early on, and jointly shape future-oriented issues. That helps Henkel avoid conflicts of interest and strengthens employee identification with the company.

Employee representation plays a particularly important role in Europe. In 1995, Henkel was one of the first German companies to voluntarily set up a European Works Council (EWC) to continue the successful cooperation between management and employee representatives at the European level. Through the EWC, Henkel informs the representatives of its European companies about matters such as the economic situation, transnational initiatives of the company

such as restructuring or reorganization programs, safety, health and the environment, and training and development programs. Henkel also involves employee representatives in many decision-making processes beyond those for which worker participation is a statutory requirement.

## Dealing with structural changes

Preserving jobs and dealing responsibly with necessary structural changes are important to us. In order to secure the company's competitiveness, we continually adapt our structures to market conditions. If jobs are affected by this, we enter into a solutions-oriented dialog with the employee representatives before actions are taken. In doing so, we follow all applicable codetermination legislation and apply the required procedures for each action. We aim to reach agreements with socially compatible arrangements for the particular employees. To date, we have been able to manage the necessary restructuring measures while reconciling interests. The actions involved range from early retirement through to support with professional reskilling and refocus.

## Health and vitality

We promote the health and vitality of our employees to help create an agile and high-performance organization. To do so, we rely on globally uniform health and safety standards and provide health and preventive programs to guard against workplace risks that might lead to illness. Our broad health offer at the sites has two aims: promoting our employees' physical health (via seminars for giving up smoking, health screenings, AIDS prevention, etc.), and maintaining their mental vitality (through stress management and similar measures). We successfully pick up on important social trends, such as the demographic change, with our program for maintaining working capacity. In addition to a number of regional and local programs, since 2016 we have been planning one large joint health campaign worldwide per year that will be run at all sites. Henkel has set itself the objective of reaching over 90 percent of employees worldwide with these global health campaigns.



As recognition of our comprehensive healthcare philosophy, Henkel joined the business network "Companies for Health" back in March 2002. In this context, Henkel signed the "Luxembourg Declaration on Workplace Health Promotion in the European Union" dated 1997.

### Global health management

In order to ensure holistic health care at all sites, Henkel works continuously to establish uniform principles for healthcare worldwide. In 2014, the first step was to introduce global health protection metrics, such as the availability of first aiders and emergency medical care, carrying out occupational health screenings, and the number of cases of occupational illness. They are reported each quarter by all Henkel sites worldwide.

The Health Procedure introduced in 2015 describes the minimum global standards for health protection and health promotion. In specific regions, locally physicians act as health managers, using their professional knowledge and familiarity with the local conditions and the local language to support the sites in implementing the internal guidelines, programs, and legal requirements. In designing these programs, our sites determine different priorities based on local requirements.

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Since 1910, nurses have been tending to the health of workers in "sick-bays" initially set up as medical care facilities. Since July 1940, the company doctor service officially started with three employed company doctors.

As part of the company's efforts to continuously improve preventive health care measures, an annual conference takes place enabling the physicians of all Henkel companies in Germany to compare notes. Global health management in Düsseldorf maintains weekly contact with colleagues from the regions. Important findings are made available to all sites worldwide. An annual survey of all Henkel sites on health programs and local requirements provides us with an overview of our global health management. This is the foundation for global and regional coordination activities as well as for site planning.

## Encouraging mental vitality and a healthy corporate culture

In a world with ever growing demands that is becoming increasingly complex and dynamic, operational measures to maintain mental vitality are becoming more and more important. That is why Henkel supports its employees by offering, for example, advice programs on the subjects of time, stress, and conflict management. We also believe it is important to make our managers aware that they need to act as role models for their staff and teams in this area. We use methods such as health webinars to communicate this to them, so they can contribute to creating stronger motivation and a better atmosphere in the workplace combined with higher performance, while, at the same time, reducing instances of illness.

In Germany, the offer provided by our social services also plays an important role in supporting our employees professionally in all circumstances. In addition to giving psychological advice in particular cases and occupational integration management, they also provide support in finding a work-life balance, for example by assisting in the search for childcare or help for relatives with care needs. At other sites, external service providers support employees' needs according to local requirements. Our initiatives to create → **flexible working hours** should help to improve the work-life balance and reduce stress factors.

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### Demographic program to maintain health and working capacity

Against the background of the demographic change, the question arises as to what Henkel and its employees can do to achieve long-term employability up to the age of 67. Since 2013, at our corporate headquarters in Düsseldorf, we have been implementing a demography program after a successful pilot phase. This holistic concept includes a combination of preventive occupational healthcare with a general medical check-up, workability index, and employee interviews. From this we can derive profiles of individual employees' strengths and weaknesses as well as those of the relevant organizational unit. Employees can be informed of the individual actions they need to take to improve and maintain their health and performance. Plant managers can see the need to take operational measures with regard to workplace design, continuing education, and optimizing the organization of work and the working atmosphere. This supports them in developing their teams. Since last year the businesses have been repeating the program, as a result of which they can evaluate the development and success of the measures. There were distinctly positive effects in maintaining working capacity and developing a healthier lifestyle, as well as a reduction in areas for improvement. Now the findings are being used to identify particularly effective measures.

### First global health campaign "Save a Life"

Heart attacks are one of the most frequent causes of death worldwide. Resuscitation by means of cardiac massage increases the likelihood of survival threefold. Our goal for 2016 was that every Henkel employee should master this core element of first aid and feel confident enough to use it when necessary. So we developed the first global health campaign on the theme of "Save a Life". This campaign focused on three simple-to-learn basic rules: "Check, Call, Push". We provided a wide range of materials for the campaign at all sites in order to reach all employees worldwide. In

addition to posters, flyers, and emergency stickers, these also included practice sessions and instructional and entertaining videos that could be used individually by each site. The numerous events at many locations and the high levels of participation and involvement in the campaign demonstrate its success, as does the significant increase in the number of first aiders worldwide. In 2017 we are continuing with the concept of the annual global health campaign, this time on the topic of "Active Lifestyle".



The picture shows Dr. Florian Wienforth carrying out a practice exercise on cardiac massage with Jan-Dirk Auris (Executive Vice President Adhesive Technologies) and other Henkel employees. Our aim is to increase employees' preparedness to resuscitate, whereby each employee remembers the mnemonic "Check, Call, Push" in the event of an emergency.

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Occupational safety within the company and along the value chain is a top priority at Henkel. We remain focused on our long-term objective of “zero accidents.” Our interim target is to reduce our worldwide occupational accident rate by 40 percent by the end of 2020 (base year 2010). With this objective in mind, we are working continuously to improve our occupational safety levels through awareness-raising training events; investments to enhance technical safety; and by monitoring the strict compliance with our Safety, Health and Environment (SHE) Standards. We also want to improve occupational safety at our subcontractors and that of other companies' employees working at our sites.



The picture shows Eagle Wang and Nathan Yang in pressure sensitive adhesives production facility in the Dragon Plant in Shanghai, China. Using scanners and other devices, they can immediately find out whether raw materials are highly inflammable, corrosive, or explosive. The scanner also tells employees which safety equipment they need when working with such materials. This is one way that digitalization is also making a contribution to occupational safety.

### Focus on safety training

Improved awareness of safety is a basic prerequisite for our employees to recognize and eliminate accident risks in the tasks they perform. Regular training courses are held at all sites to make our employees aware of this and to teach them to behave safely. We also conduct training sessions for the staff of contractors working at our sites. In addition, we are increasingly leveraging synergies across our business units for this purpose and are extending the programs already established in some units across the entire company. From 2017 we are also planning a company-wide global safety campaign that will target increased awareness of the most important safety issues.

In the last two years, the Laundry & Home Care business unit has run an external training program at all production sites on the important topic of “LoTo – Lock out, Tag out”. This concerned not just switching off machinery and plant but switching them to being completely energy-free (“lock out”) and designating this clearly (“tag out”). Once this has been done, modification and repair works can be carried out on the equipment without risk. This is relevant, because machinery can also be using energy when it is switched off (for instance, if energy is stored in springs or pipelines). These training courses, consisting of theory and practice, were run in the local language in order to reach both managers and production employees.

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In addition to the regular safety training sessions, Henkel's Beauty Care business unit ran training courses in 2016 for its most important subcontractors and logistics partners in China. This was intended to improve the safety of processes at their sites. Using interactive case studies and exercises, Henkel safety experts shared their knowledge of safety inspections and of identifying and managing possible risks. The training courses took place on site at specific suppliers, joined by employees of other suppliers. Such training courses help Henkel make an extra contribution to the safety of employees of external companies.

The Adhesive Technologies business unit has been concentrating on rolling out its "Culture Based Safety" (CBS) program globally since 2015. The core element is open dialog about safe and unsafe behaviors in everyday work in order to avoid incidents. The focus here is on mutual encouragement to develop a safety culture and constructive feedback on unsafe behaviors. In 2016 alone, around 18,000 such dialogs were held worldwide. Since the start of the CBS program, a total of more than 10,000 employees at over 120 different sites had completed CBS training by the end of 2016. For 2017 we are planning to extend the program to all remaining production sites and to administrative sites.

## 2016 status

In 2016, we recorded 1.0 occupational accidents per million hours worked. This is an improvement of 17 percent (base year 2010).

Despite our continuous focus on health and safety, there was a fatal accident in Dusseldorf. An employee of an external installation company was seriously injured by an electric shock when working in the power plant. Despite receiving immediate emergency aid, the employee died from his injuries in the local hospital. Henkel supported the relevant authorities and the affected company in determining the cause of this tragic accident, which lies outside of Henkel's area of responsibility.

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# Social engagement

Social engagement is an integral part of what we consider to be responsible behavior and has been embedded in our corporate culture for a long time.



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Corporate citizenship has been an integral part of our corporate culture ever since the company was established by Fritz Henkel in 1876. Our lasting and long-term commitment to social involvement that goes beyond direct business interests was especially evident in the creation of the “Fritz Henkel Stiftung” foundation in 2011. This engagement is based on the four pillars of our corporate citizenship program: corporate volunteering, social partnerships, brand engagement and emergency aid. By 2020, we want to improve the quality of life of 10 million people through our social engagement.

We pay particular attention to education and job opportunities for young people. Together with our employees and various initiatives, we want to improve the educational opportunities and future prospects of more than 200,000 children worldwide. We do this, for example, through our international  **Forscherwelt (Researcher's World)** initiative, our  **Sustainability Ambassador Program** in elementary schools and our  **Pega y Crea** (Paste and Create) creativity center in Mexico.

## Our four pillars



### Corporate volunteering

As part of our worldwide corporate volunteering initiative, we support our employees and retirees in their volunteer work.



### Social partnerships

As part of our corporate engagement, we enter into social partnerships in the communities where Henkel operates, in an effort to support social initiatives and public institutions.



### Brand engagement

In addition to Henkel's corporate engagement aligned with our sustainability strategy, our brands also enter social partnerships worldwide.



### Emergency aid

After natural disasters, Henkel responds quickly and unconditionally, providing aid through our foundation, the “Fritz Henkel Stiftung”, wherever it is needed in the world.

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## Corporate volunteering

Since the initiative Make an Impact on Tomorrow (MIT) was launched in 1998, we have supported the volunteer work of Henkel employees and retirees in over 12,800 projects in more than 50 countries around the world. At the same time, more and more employees and retirees are coming together to carry out social projects of a larger scale.

### Special Olympics

In 2016, Henkel employees in Germany and the USA again supported the Special Olympics – the world's largest sports movement for people with intellectual disabilities and multiple disabilities.



In Germany, 50 Henkel employees from various sites helped at the Special Olympics in Hanover. The inclusive motto "Strong Together" was put into action during the entire event and demonstrated in hugs, cheers, and sincere mutual recognition.

### Sonrise Ministries

Henkel employee Gabriele Haak has been a volunteer in the three orphanages of the  "Sonrise Ministries" initiative in Uganda for more than two years. She makes several trips a year, and is passionate about caring for parentless children there. The prize money won in the 2016 MIT photo competition by Haak and her colleague Roberto Pela is going toward the construction of a well to ensure that the Sonrise Babies Home is permanently supplied with clean drinking water.



During a visit to the Masese slum in Jinja, Uganda, children examine Henkel employee Roberto Pela's nose. The photo is one of the winning pictures of the 2016 MIT photography competition.

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## Social partnerships

As part of our corporate engagement, we support social initiatives and public institutions through social partnerships at Henkel sites around the world. The main objective is to promote education and equal opportunities in cooperation with the [“Fritz Henkel Stiftung”](#) foundation.

### Habitat for Humanity and Welcome Home

The house-building project conducted jointly with the charity organization Habitat for Humanity went into its third round in 2016. During a week-long “building trip”, Henkel employees helped to build new homes for families in need in the Romanian city of Ploiești. In addition, in October, Henkel employees helped in the construction of apartment buildings in several cities in the Canadian province of Ontario, providing new homes for nine families.

In June, a team of Henkel employees in the Adhesives for Consumers, Craftsmen and Building business unit traveled to Romania to support the “Welcome Home” program, launched in 2016, in the construction of multi-family houses for those in need. Part of the donations needed for the project were collected through the fundraising activities of Henkel employees. In addition, the “Fritz Henkel Stiftung” foundation provided financial support, and the Adhesives for Consumers, Craftsmen and Building business donated house-building products. After the pilot project in Romania, the plan is to roll out the “Welcome Home” program internationally within the business.



Henkel employees from Germany, Austria, and Romania worked hand-in-hand to provide homes for families in need in the Romanian city of Ploiești.

### Integration of refugees

In 2016, in view of recent developments, we also focused strongly on refugee aid. Henkel launched a comprehensive program for integrating refugees at the Düsseldorf vocational training center. In cooperation with external partners and authorities, the company provides refugees with career orientation and work shadowing, internships, multi-month language programs, and coaching. The objective is to promote the integration of people who have high prospects of remaining, at all levels.



Henkel launched a comprehensive program for integrating refugees at the Düsseldorf vocational training center. It offers internships and language programs, for example.

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## Brand engagement

In addition to Henkel's corporate-wide social engagement, our brands are also involved in partnerships with social initiatives and public institutions around the world.

### Construction and educational project in Brazil

Together with Plan International and the "Fritz Henkel Stiftung" foundation, Henkel and the Pritt brand began a construction and educational project in 2015 in two schools in the northeastern part of Brazil. The goal of the project is to break through the cycle of poverty through improvements in the educational situation. In addition to renovation work and school equipment, the program includes additional measures to improve the quality of schooling – such as workshops for students and their parents.



The objective of the construction and educational project in Brazil is to provide students a learning environment where they feel comfortable and secure. The program is also designed to help them know their rights better, including the right to education and protection. Photo: Plan International / Sarah Gätke.

### “Million Chances”

In 2016, the Beauty Care business unit together with the Schwarzkopf brand launched the → “Million Chances” initiative. Together with international and local charitable organizations, projects were imple-

mented that support girls and women around the world in building a successful future. Under the “Million Chances” umbrella, we now also have “Shaping Futures”: Since 2010, Schwarzkopf Professional and SOS Children's Villages have been offering young people the opportunity to obtain training in basic hairdressing techniques and thus establish livelihoods. More than 1,500 young people in 26 countries have already been trained thanks to the volunteer work of almost 280 hairdressers and employees.



Zinhle Evelyn Dlamini successfully participated in the  “Shaping Futures” program. Since then, she has worked as assistant to the salon manager at VXV Studio in Johannesburg, South Africa.

### “NaturKinder”

As part of the “NaturKinder” initiative, Persil marketing and the German drugstore chain Rossmann have been helping children develop environmental awareness. Since its establishment in 2013, the initiative has supported projects run by schools, kindergartens, and non-profit organizations to teach a responsible approach to nature. More than 3,000 children have participated in the 46 fun projects that have been carried out to date.



## Emergency aid

During disasters and emergencies, Henkel provides aid quickly and pragmatically worldwide through the “Fritz Henkel Stiftung” foundation. In addition to donations in kind, such as school supplies for children from families in need, for 2016 the foundation also set aside a special budget of 500,000 euros for refugee projects.

Henkel’s engagement focuses on tangible humanitarian aid that provides support where it is most urgently needed – in refugee facilities. In Germany, Henkel cooperates with supra-regional relief organizations such as the German Red Cross, Caritas, Diakonie, and Arbeiterwohlfahrt. Through them, for example, the company provided laundry detergents, cleaning products, and personal care products to refugee shelters near Henkel’s German sites.



The company and many employees assist in the reception and integration of refugees. Here: Four employees in Düsseldorf prepared product donations for distribution.

To improve the living conditions of the Syrians who have taken refuge in Lebanon, the “Fritz Henkel Stiftung” foundation, in cooperation with the Jesuit Refugee Service aid organization, supports around 800 refugees in the Lebanese cities of Beirut, Bekaa, Byblos, and Mount Lebanon. Monthly food deliveries and the supply of winter clothing ensure that the basic needs of these refugees in Lebanon are met.



Since the majority of the refugee children from Syria cannot go to school because of the limited number of school places in Lebanon, the “Fritz Henkel Stiftung” foundation and the Jesuit Refugee Service offer educational projects for these children throughout Lebanon. Subjects such as English, French, Arabic, mathematics, art, and peace education are taught.

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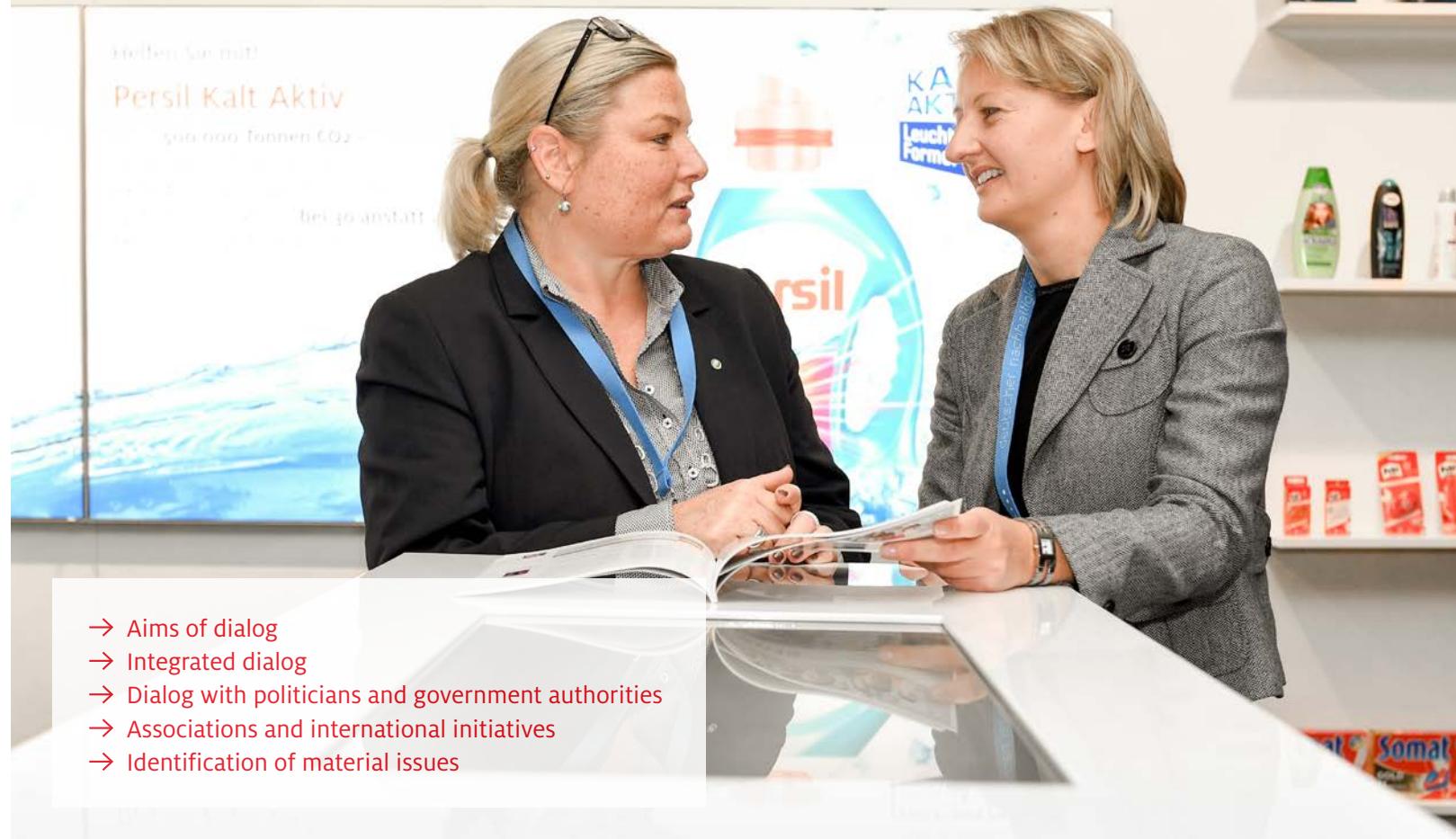
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# Stakeholder dialog

The involvement of our stakeholders is a key plank for us in identifying trends and risks. It helps us to continue developing our sustainability strategy and reporting still further.



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- Integrated dialog
- Dialog with politicians and government authorities
- Associations and international initiatives
- Identification of material issues

# Stakeholder dialog

## Aims of dialog

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Understanding the social demands that stakeholders of all kinds place on the company is a key component of our sustainability management. That is why we promote dialog with all stakeholders, including our customers, consumers, suppliers, employees, shareholders, local communities, government authorities, associations and non-governmental organizations, as well as politicians and academia.

To better understand the expectations and perspectives of our stakeholders and to engage in dialog that is better targeted and solution-oriented, we make use of specific surveys and we continuously monitor the opinions of our stakeholders at several levels: in direct dialog, in many multi-stakeholder initiatives, and on dialog platforms on sustainability topics. Proactive, bilateral cooperation with NGOs and opinion leaders gives us insight into the precise goals with regard, for instance, to sustainable palm oil, which enables us to respond quickly and make progress on the issue. Numerous internal platforms provide feedback on the insights gained and on opinion formation.

In a comprehensive survey in 2014, we asked our stakeholders what topics have priority for them. This has confirmed how important the integration of sustainability in all of our activities and product life cycles is to our target groups, as well as the impacts on the environ-

ment that occur during the individual phases of our products' life cycles. Another topic that has been identified as vital for our stakeholder groups is the targeted influence on consumers to lead more sustainable lifestyles and to use our products responsibly. The results have been taken into account in the further development of our strategy and our targets since 2015.

Stakeholder dialog is key to our innovation and risk management and helps us to continuously develop our sustainability strategy and reporting.

## Integrated dialog

All of our more than 50,000 employees worldwide are encouraged to be engaged in their working environment and to base their decisions on the principles of sustainable development. For many of our employees, this includes regular dialog with stakeholders. Experts at our various company sites and in our different business units engage in discussion with the relevant stakeholder groups on specific local and regional challenges. As a result, strategies and solutions are developed where they are assessed and put into practice.

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In 2016, as in each year, Henkel employees met with politicians, scientists and scholars, businesspeople and members of the public.

Henkel presented its [footprint calculator](#) at the year's OFW World Business Dialogue in Cologne – an international event that brings together companies, speakers, and students. The calculator was developed in cooperation with the [Wuppertal Institute for Climate, Environment and Energy](#) and is used to calculate the user's personal footprint. It is an example of how Henkel exerts a lasting influence on consumer behavior and provided an opportunity for experts from Henkel to exchange ideas with stakeholders. The response showed that there is a great deal of interest in our calculator as well as in solutions for reducing the user's own footprint.

A number of country offices in Europe as well as a few of our global offices took advantage of the [European Sustainable Development Week](#) to exchange ideas with their stakeholders. In the context of a discussion forum ("The Future of CSR – Trends in the European Union and Latin America"), experts from Henkel Argentina exchanged views with high-ranking Argentine politicians, including Jorge Triaca (Minister of Labor) and Carolina Stanley (Minister of Social Development) on the trends and challenges facing the European Union and Latin America with regard to sustainable economic growth.



Guillermo Bergen (standing, right), President of Henkel Argentina, at the discussion forum "The Future of CSR – Trends in the European Union and Latin America", with high-ranking Argentine politicians.

Henkel works in close collaboration with its stakeholders on challenging issues such as the promotion of [sustainable palm and palm kernel oil](#). These stakeholders include NGOs such as the WWF (World Wide Fund for Nature) and retail chains such as Carrefour. At this year's [European Roundtable on Sustainable Palm Oil](#) in Milan, the focus was on "Shared Responsibility" and a "Joint Action Plan". Henkel held discussions with other companies on the next milestones on the path to more sustainable certified palm oil – in order to mitigate deforestation and greenhouse gas emissions caused by the production of palm oil, while improving quality of life and economic development in palm oil production areas.

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Panel discussion at BASF's Palm Dialog at an "in-cosmetics" event in Paris: Dr. Tobias Zobel (BASF), Christine Schneider (Henkel).  
Photo: BASF/Xavier Granet.



Steffi Götszel (right), responsible for sustainability management for consumer adhesives at Henkel, in conversation with Christina Schulz, of Germany's Dual System of waste collection (Green Dot).

At German Sustainability Day, which is the most popular national congress on sustainability with around 2,000 participants, experts from Henkel spoke with stakeholders and discussed the contribution of brands to sustainability. For Henkel, brands and technologies play a decisive role in the advancement of sustainability. Cooperation with partners plays a central role in promoting sustainability along the entire value chain; Henkel also actively engages its employees in implementing the sustainability strategy.

The German Sustainability Award is an initiative of the Stiftung Deutscher Nachhaltigkeitspreis e. V. in cooperation with the German Federal Government, the German Council for Sustainable Development, economic associations, local government associations, civil society organizations, and research institutions. The members of the jury include Kathrin Menges, Executive Vice President Human Resources and Chair of Henkel's Sustainability Council.

## Dialog with politicians and government authorities

Policymakers and government authorities often seek out the expertise of companies in their political decision-making processes.

We take advantage of this opportunity to provide experience-based knowledge and to describe how political considerations impact Henkel, our employees, and business partners. Our worldwide

□ **Public Affairs Standard** provides clear guidance on conduct for this. We also openly provide information about our fields of interest and the scope of our work involving governmental or political affairs through our entry in the Transparency Register of the European Union.

Kathrin Menges, Executive Vice President Human Resources and Chair of Henkel's Sustainability Council, has now been appointed to the Council for Sustainable Development for the second time. The Council was first established in April 2001 by the German government

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of that time under Chancellor Gerhard Schröder. The Council comprises 15 public figures. Its tasks include generating contributions for implementing the National Sustainability Strategy for Germany, specifying concrete focal areas and projects and making sustainability a public issue of vital importance.

## Associations and international initiatives

Henkel participates in a wide variety of initiatives on national and international levels, so that it can play an active part in shaping sustainable development and driving it ahead in collaboration and through a mutual exchange with other stakeholders.

As before, this includes engagement in working groups and in industrial associations, such as the  [World Business Council for Sustainable Development \(WBCSD\)](#), the  [International Association for Soaps, Detergents and Maintenance Products \(A.I.S.E.\)](#), and the  [Consumer Goods Forum \(CGF\)](#). Our experience and our role as a sustainability leader make it possible for us to help shape the discussion regarding solution concepts for sustainable consumption along the value chain.

As a member of the German Chemical Industry Association (VCI), Henkel is also involved in the Chemie<sup>3</sup> (Chemistry<sup>3</sup>) initiative, which is made up of the VCI, the Mining, Chemical and Energy Industrial Union (IG BCE), and the German Federation of Chemical Employers' Associations (BAVC). The initiative seeks to promote sustainability in the chemical industry.

In addition, we are continuously in dialog with various organizations, for example the European Centre for Ecotoxicology and Toxicology of Chemicals (ECETOC) to improve and standardize measurement methods for the collection of sustainability data. Henkel is also participating in a pilot project of the EU, the Product Environmental Footprint (PEF), in which case studies are used to develop methods and risk assessments for life cycle assessment together with other members of the association and representatives of government authorities.

Under the leadership of our retail partner Walmart Central America, Henkel has come together with 18 other leading companies to create the Central American Sustainability Business Alliance. All participating companies have pledged to work together to achieve several sustainability objectives in discussions with suppliers, employees, customers, and society as a whole. This includes, for example, driving social progress and developing products that help to reduce water consumption and CO<sub>2</sub> emissions.

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## Identification of material issues

Society as a whole and corporations in particular are facing a series of global challenges. In order to establish which topics are relevant to our business activities and reporting, we analyze sustainability challenges using a variety of instruments and processes and assess their significance for the company and our stakeholders. In so doing, we engage in dialog with sustainability-focused institutions, international rating agencies and analysts, and academia. We also consider the

assessment criteria of various financial and sustainability-oriented ratings and the guidelines of the Global Reporting Initiative (GRI). The results of this continuous process are structured on the basis of our six focal areas, in which we aim to drive sustainable development worldwide along the value chain through our business activities.

### Identification of key topics for our sustainability management and reporting

External challenges	Processes / Instruments	Results / Relevant topics (selection)	
Population growth	Trend and market analyses	<ul style="list-style-type: none"> <li>Business performance</li> <li>Quality</li> <li>Reliability</li> <li>Convenience</li> <li>Eco-efficiency</li> </ul>	<ul style="list-style-type: none"> <li>Occupational safety and health</li> <li>Plant safety</li> <li>Product safety and information</li> <li>Alternative test methods</li> <li>Hygiene</li> </ul>
Rising consumption	Dialog with experts		
Scarcity of resources	Strategy development		
Climate change	Reporting and ratings	<ul style="list-style-type: none"> <li>Resource consumption</li> <li>Renewable raw materials</li> <li>Sustainable palm (kernel) oil</li> <li>Packaging and waste</li> <li>Recycling</li> </ul>	<ul style="list-style-type: none"> <li>Operational energy efficiency</li> <li>Renewable energies</li> <li>Energy-efficient products</li> <li>Transport and logistics</li> <li>CO<sub>2</sub> mitigation</li> <li>CO<sub>2</sub> footprint</li> </ul>
Biodiversity	Risk and compliance management		
Scarcity of water	...		
Increasing regulatory controls	...		
...			

Materiality analysis: We use a series of different instruments and processes to analyze global challenges to sustainable development and identify material topics for Henkel's sustainability management and reporting.

# External assessments

Our assessment and recognition by independent sustainability experts increases market transparency and provides important feedback on how well we are implementing our sustainability strategy.

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## Sustainability indices

### Dow Jones Sustainability Indices



**Zurich / New York:** In 2016, Henkel was listed in the Dow Jones Sustainability Index World, for which only the top 10 percent of the world's 2,500 largest companies are selected. The → **assessment** is based on economic, environmental and social criteria and is conducted by S&P Dow Jones Indices and Swiss agency RobecoSAM. Since their launch in 1999, Henkel ranked 8 times as industry leader.

### FTSE4Good Ethical Index



### FTSE4Good

**London:** 2016 marks the 16th consecutive year of Henkel's inclusion in the FTSE4Good ethical index, which was first introduced by the Financial Times and the London Stock Exchange in 2001.

### ECPI Index



**Milan:** Henkel is listed in the ECPI Euro Ethical Equity and ECPI EMU Ethical Equity Indices. According to the screening procedure adopted by ECPI, the 150 market-capitalized companies included in the ECPI Indices constitute the most highly recommended investments in the European market (Euro) and the European monetary union (EMU), respectively. ECPI S.r.l. is part of Gruppo Medio S.p.A., and launched the two ethics Indices back in 1999.

### Global Challenges Index



**Hamburg:** In 2016, Henkel was again one of only 50 companies worldwide to be listed in the Global Challenges Index, which is provided by the Börse Hannover and the German rating agency Oekom Research. Henkel has been included in the Global Challenges Index since 2007.

### Ethibel Sustainability Indices and Investment Registers



**Paris:** In 2016, as in previous years, Henkel was included in the Excellence Europe and Excellence Global Sustainability Indices and was listed in the Ethibel Pioneer and Excellence Investment Registers. Inclusion by the Forum Ethibel qualifies Henkel as a leader in the field of corporate social responsibility.

### Euronext Vigeo Eiris Indices



**Paris:** Henkel was again listed in the Euronext Vigeo Eiris sustainability indices World 120, Europe 120 and Eurozone 120. They are issued by the transatlantic stock exchange NYSE Euronext and the rating agency Vigeo Eiris and include the 120 highest ranking companies in the respective index.

### MSCI World ESG Index and MSCI Europe ESG Index



**New York:** Henkel is again included in the Sustainability Indices MSCI World ESG and MSCI Europe ESG. Global ESG Indices include companies with a strong risk and opportunity management regarding their environmental, social and governance (ESG) performance.

### STOXX ESG Leaders Indices



**Zurich:** In 2016, STOXX Limited again included Henkel in the STOXX Global ESG Leaders Indices. The companies are assessed in terms of their environmental, social and governance performance. The underlying data is provided by the Dutch rating agency Sustainalytics.

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## Sustainability ratings

EcoVadis



**Paris:** As a member of the “Together for Sustainability” initiative, Henkel’s sustainability management was again assessed by the international rating agency EcoVadis. Based on its → **corporate social responsibility rating**, Henkel was awarded the highest assessment category.

oekom research



**Munich:** Henkel remains recognized with Prime Status by oekom research. With the rating B, Henkel performs best in the consumer goods sector. Since 1993, oekom research has actively helped to shape the sustainable investment market.

Sustainalytics



**Amsterdam:** The sustainability rating 2016 published by Sustainalytics recognizes Henkel as a global leader in its “Household & Personal Products” sector comparison. The comparative analysis is based on the ESG approach, assessing environmental, social and governance performance.

Zürcher Kantonalbank



**Zürich:** In 2016, Henkel again achieved the top grade “AAA” in the sustainability rating conducted by Zürcher Kantonalbank (ZKB). As such, Henkel’s place was confirmed in the sustainable investment universe of the ZKB, which forms the basis for various investment products offered by the Swiss cantonal banks.

## Other assessments and rankings

Carbon Disclosure Project



**London:** Henkel has been participating in the Carbon Disclosure Project (CDP) since 2004 to foster transparency in our markets and for our investors. The CDP assesses qualitative and quantitative disclosure on the topics of climate change (score: B), water and forests.

**Global 100 Most Sustainable Corporations in the World**

**Global 100 Most Sustainable Corporations in the World**

**Toronto:** Henkel ranks 15th among the “2017 Global 100 Most Sustainable Corporations in the World”. The list is provided by the media and investment advisory company Corporate Knights. Companies named in the Global 100 index are the top overall sustainability performers in their respective industrial sectors.

**RobecoSAM Sustainability Yearbook 2017**



**World's Most Ethical Companies® Honoree 2016**

**World's Most Ethical Companies® Honoree 2016**

**New York:** Henkel was named among the “World's Most Ethical Companies” for the ninth time in a row. Business conduct is assessed in the categories of corporate governance, innovative strength, management style, in-house management systems, reputation management and corporate citizenship.

## Awards and customer recognition

External assessments of our sustainability performance also include awards by our customers as well as awards by local and national environmental, business or governmental organizations. A selection for the year 2016 is presented below.

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#### Walmart recognizes Henkel with a Sustainability Supplier of the Year Award

**USA:** In 2016, Henkel was recognized by Walmart for its strong partnership and leadership in sustainability with the Supplier of the Year Award in Consumables and Health & Wellness. Henkel received the award based on several performance metrics including packaging, raw material sourcing, sustainable package design, recycle-friendly packaging, labeling solutions, and priority chemical management.



#### 'Green Label' certificate for Henkel India

**India:** Henkel India was awarded with the 'Green Label' certificate for the portfolio of its footwear adhesives business by the Footwear Design and Development Institute (FDDI). The certificate is issued to manufacturers after a strict quality inspection, which analyzes the use of certified material, environment-friendly processing of chemicals as well as production processes that reduce energy consumption and carbon emissions.



#### Henkel Wins Surcar Global Environmental Footprint Impact Award

**China:** Henkel is the first winner of the Surcar International Award for Environmental Footprint, honoring the company's commitment to waste prevention and water treatment with its Bonderite Thin Film 1800 Series zirconium oxide pre-treatment process for car bodies. The award went to Henkel's Surface Technologies team in Asia Pacific and their partner, Qoros Auto Co., in recognition of a joint project implemented at the paint shop of Qoros' manufacturing site in Changshu near Shanghai.



#### Award for Henkel Ireland

**Ireland:** In early October 2016, Henkel Ireland received two awards from the National Irish Safety Organization for its commitment to Safety, Health and Environment (SHE). The Irish team was awarded for demonstrating a positive and proactive culture of safety management within the business, and for driving improvements in safety performance.

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The indicators we record throughout the company offer transparency while helping us to identify potential improvements, manage activities and monitor achievements. We show the progress of each of our indicators over a five-year period. In this Sustainability Report, we focus on the publication of our globally relevant core indicators.  **These indicators** are available in collated form as an Excel file ready for downloading from our website.

## Environmental indicators for our production operations

The production-related data for 2016 were determined at all 171 Henkel sites in 57 countries. Thus, the data represent 100 percent of our production volume. In 2011, the share was 95 percent; it was 99 percent from 2012 through 2014 and 100 percent in 2015. The data were validated centrally for year-end reporting and verified at the sites within the framework of our internal audit program. Any differences discovered or reported at a later date are corrected retroactively in our reporting system. Since our production structures are constantly changing – due to the start-up of new sites or closure of existing sites, for example – the number of sites contributing data changes accordingly. To ensure the comparability of the annual data, we also show their progress as an index relative to the volume of production.

## Employee indicators

Occupational accidents are registered using a globally uniform reporting system. 99 percent of Henkel employees are covered. The published employee indicators also covered 99 percent of our employees in 2016.

### Adjustment of reported indicators

**Acquisitions and divestments:** Initial and historical data are only adjusted in exceptional cases in which disruptive acquisitions or divestments do not permit a meaningful comparison of timelines.

**Changes in methodology:** Initial and historical data are corrected where possible. The resulting changes are highlighted and commented on.

**Errors:** Individual or cumulative errors greater than 1 percent of the value of the indicator (for example, total energy consumption) are corrected, including the subordinate indicators (for example, electricity consumption). Where necessary for clarity, typically in the case of changes greater than 2 percent of the value of the indicator, changes are highlighted and explained.

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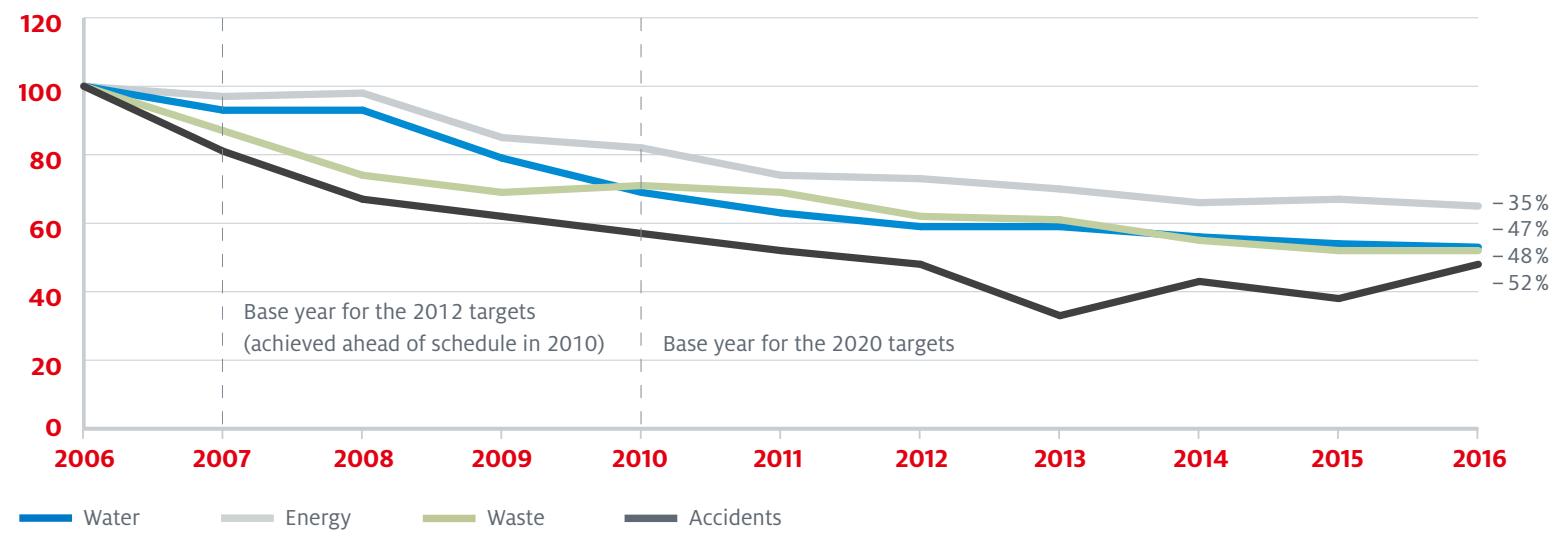
## Long-term trend:

### Sustainability performance from 2006 to 2016

We have been working to increase the efficiency and safety of our production processes for decades. Our sustainability performance over the past 11 years illustrates this very clearly. In all three business units, our optimization efforts focus on improving value creation

and occupational health and safety in our production operations while reducing our environmental footprint. Building on the → **progress achieved**, we aim to reduce our energy and water use, our waste footprint, and the accident rate still further.

Environmental indicators per metric ton of output, occupational accidents per million hours worked; base year 2006



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## Economic indicators

	2015	2016
Sales in million euros	18,089	<b>18,714</b>
Adjusted <sup>1</sup> operating profit (EBIT) in million euros	2,923	<b>3,172</b>
Adjusted <sup>1</sup> return on sales (EBIT) in percent	16.2	<b>16.9</b>
Adjusted <sup>1</sup> earnings per preferred share (EPS) in euros	4.88	<b>5.36</b>
Dividend per ordinary share in euros	1.45	<b>1.60<sup>2</sup></b>
Dividend per preferred share in euros	1.47	<b>1.62<sup>2</sup></b>

<sup>1</sup> Adjusted for one-time charges/gains and restructuring expenses.

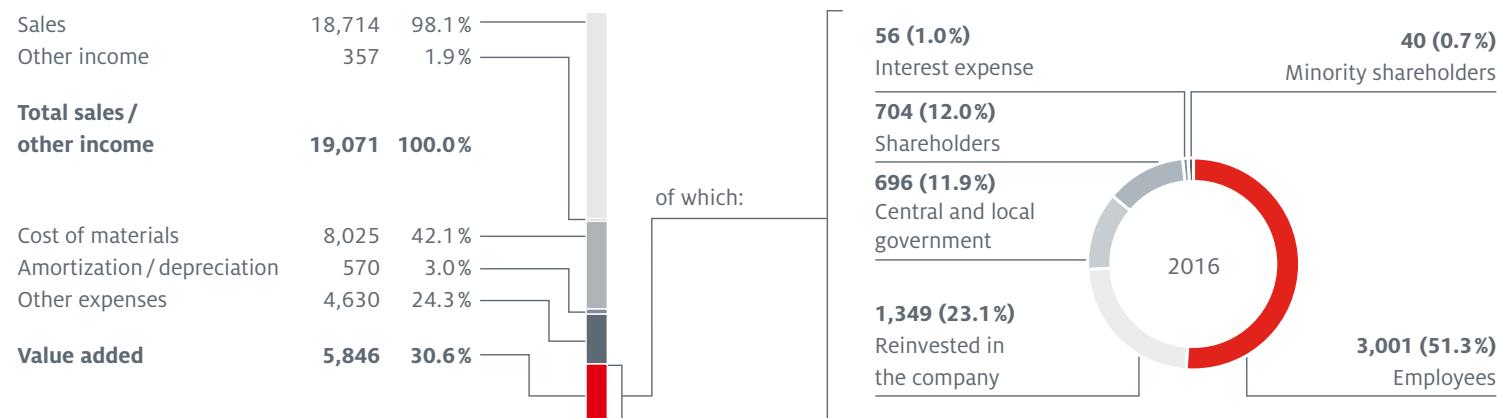
<sup>2</sup> Proposal to shareholders for the Annual General Meeting on April 6, 2017.

### Value added statement 2016

The value added statement shows that most of the generated sales flow back into the global economy. The largest share of the value added – 51.3 percent – went to our employees in the form of salary and pension benefits. Central and local government received 11.9 per-

cent in the form of taxes; lenders received 1 percent as interest payments. We paid 12 percent of the value added as dividends to shareholders. The value added remaining in the company is available for investments in future growth.

In million euros



## Environmental indicators



### Our operational CO<sub>2</sub> footprint

Henkel's own CO<sub>2</sub> emissions are primarily caused by energy generation and consumption. Other CO<sub>2</sub> emission sources are not relevant for our business operations. The same applies to emissions of other greenhouse gases. They account for less than one percent of the

Scope 1 and Scope 2 emissions. We calculate the Scope 3 emissions along the entire value chain, whereby the biggest contributions emanate from the production of raw materials and the use of our own products.

In thousands of metric tons of CO<sub>2</sub> / CO<sub>2</sub> equivalent

	1. Raw materials	2. Production	3. Logistics	4. Industry and retail	5. Consumers	6. Disposal	
Direct CO <sub>2</sub> emissions (Scope 1)		Energy use at our production sites: 350					350 (1%)
Indirect CO <sub>2</sub> emissions (Scope 2)		Externally-procured energy (electricity, steam): 347					347 (1%)
Indirect emissions in CO <sub>2</sub> equivalents (Scope 3)	Chemicals: 10,232 Packaging: 1,267 Raw materials transportation: 222	Production waste: 12 Business travel: 65	Transportation of our products: 626 <sup>1</sup>		Use of our products: 30,394	Disposal of our products: 1,243	44,061 (98%)
	11,721 (26%)	774 (2%)	626 (1%)		30,394 (68%)	1,243 (3%)	
Total: around 44,758 thousand metric tons of CO <sub>2</sub> /CO <sub>2</sub> equivalent							

<sup>1</sup>The reduction in emissions compared to the previous year is mainly due to the use of an improved valuation method.

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## Index

The index in the tables shows the progress of the specific indicators relative to the volume of production (per metric ton of output).

The base for the index is the year 2012 (= 100 percent).

## Production volumes

In thousand metric tons	2012	2013	2014	2015	2016
Production volumes	7,574	7,690	7,867	7,940	<b>8,456</b>
<b>Index: Change from 2012 to 2016</b>					<b>+12%</b>

Due to the improved economic situation and increasing global demand, our production volumes have been rising again since 2012. The increase includes the pro rata annual production of our acquisitions.

## Energy consumption

In thousand megawatt hours	2012	2013	2014	2015	2016
Bought-in energy	664	648	650	667	<b>727</b>
Coal	112	114	96	127	<b>126</b>
Fuel oil	141	123	113	119	<b>119</b>
Gas	1,428	1,406	1,360	1,375	<b>1,369</b>
Total	2,345	2,291	2,219	2,288	<b>2,341</b>
<b>Index: Change from 2012 to 2016</b>					<b>-11%</b>

Bought-in energy is electricity, steam, and district heating that is generated outside our sites.

## Carbon dioxide emissions

In thousand metric tons	2012	2013	2014	2015	2016
Henkel's own carbon dioxide emissions	362	353	335	349	<b>350</b>
Carbon dioxide emissions from bought-in energy	320	309	314	318	<b>347</b>
Total	682	662	649	667	<b>697</b>
<b>Index: Change from 2012 to 2016</b>					<b>-8%</b>

Energy generation accounts for almost all of the carbon dioxide released as a result of Henkel activities.

## Emissions of volatile organic compounds

In metric tons	2012	2013	2014	2015	2016
Emissions of volatile organic compounds	336	308*	289 <sup>1</sup>	312 <sup>1</sup>	<b>331</b>
<b>Index: Change from 2012 to 2016</b>					<b>-12%</b>

<sup>1</sup> Through reconciliation with our purchasing data and specific requests to our sites, we have identified and rectified errors.

## Water consumption and volume of wastewater

In thousand cubic meters	2012	2013	2014	2015	2016
Water consumption	7,502	7,642	7,438	7,190	<b>7,658</b>
Volume of wastewater	3,177	3,084	3,004	2,990	<b>2,912</b>
<b>Index: Change from 2012 to 2016</b>					
Water consumption					<b>-9%</b>
Volume of wastewater					<b>-18%</b>

Because water is lost by evaporation and water is contained in many of our products, the volume of wastewater is smaller than the volume of water consumed.

\* We have corrected errors identified during our data verification.

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### COD emissions to wastewater

In metric tons	2012	2013	2014	2015	2016
COD emissions to wastewater	6,031	5,746	6,362 <sup>*1</sup>	6,500	<b>6,716</b>

**Index: Change from 2012 to 2016**

### Dust emissions

In metric tons	2012 <sup>*1</sup>	2013 <sup>*1</sup>	2014 <sup>*1</sup>	2015 <sup>*1</sup>	2016
Dust emissions	312	367	382	303	<b>277</b>

**Index: Change from 2012 to 2016**

<sup>1</sup> We have corrected identified errors.

The values include aerosols, since these are difficult to distinguish from dust during measurements.

### Emissions of heavy metals to wastewater

In kilograms	2012 <sup>*1</sup>	2013 <sup>*1</sup>	2014 <sup>*1</sup>	2015 <sup>*1</sup>	2016
Zinc	445	397	445	461	<b>415</b>
Lead, chromium, copper, nickel	309	270	200	294	<b>262</b>
Total	754	667	645	755	<b>677</b>

**Index: Change from 2012 to 2016**

### Sulfur dioxide emissions

In metric tons	2012 <sup>*1</sup>	2013 <sup>*1</sup>	2014 <sup>*1</sup>	2015	2016
Sulfur dioxide emissions	148	183	143	109	<b>121</b>

**Index: Change from 2012 to 2016**

<sup>1</sup> We have corrected identified errors.

<sup>1</sup> Through reconciliation with our purchasing data and specific requests to our sites, we have identified and rectified errors.

Particularly hazardous heavy metals, such as mercury and cadmium, are not relevant in our production.

### Waste for recycling and disposal

In thousand metric tons	2012	2013	2014	2015	2016
Waste for recycling <sup>*1</sup>	71	62	53	59	<b>68</b>
Hazardous waste for disposal	16	18	17	15 <sup>*1</sup>	<b>13</b>
Waste for disposal <sup>*1</sup>	40	48	48	38	<b>39</b>
Total <sup>*1</sup>	127	128	118	112	<b>120</b>

**Index: Change from 2012 to 2016<sup>1</sup>**

### Nitrogen oxide emissions

In metric tons	2012 <sup>*1</sup>	2013 <sup>*1</sup>	2014 <sup>*1</sup>	2015	2016
Nitrogen oxide emissions	412	404	379	378	<b>329</b>

**Index: Change from 2012 to 2016**

<sup>1</sup> We have corrected identified errors.

Share of construction and demolition waste

14	30	21	33	<b>69<sup>2</sup></b>
----	----	----	----	-----------------------

<sup>1</sup> We have removed the share of construction and demolition waste from our footprint and shown it separately, as the presence or absence of some larger construction projects have a significant effect on our waste footprint. This has enabled us to show the performance of our sites and our progress more transparently.

<sup>2</sup> The increase in 2016 resulted from wide-ranging infrastructure projects. See page 40.

### Use of chlorinated hydrocarbons

In metric tons	2012	2013	2014	2015	2016
Use of chlorinated hydrocarbons	1,677	1,358	1,319	1,204	<b>1,155</b>

**Index: Change from 2012 to 2016**

Most of the chlorinated hydrocarbons take the form of dichloromethane, which is used in the UK and in the USA as an ingredient in paint strippers.

<sup>1</sup> We have corrected errors identified during our data verification.



## Employee indicators

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### Employees (as of December 31)

	2012	2013	2014	2015	2016
Henkel worldwide <sup>1</sup>	46,600	46,850	49,750	49,450	<b>51,350</b>
Structure of workforce					
– Non-managerial employees	79.4%	78.7%	79.0%	77.5%	<b>76.9%</b>
– Managers	19.0%	19.8%	19.5%	21.0%	<b>21.7%</b>
– Top managers <sup>2</sup>	1.6%	1.5%	1.5%	1.5%	<b>1.4%</b>
Employee fluctuation worldwide <sup>3</sup>	5.8%	4.4%	4.3%	4.5%	<b>6.3%</b>

<sup>1</sup> Permanent staff excluding trainees. Figures have been rounded.

<sup>2</sup> Corporate Senior Vice Presidents, Management Circles I and IIa.

<sup>3</sup> Based on employee resignations.

At 51,350, the 2016 headcount was above the prior-year level. The increase was due mainly to the acquisitions in our Laundry & Home Care business unit.

### Nationalities (as of December 31)

	2012	2013	2014	2015	2016
Henkel	123	123	124	123*	<b>123</b>
Managers	85	88	93	87*	<b>90</b>
At headquarters in Düsseldorf	55	56	62	64	<b>64</b>

The internationality of our workforce reflects our business policy of filling local positions with local employees, and ensuring that we have international teams at our corporate headquarters in Germany.

### Percentage of women (as of December 31)

	2012	2013	2014	2015	2016
Henkel	32.6%	32.9%	33.2%	33.6%	<b>33.1%</b>
Managers	30.5%	31.6%	32.5% <sup>1</sup>	33.1%	<b>34.3%</b>
Top managers <sup>2</sup>	18.6%	19.8%	20.6%	21.1%	<b>22.5%</b>

<sup>1</sup> Without acquisitions in 2014

<sup>2</sup> Corporate Senior Vice Presidents, Management Circles I and IIa.

As a result of our consistently applied diversity strategy, we have continually developed the percentage of women we employ, especially at the different management levels.

### Part-time employees (as of December 31)

	2013	2014	2015	2016
Part-time contracts, global	3%	3%	3%	<b>3%</b>
Western Europe (including Germany)	8%	8%	9%	<b>9%</b>
Germany	10%	11%	11%	<b>11%</b>

Part-time work models are of relevance mainly in Western Europe and especially in Germany. In emerging markets, such as Asia, Eastern Europe, the Middle East, and Latin America, there is significantly less demand for part-time work models.

### Age and seniority (as of December 31)

	2012	2013	2014	2015	2016
Average seniority in years	10.4	10.3	10.2	10.3	<b>10.3</b>
Average age of employees in years	39.6	39.6	39.7	39.9	<b>40.3</b>
Age structure					
16 – 29	17.6%	17.8%	18.4%	18.0%	<b>17.3%</b>
30 – 39	34.5%	34.4%	33.8%	33.4%	<b>33.0%</b>
40 – 49	29.6%	29.1%	28.2%	28.1%	<b>27.9%</b>
50 – 65	18.3%	18.7%	19.5%	20.5%	<b>21.8%</b>

The age structure at Henkel reflects the diversity of our customers and markets and enables us to satisfy the differing needs of our consumers and markets.

\* We have corrected errors identified during our data verification.

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## Personnel development

	2012	2013	2014	2015	2016
Internal promotion (managers)	1,101	1,199	1,154	1,309	1,181
International job rotations	503	581	666	658	428
Trainees (Germany)	489	487	484	508	488
Average number of training days <sup>1</sup>	2	2	1.5	2.1	1.6

<sup>1</sup> Our employees have many different development opportunities. In addition to traditional training courses and in-person seminars, they also include eLearning modules and on-the-job training.

## Employees with collective agreements (as at 31 December)

	2012	2013	2014	2015	2016
Percentage worldwide	44%	44%	44%	52%	49%
Percentage in the European Union (EU)	79%	79%	79%	78%	73%

Extensive formal and informal dialog with employee representatives has a long tradition at Henkel, even in countries where employee representation has not been established.

## Employee share program (as of December 31)

	2012	2013	2014	2015	2016
Participation rate	28.4%	31.9%	30.1%	29.7%	30.7%

Around 11,500 employees in 53 countries purchased Henkel preferred shares under this program in 2016. At year-end, some 14,800 employees held a total of around 2.5 million preferred shares, representing approximately 1.4 percent of total preferred shares outstanding. The lock-up period for newly acquired shares is three years.

## Social indicators

### Social engagement

	2012	2013	2014	2015	2016
Total number of projects supported	2,339	2,422	2,265	3,431	2,051
Number of people supported	1,046,321	1,147,483	1,358,108	1,506,525	1,223,598
Time off from work for employee-initiated projects (days)	131	51	284	121	335
Donations in thousand euros (financial and product donations, not counting time off)	7,302	7,937	8,238	8,316	7,814
Number of schoolchildren reached by our sustainability ambassadors	444	19,428	20,634	24,406	19,147

The number of projects supported was below the prior-year level. Employee projects gave rise to significantly more days off from work in 2016 than in the prior year. This is due to the special commitment of employees in team volunteering projects. Generally speaking, employees may request up to five days off from work per year for volunteer activities. Total donations were less versus the prior year.

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## Percentage of projects supported per United Nations Development Goal

	2011	2012	2013	2014	2015	2016
<b>MDG 1: Eradicate extreme poverty and hunger</b> (covering aspects from SDG 1: No poverty + SDG 2: Zero hunger)	30%	11%	13%	12%	10%	<b>11%</b>
<b>MDG 2: Achieve universal primary education for girls and boys alike</b> (covering aspects from SDG 4: Quality education)	23%	39%	39%	42%	43%	<b>44%</b>
<b>MDG 3: Promote gender equality and empower women</b> (covering aspects from SDG 5: Gender equality + SDG 10: Reduced inequalities)	2%	5%	4%	5%	3%	<b>3%</b>
<b>MDG 4: Reduce child mortality</b> (covering aspects from SDG 3: Good health and wellbeing + SDG 6: Clean water and sanitation)	14%	8%	8%	7%	5%	<b>1%</b>
<b>MDG 5: Improve maternal health</b> (covering aspects from SDG 3: Good health and wellbeing + SDG 6: Clean water and sanitation)	1%	3%	3%	3%	3%	<b>3%</b>
<b>MDG 6: Combat HIV/AIDS, malaria and other diseases</b> (covering aspects from SDG 3: Good health and wellbeing + SDG 6: Clean water and sanitation)	20%	3%	3%	3%	3%	<b>4%</b>
<b>MDG 7: Ensure environmental sustainability</b> (covering aspects from SDG 7: Affordable and clean energy + SDG 11: Sustainable cities and communities + SDG 12: Responsible consumption and production + SDG 13: Climate action + SDG 14: Life below water + SDG 15: Life on land)	9%	15%	15%	15%	15%	<b>4%</b>
<b>MDG 8: Develop a global partnership for development</b> (covering aspects from SDG 8: Decent work and economic growth + SDG 9: Industry, innovation and infrastructure + SDG 16: Peace, justice and strong institutions + SDG 17: Partnerships for the goals)	1%	16%	15%	13%	18%	<b>31%</b>

Since 2011, we have reported the percentage of the social projects with which Henkel supports each of the Millennium Development Goals (MDGs), as part of our commitment to the United Nations Global Compact. The  **Sustainable Development Goals (SDGs)** were introduced in September 2015 to replace the MDGs. We have adapted our table to reflect the new goals while maintaining transparency about the development over time by also reflecting the previous goals. The SDGs do not influence the type of projects proposed under our employee engagement program, but many of our corporate citizenship activities directly contribute to the SDGs.



## Occupational safety

### Index

The index in the table shows the progress for occupational accidents in relation to hours worked (per million hours worked):

99 percent of Henkel employees were covered.

The base for the index is the year 2012 (= 100 percent).

#### Occupational accidents per million hours worked

At least one day lost (excluding commuting accidents)	2012	2013	2014	2015	2016
Henkel employees	1.0	0.7	0.9	0.8	1.0
Employees of external companies who work at Henkel sites and are directly contracted	0.8	0.5	0.8	0.9	0.9
<b>Index: Change from 2012 to 2016</b>			Henkel employees		0%
			Employees of external companies		+13%

#### Serious occupational accidents

More than 50 days lost	2012	2013	2014	2015	2016
Accidents during typical production activities	7	8	12	13	13
Accidents while walking or moving around (e.g., stumbling)	6	5	5	4	7

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## Operational incidents and environmental violations

Henkel openly reports operational incidents when the consequences include at least one of the following:

- Endangerment of the neighborhood or the environment
- Tangible losses of more than 50,000 euros
- A high level of public reaction

Furthermore, Henkel transparently reports on environmental violations where the resulting fine exceeds 10,000 euros.

The measures and corrective actions initiated as a result are also disclosed.

Year	Operational incidents	Environmental violations
<b>2016</b>	In December 2016, a fire in a production facility at our adhesives plant in Taizhou, China resulted in property damage. The local fire service was quickly able to bring the fire under control. There was no damage to persons or the environment. The fire caused a temporary interruption to operations.	There were no environmental violations in 2016.
<b>2015</b>	There were no operational incidents in 2015.	There were no environmental violations in 2015.
<b>2014</b>	There were no operational incidents in 2014.	There were no environmental violations in 2014.
<b>2013</b>	There were no operational incidents in 2013.	There were no environmental violations in 2013.
<b>2012</b>	There were no operational incidents in 2012.	The British Environment Ministry imposed a penalty of 120,000 euros on Henkel in 2012 for late submission of the emissions data for the year 2010/2011 under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC). Due to various restructuring measures, Henkel had not managed to submit the required emissions data on time.
		<b>Measures initiated:</b> The full data were sent by Henkel to the CRC shortly after the submission deadline

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## Global Reporting Index (GRI)

We prepared our Sustainability Report in alignment with the Global Reporting Initiative's (GRI) G4 Sustainability Reporting Guidelines. Henkel transparently reports all information and data that are ascertainable and relevant from a management perspective. Our → [GRI index](#) provides links to the required information in our Annual Report and Sustainability Report, as well as relevant data for any indicators that are not completely covered by disclosures in our reports, or indications that these gaps are "omissions".

## UN Global Compact Index

Henkel has been a signatory to the UN Global Compact since 2003. The UN Global Compact supports companies to do business responsibly by aligning their strategies and operations with 10 Principles on human rights, labor, environment and anti-corruption. Each year, we create and communicate a → [table](#) that provides links to information that can be found in our Sustainability Report – indicating our contributions to progress on each of the Global Compact's principles.

## United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals (SDGs) create a common understanding of how governments, civil society and businesses of all sizes and from all industries can join forces to drive progress toward ending poverty, ensuring prosperity, and protecting the planet. At Henkel, we are actively supporting the □ [achievement of the SDGs](#), and continuously review the targets and initiatives within our own sustainability approach to ensure they reflect the priorities set out by the 17 goals.

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## Scope of report

In 1992, we published our first Environment Report, which we have consistently developed and refined into today's Sustainability Report. It has now been published annually for 26 years. Together with our Annual Report, it makes up an integrated corporate reporting concept.

This Sustainability Report covers the key ecological and social developments in fiscal 2016. Since we joined the United Nations Global Compact in 2003, our Sustainability Report has also served as the basis for the required annual progress report.

The contents of this report reflect the Henkel-relevant and material challenges of sustainable development. The selected topics include the results of our continuous dialogue with a large circle of stakeholders. Especially close consideration was given to the dialogue with international sustainability experts, the criteria of various finance- and sustainability-oriented rating agencies, and → [the guidelines of the Global Reporting Initiative \(GRI\)](#).

The production-related environmental indicators were determined using data from production sites in 57 countries. They account for 100 percent of the company's worldwide production volume. Henkel openly reports on serious occupational incidents, should any have occurred in the reporting period, and the measures taken in response. Occupational accidents are registered using a globally uniform reporting system. The coverage extends to 99 percent of Henkel employees. The published employee indicators cover 99 percent of our employees.

## Reporting initiatives

Henkel participates in international reporting initiatives as part of its aim to gather new stimuli for the future and share its own experiences with others.

Henkel evaluated the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) in a pilot project as early as 1999. Since that time, Henkel has engaged in a continuous constructive and critical dialogue with the GRI to improve the quality of reporting and increase the practicability of the guidelines. Henkel channels the experience and knowledge gained in its dialogue with its stakeholders into internal workshops and feedback processes.

The results of this work are made available to the public. In doing so, Henkel seeks to contribute to efforts aimed at raising the level of voluntary reporting about environmental protection and social responsibility.

## Independent Assurance Report<sup>1</sup>

To Henkel AG & Co. KGaA, Düsseldorf

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We have been engaged to perform an independent limited assurance engagement on selected qualitative and quantitative disclosures on materiality and stakeholder dialogue, disclosures on management approaches the aspects on the focal areas (energy and climate, water and wastewater; materials and waste; health and safety; social progress; palm oil; purchasing and supplier management) as well as the performance indicators in relation to these focal areas, the operational carbon footprint along the value chain and selected case studies for avoided CO<sub>2</sub> emissions, published in the Henkel Sustainability Report 2016 (further "Report"), for the business year 2016, of Henkel AG & Co. KGaA, Düsseldorf (further "Henkel").

Selected qualitative and quantitative disclosures included in the scope of our assurance engagement are marked in the complementary → **GRI index** in the annex of the Sustainability Report with the following symbol: "v"

### Management's Responsibility for the Report

The legal representatives of Henkel are responsible for the preparation of the Report in accordance with the reporting criteria. Henkel's Report is orientated towards the principles and standard disclosures of the G4 Sustainability Reporting Guidelines of the Global Reporting Initiative, the Corporate Accounting and Reporting Standard (Scope 1 and 2) and the Corporate Value Chain (Scope 3) Standard of the Greenhouse Gas Protocol initiative by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), as well as internally developed criteria to determine avoided CO<sub>2</sub> emissions of Henkel products, in combination with internal guidelines (further: Reporting Criteria).

This responsibility includes the selection and application of appropriate methods for sustainability reporting as well as making assumptions and estimates for individual qualitative and quantitative sustainability disclosures which are reasonable under the circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the sustainability report in a way that is free of – intended or unintended – material misstatements.

<sup>1</sup>Translation of the independent assurance report, authoritative in German language.

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## Independence and quality assurance on the part of the auditing firm

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA-Codex), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The quality assurance system of the KPMG AG Wirtschaftsprüfungs-gesellschaft is based on the International Standard on Quality Control 1 "Quality Control for Audit, Assurance and Related Service Practices" (ISQC 1) and, in addition on national statutory requirements and professional standards, especially the Professional Code for Certified Accountants as well as the joint statement of WPK (Chamber of Public Accountants) and IDW (Institute of Public Auditors in Germany): Requirements for quality assurance in the auditing practice (VO 1/2006).

## Practitioner's Responsibility

Our responsibility is to express a conclusion based on our work performed and the evidences obtained on the qualitative and quantitative disclosures marked in the complementary GRI Index with the following symbol: "✓"

## Nature and extent of the assurance engagement

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial

Information" and the International Standard on Assurance Engagements (ISAE) 3410: "Assurance Engagements on Greenhouse Gas Statements" of the International Auditing and Assurance Standards Board (IAASB). These standards require that we comply with our professional duties and plan and perform the assurance engagement to obtain a limited level of assurance to preclude that the information above is not in accordance, in material respects, with the aforementioned Reporting Criteria. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. The choice of audit activities is subject to the auditor's own judgement. This includes the assessment of the risk of material misstatement in the Report under consideration of the Reporting Criteria.

Within the scope of our work, we performed amongst others the following procedures when conducting the limited assurance engagement:

- Inquiries of personnel on corporate level, which are responsible for the materiality analysis, in order to gain an understanding of the processes for determining material sustainability topics and respective reporting boundaries of Henkel.
- A risk analysis, including a media search, to identify relevant information on Henkel's sustainability performance in the reporting period.
- Evaluation of the design and implementation of the systems and processes for the collection, processing and control of the sustainability disclosures included in the scope of this engagement, including the consolidation of the data.

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- Inquiries of personnel on corporate level responsible for providing the data and information, carrying out internal control procedures and consolidating the data and information, including the explanatory information on the quantitative indicators.
- Evaluation of internal and external documentation, to determine whether the qualitative and quantitative disclosures are supported by sufficient evidence.
- Visits to the production sites in Heidelberg and Wassertrüdingen (both Germany) and Montornés (Spain) to assess local data collection and reporting processes and the reliability of the reported data.
- Comparison of the qualitative and quantitative disclosures with the corresponding information included in Henkel's audited Financial Statements and Group Management Report for the business year 2016, which are referenced to in the GRI-Index.
- Evaluation of suitability of the internally developed reporting criteria for determining avoided CO<sub>2</sub> emissions.
- Evaluation of the overall presentation of the selected qualitative and quantitative disclosures in the scope of our assurance.

## Conclusion

Based on the procedures performed and evidence received, nothing has come to our attention that causes us to believe that the selected qualitative and quantitative disclosures for the business year 2016 included in the scope of this engagement and published in the Report and marked in the complementary → [GRI index](#) with “✓”, are, in all material respects not prepared in accordance with the Reporting Criteria.

## Recommendation

Without affecting the conclusion presented above, we recommend to further improve methods and processes for the determining indicators on waste water and emissions to air and water.

## Purpose of the assurance report

This assurance report is issued based on an assurance engagement agreed upon with Henkel. The assurance engagement to obtain limited assurance is issued on purpose of Henkel and the assurance report is solely for information purposes of Henkel on the results of the assurance engagement.

## Limited liability

This assurance report must not be used as basis for (financial) decision-making by third parties of any kind. We have responsibility only towards Henkel. We do not assume any responsibility for third parties.

Düsseldorf, February 21, 2017

KPMG AG

Wirtschaftsprüfungsgesellschaft

Fischer

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Wirtschaftsprüferin

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