



Henkel's Compliance Management System (CMS)

As a company that operates in an ethically and legally correct manner, Henkel's image and reputation is inseparable from the appropriate conduct of each of its employees. Henkel employees are expected to respect laws and standards, avoid conflicts of interest, and show consideration and appreciation for the local customs, traditions and social behaviors of the various countries and cultures in which Henkel conducts business. Henkel does not take ethical shortcuts. Improper conduct is never in Henkel's interest and violations are not tolerated. Compliance is an integral component of Henkel's business processes.

The Management Board bears the overall responsibility for the Compliance organization. Henkel's Compliance organization ensures global compliance with laws and internal standards. Under the direction of the globally responsible General Counsel & Chief Compliance Officer (CCO), Henkel has established a group-wide Compliance organization with a central Corporate Compliance Office as well as local and regional Compliance Officers. The CCO is supported by an interdisciplinary Compliance & Risk Committee (CRC) and by various members of Henkel's functions and businesses. Different tasks and responsibilities are clearly defined.

The Compliance Organization acts at the three levels: "Prevention", "Detection" and "Reaction". It manages group-wide compliance activities, coordinates training courses, oversees fulfillment of both internal and external regulations, and supports the development and implementation of globally binding internal standards. Compliance topics are regularly reported, discussed, and aligned with the Management Board, the Audit Committee of the Supervisory Board, the Shareholders' Committee, and multiple other bodies on corporate and local levels.

Generally accepted frameworks and applicable legal requirements were taken into account in the establishment of Henkel's Compliance Management System. Below we describe the Henkel CMS for anti-corruption and antitrust / competition laws as at December 8, 2017, as per the basic elements of a Compliance Management System in accordance with IDW Assurance Standard (AssS) 980 and under due consideration of ISO 19600. Naturally, Henkel's Compliance organization also covers compliance in other areas and legal fields, however, these areas are not within the scope of this CMS description.



1. Compliance Culture

Henkel's culture of compliance ("Compliance Culture") is regarded as the most effective tool in the area of Prevention: violations are generally avoided by the right attitude, proper training and awareness, internal controls, and effective remedial measures.

Henkel's goal is to meet the highest ethical standards everywhere and in every business in which it is active. The basic principles of compliant behavior are spelled-out in Henkel's Code of Conduct. This is backed by the fundamental understanding that Compliance always takes priority over business goals if there is a conflict.

Every Henkel employee must embrace the attitude that Compliance is a must for employment at Henkel and an explicit requirement for continued employment. No one who lacks ethical judgment or fails to take Henkel's Code of Conduct seriously can succeed here.



To maintain and enhance the Compliance Culture, several measures were taken by the Compliance organization and other supporting functions. Key among them in the area of “Prevention” is online as well as face-to-face training which is made mandatory for managerial positions at Henkel. Non-managerial employees are also made familiar with Henkel’s Code of Conduct and other basic rules.

Henkel’s managers play a key role regarding compliance. Given their position within the company, they bear a special responsibility to set an example for their staff. Only if the managers are visibly acting in an ethically and legally correct manner Compliance will remain a guiding principle for all employees. For this reason, all of Henkel’s managers obtain special training. For example, the annual mandatory Compliance e-Learnings address many compliance topics by looking at practical examples, with emphasis on anti-corruption and fair competition. Leadership Development training at all levels at Henkel includes compliance modules in which ethical requirements and practical situations are intensively trained. Furthermore, every manager has to confirm individually, as part of the annual target achievement discussions, that he or she has complied with applicable legislation and standards.

In case of violations, Henkel takes a zero-tolerance approach. This includes the proper investigation (“Detection”) of any potential breach of compliance rules and appropriate sanctioning. Sanctions extend not only to warnings and monetary sanctions but also to termination of employment. In severe cases, Henkel’s approach is to file criminal charges and hold the violator liable for damages. Henkel’s Compliance organization reports the violations and provides internal statistics regularly. The number of disciplinary sanctions is reported externally in Henkel’s Sustainability Report. This provides transparency to Henkel’s employees and stakeholders about the discipline taken in connection with compliance violations. Full transparency in the reporting of violations as well as the internal lessons learned from such cases forms part of Henkel’s Compliance Culture.

Henkel’s Compliance Culture is illustrated and summarized by the following statement of its Management Board to all employees and is reinforced at various key occasions:

“Henkel has always committed to operating in an ethically and legally appropriate manner without any qualification. Expectations towards companies from society are increasing. We are an international role model in responsible and sustainable development. Henkel has always taken this commitment very seriously and has been very clear in its position expressed in our company’s “Purpose, Vision, Mission, Values” and other codes which are binding worldwide. Whatever we do must always comply with legal regulations. Everyone at Henkel must make certain that they do not in any way violate these regulations. Even well-meant but nevertheless wrong behavior of single employees can substantially harm our company’s excellent reputation that has grown over years. These behaviors can result in massive economic damage. We will therefore deal severely with violations of any kind. Violations are not and will not be tolerated and will invariably have consequences for the person acting in violation of codes and regulations. Irregular and inappropriate behavior must not happen at Henkel!”



2. Compliance Objectives

Henkel aims at the avoidance of any Compliance violation. The clear understanding is that Henkel's business targets can only be achieved with compliant business conduct, particularly in the areas of anti-corruption and fair competition.

The most important Compliance objective is ongoing Prevention. In this area, Henkel's global Compliance organization - like any other function at Henkel - annually commits to a clear strategy that defines specific actions and measurable targets for the upcoming year, linked to Henkel's Strategy 2020*. There is an annual review of the achievements and remedial actions. The current Compliance strategy is focused clearly on:

- Enhancing Henkel's training programs,
- Know-how transfer, especially in the areas of anti-corruption and antitrust laws, and
- Specific compliance programs for Henkel's growth markets where we ensure at an early stage compliance within the framework of local regulations.

3. Compliance Organization

Led by the globally responsible CCO, Henkel's Compliance organization consists of a central Corporate Compliance Office working together with local and regional compliance officers; all markets in which Henkel is active are therefore properly covered by competent Compliance professionals. These professionals deal with local investigations as well as design preventive measures tailored to the specific requirements of their locations.

Henkel has established Regional Compliance Representatives with dedicated responsibility for the following regions, supported by local Compliance Representatives:

- Asia-Pacific
- Europe
- Latin-America
- Middle-East, Africa, India
- North-America

Globally, there are 46 local Compliance Representatives.

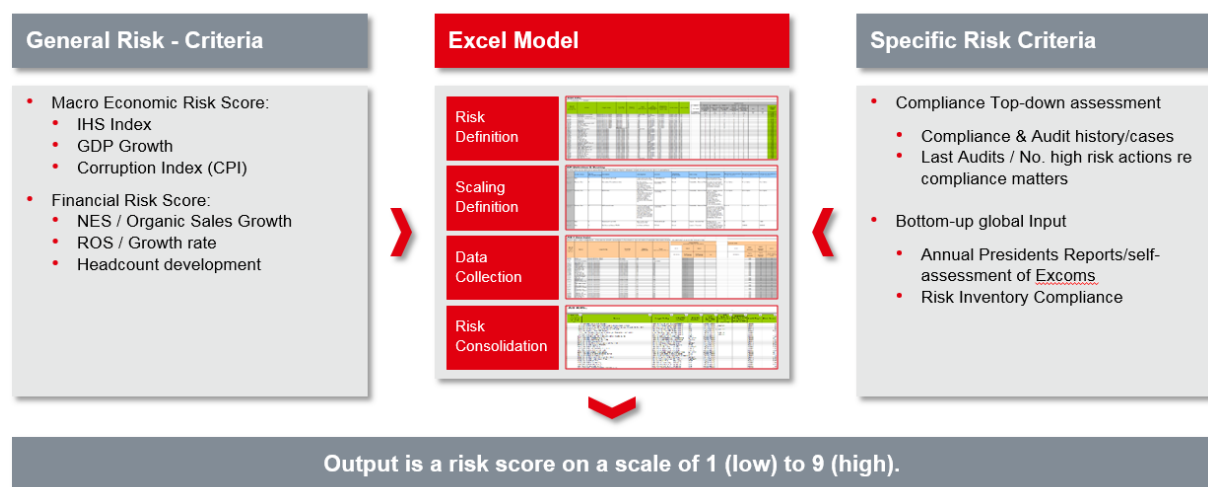
The CCO is supported by the interdisciplinary CRC with monthly meetings of the Heads of all risk functions at Henkel. Also, various functions and businesses have assumed important Compliance tasks, such as HR (reporting and execution of disciplinary measures), the Henkel Law Group (antitrust trainings and advice on antitrust laws), Financial Controlling (financial risk reporting and segregation of duties) as well as Corporate Audit (internal audits on compliance topics). The different tasks and responsibilities are clearly defined.

Henkel’s CCO reports directly to Henkel’s Chief Executive Officer. The CEO is updated regularly on Compliance issues and remedial matters. Corporate Compliance also reports regularly to all relevant bodies at Henkel, including the Management Board, the Shareholders’ Committee, and the Supervisory Board.

4. Compliance Risks

Henkel analyses potential Compliance risks from its specific global businesses and activities thoroughly. Such analysis focuses closely on potential exposure in the areas of anti-corruption, fair competition, and fraud prevention. Henkel’s Compliance organization makes use, in its own assessments, of the results of risk assessments by other departments, including various top-down assessments as well as bottom-up elements from business management and worldwide affiliates. This ensures proper scrutiny of all available information. The Compliance risk assessment procedure is summarized as follows:

Compliance Risk Assessment



The results are analysed in Henkel’s Compliance organization and aligned with the members of all risk functions at Henkel, represented in the CRC. Specific measures and actions are developed, such as training initiatives for high risk areas, which will be executed thereafter by the Compliance organization itself, by the Henkel Law Group, or other competent departments. Since Corporate Audit uses the same risk assessment process for its audit planning, joint actions can be planned for risk areas by the Compliance organization and Corporate Audit where appropriate. The results of the process and actions are shared both with the CRC and with other relevant bodies at Henkel.



5. Compliance Program and Standards

From its “Purpose, Vision, Mission, Values”, Henkel has formulated globally binding behavioural rules which are specified in a number of codes and standards. These are applicable to all employees in all business areas, countries, and cultures in which Henkel operates. The Code of Conduct contains general corporate principles helping employees to act appropriately when faced with ethical or legal challenges. It is supplemented by detailed policies (the “Corporate Standards”) providing instructions for employees on how to handle situations involving matters such as business-related conflicts of interests, gifts, invitations, memberships, donations or sponsorships. These rules underscore the strict ban on all forms of bribery and unfair business practices. Additional Corporate Standards address specific topics such as compliance with competition and antitrust laws; safety, health, environment and social standards; segregation of duties, conclusion-of-contracts and public affairs. The Code of Conduct and the Corporate Standards also provide the basis for implementing the United Nations Global Compact, which Henkel joined as early as 2003. Relevant documents are provided to all employees globally when hired by Henkel and are accessible at Henkel’s intranet. Face-to-face and online training is also conducted by Henkel’s Compliance organization.

Henkel’s Compliance program also includes use of compliance hotlines set up to enable employees to report anonymously violations of Henkel’s Code of Conduct or corporate standards when reporters do not wish to report directly to superiors, HR or the Compliance organization. The hotlines are run by independent external providers and are available in 76 countries and multiple languages. All messages received are analysed centrally by Henkel’s Compliance Office. The Head of the Corporate Compliance Office is mandated to initiate the appropriate follow-up procedures. The major cases and statistics on the usage of Henkel’s Compliance hotlines are part of the standard Compliance reporting.

With respect to external suppliers, Henkel has adopted the cross-sector Code of Conduct of the German Association of Materials Management, Purchasing and Logistics (BME) as its worldwide Vendor Code of behavior in 2009. It is based on the principles of the United Nations Global Compact and, thus, appropriate for international use. The Vendor Code serves as the basis for Henkel’s contractual relationships with all suppliers globally. Its acceptance is part of the standardized, mandatory on-boarding process.

6. Compliance Communication and Training

Compliance communication is widely disseminated, ranging from discussions with individual employees seeking advice up to the Management Board and other corporate bodies involving material cases and strategic planning of preventive measures.

All employees and stakeholders can solicit proper advice on compliance issues. All are encouraged to contact the Compliance organization, the Henkel Law Group, HR or Corporate Audit at any time.



Compliance rules and standards are communicated to Henkel's employees at multiple levels. To avoid uncertainties or conflicts in everyday working situations, compliance training and communication measures are tailored to the risk profile of Henkel's businesses and activities. This includes guidance provided to each new employee by means of an introduction to Henkel's Code of Conduct, applicable Corporate Standards as well as basic antitrust & anti-corruption rules through the employee onboarding process. The process is supported by a global employee-handbook with dedicated chapters on Compliance and standards.

Further face-to-face trainings are provided regularly to Henkel's employees, in particular on Corporate Standards, anti-fraud prevention, anti-corruption and fair competition. The training is provided by the Compliance organization, the Henkel Law Group, HR or Corporate Audit. It is tailored to the respective target group; for instance, special training on antitrust laws for sales and marketing employees is conducted. In addition, all major leadership trainings at Henkel generally include Compliance modules for intense training and case-studies.

Compliance online training is provided at least annually since 2009 on a global basis for all employees with managerial tasks. Such online training work with practical cases and require passing a test successfully. The participation at the face-to-face trainings and online training is mandatory.

The internal know-how transfer on Compliance matters also includes written newsletters which are distributed globally, like the monthly "Alert Letter" sent by Corporate Audit, or locally (e.g. North American "Compliance Pointer"). The implementation and a gap analysis for Alert Letters are regularly discussed by the highest decision-bodies on regional and local levels.

Further enhancement of the Compliance training program, particularly in growth markets, is a key priority for Henkel's Compliance organization and is fully supported by management.

7. Compliance Monitoring and Improvement

Henkel's compliance efforts are constantly monitored by Henkel's management. Compliance matters are regularly discussed with Henkel's external financial auditors. The Compliance organization actively networks in several external compliance forums which allows the exchange of know-how and benchmarking with peers on German as well as global level. Best practices are identified, implemented, and lead to improvements in Henkel's Compliance processes. The identification of control weaknesses and the implementation of appropriate remedial measures is part of Henkel's compliance reporting, including development of major compliance initiatives for the following year in the annual Compliance Report.

Regular Internal Audits performed by Corporate Audit are in place to enable that the appropriateness and effectiveness of the CMS, especially the adherence of Corporate Standards, are monitored in a regular and systematic way. Corporate Compliance collaborates with Corporate Audit, which plans and



performs the vast majority of internal audits at Henkel. Corporate Audit derives its audit plan from a risk based audit approach also to address the highest priority Compliance risks in the respective year.

Henkel's antitrust program is co-developed with external legal counsel which regularly advises on further improvements to the program and new regulatory requirements. Preventive antitrust audits are regularly conducted in selected countries by Corporate Compliance with the support of external law firms.

Continuous improvement of the Compliance organization reaffirms Henkel's ambition to meet the highest standards in operating its global activities in an ethically and legally correct manner.

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Henkel AG & Co. KGaA