

Sustainability Report 2005



Henkel

A Brand like a friend

Sustainability performance

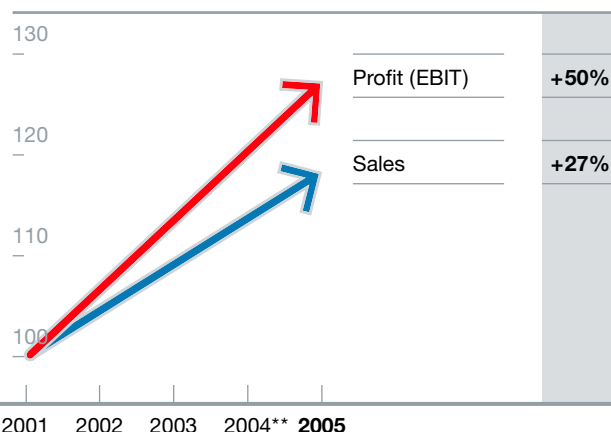
Sustainability performance from 2001 to 2005

Environmental indicators per metric ton of output*

Heavy metals	-69%	↘
Occupational accidents	-63%	↘
Sulfur dioxide	-47%	↘
Waste	-35%	↘
Wastewater load	-32%	↘
Energy	-16%	↘
Carbon dioxide	-13%	↘
Water	9%	↗
Volatile organic compounds	35%	↗

Business performance from 2001 to 2005

Percent; index 2001



* Occupational accidents per 1,000,000 hours worked

** 2004 restated: The figures for 2004 have been restated owing to the retroactive application of IFRS 2 (Share-based Payment).

In addition, actuarial gains and losses have also been set off in full against equity in accordance with IAS 19.93A, and this standard too has been applied retroactively effective January 1, 2004.

2004 comparable: Effective fiscal 2005, scheduled goodwill amortization ceases to be applicable. The figures for the years 2001 to 2004 have been adjusted accordingly to render them more readily comparable. Accounting changes implemented at Ecolab Inc., St. Paul, Minnesota, USA, have also been applied to the 2004 figures for better comparability. Further information about changes in the balance sheet accounting and valuation methods can be found in the notes on pages 69 and 70 of the 2005 Annual Report.


Performance based on Henkel's continued activities.

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Information on the Internet

The symbol  used at many points in this report indicates that more specific information can be found on the Internet. The references are listed on a link page provided on the Internet at www.sd.henkel.com.

In addition, more detailed versions of the experts' statements included in this report and the 2004 report can be found on the Internet.

A GRI Index provides cross-references to the reporting elements and indicators of the Global Reporting Initiative (GRI) in this Sustainability Report and this year's Annual Report and on the Internet.

The Internet site also contains current news and background information about safety, health, environmental protection, and social responsibility at Henkel. In addition, all reports published since 1992 can be downloaded from the Internet site.

Shaping the future sustainably



Prof. Dr. Ulrich Lehner (right) and Dr. Wolfgang Gawrisch

We face a number of major challenges today, whether in relation to the emergence of new growth regions in Asia-Pacific or maintaining the availability of water, energy, and other resources. Meeting the needs of a constantly growing global population remains a challenge. As a company that operates worldwide, Henkel is called upon to play its part in advancing sustainable development. We are ready to meet this challenge.

In our Values, we have declared our dedication to sustainability and corporate social responsibility, and we assume this responsibility wherever Henkel operates. We contribute to society through our brands and technologies, while always striving to harmonize economic, ecological and social objectives.

The challenges we face are global, but priorities and perspectives vary considerably from region to region. People in the different countries and markets

in which we do business have different values, customs, expectations and needs. These differences are taken into consideration by our 52,000 employees all around the world. Viable solutions for the future can only be developed through a dialogue with the social groups in each of the communities in which we operate.

We also maintain a dialogue with external sustainability experts. They tell us – as documented in this report – about the challenges they see in their countries and regions for a company like Henkel. What we learn from them helps us respond to specific local and regional needs.

We accept these global challenges and work to solve them locally, in more than 125 countries around the globe. Throughout our 130 year-history, we have drawn inspiration and motivation for all that we do from people's trust – their trust in Quality from Henkel.

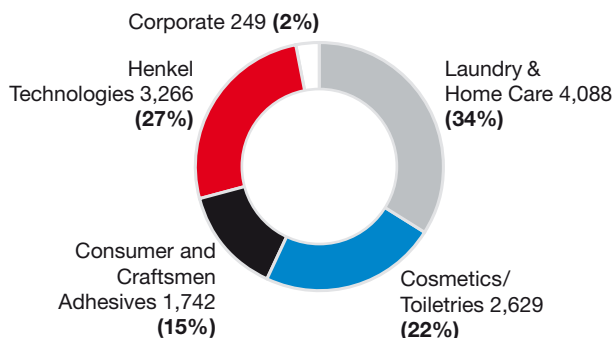
Prof. Dr. Ulrich Lehner
Chairman of the Management Board
of Henkel KGaA

Dr. Wolfgang Gawrisch
Chief Technology Officer, Research/Technology
Chairman of the Sustainability Council

Henkel in brief

Sales in 2005 by business sector

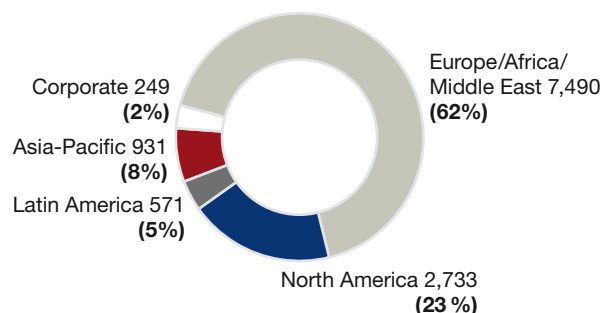
in million euros



Total Sales 11,974 (100%)

Sales in 2005 by region

by location of companies/in million euros



Total Sales 11,974 (100%)

Henkel operates in three strategic business areas: Home Care, Personal Care, and Adhesives, Sealants and Surface Treatment. These strategic business areas are organized into four globally operating business sectors within Henkel:

► Laundry & Home Care

Henkel markets a broad selection of heavy-duty and specialty laundry detergents and household cleaners. The leading brands include Persil, Somat, Vernel, Pril, Dixan and Bref. In this sector, Henkel holds leading market positions worldwide.

► Cosmetics/Toiletries

The range includes hair cosmetic, body and skin care, and oral hygiene products. Schwarzkopf, Dial, Fa, Taft, Gliss Kur, Igora, Diadermine and Theramed are some of the leading brands. Henkel enjoys leading positions worldwide.

► Consumer and Craftsmen Adhesives

The widely varied product range includes home decoration products, adhesive and correction products for the home and the office, and construction adhesives. Pattex, Pritt, Loctite, Duck, Metylan and Ceresit are among the leading brands. Henkel leads the world in its markets.

► Henkel Technologies

Henkel's industrial and structural adhesives, sealants and surface treatments, marketed under the Loctite, Teroson, Adhesin, Hysol, Technomelt, Liofol, P3 and Bonderite brands, create globally recognized sys-

tem solutions. Henkel Technologies is the global market leader in this sector.

Worldwide: Quality from Henkel

"Quality from Henkel" is a Group-wide maxim. This promise of quality is linked to core corporate values such as customer orientation, human resources development, and sustainable development and corporate social responsibility.

People in 125 countries around the world trust in brands and technologies from Henkel. In 2005, Henkel generated sales of 11.974 billion euros. Henkel employs 52,565 people worldwide – 80 percent of them outside Germany.

Henkel's long-term strategy is to concentrate on its three business areas and further expand its leading market positions globally. A regionally balanced portfolio is a key element of this strategy. Since 2005, Henkel's top sales region has been North America. It is considerably more profitable than the Western European market and has excellent growth potential. Besides North America, the Asian market will be a further focal point. Henkel wants to achieve a larger share of its sales there than at present. It also aims to expand further in the growth regions of Eastern Europe, Africa/Middle East, Latin America and Asia-Pacific.

Innovations

Henkel continuously conducts research into new and innovative products and technologies. In 2005, Henkel invested 324 million euros in research and development, equivalent to 2.7 percent of sales. 38 million euros went to Corporate Research and 286 million to product and process development in the various business sectors. Henkel currently employs about 2,800 researchers, product developers, and application engineers worldwide. This is also reflected in the innovation rate. The Laundry & Home Care and Cosmetics/Toiletries business sectors generate about 30 to 35 percent of sales with products that were launched in the past five years. The equivalent figure for the Consumer and Craftsmen Adhesives and Henkel Technologies business sectors is 15 to 20 percent. ⁱ

Corporate governance at Henkel

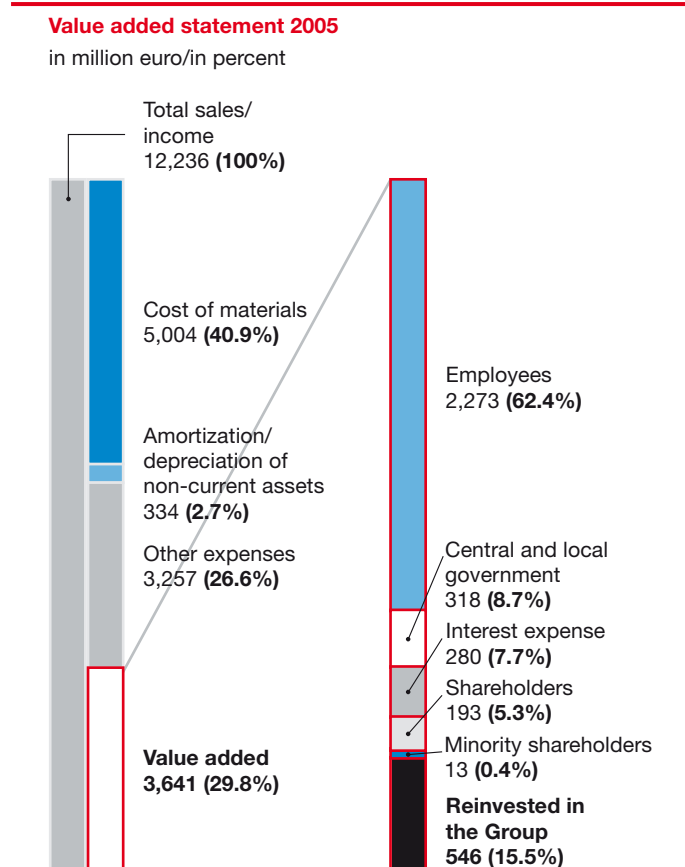
The controlling company of Henkel is Henkel KGaA, headquartered in Düsseldorf. Responsible corporate management, aiming at a longterm increase in shareholder value, has always been a part of Henkel's identity. Taking into account the special aspects of its legal form and articles of association, Henkel KGaA complies with the main recommendations ("shall" provisions) of the German Corporate Governance Code, with two exceptions. The relevant details and the full wording of the declaration of compliance can be found on the Internet. ⁱ

Value creation – economic contribution

Alongside sales and the balance sheet total, the value added statement in particular reveals Henkel's economic contribution. It shows Henkel's operating expenditures and how the achieved value added was appropriated.

Most of the value added – 62.4 percent – went to the employees. Central and local government received 8.7 percent in the form of taxes. 7.7 percent of the value added was used to pay interest to lenders. 5.3 percent went to shareholders in the form of dividends. Besides the dividends, the shareholders also profited from a rise in the share price in 2005. Preferred shares rose by 32.8 percent and ordinary shares by 29 percent.

The non-appropriated value added is available to finance the future growth of Henkel.



Management

Systematic alignment

To further the Group's systematic alignment to sustainability, Henkel relies on Group-wide targets and requirements, efficient management systems, and an organization structure with clearly defined responsibilities. The interplay of globally uniform standards, Group-wide control instruments, and regional action programs is key to these efforts. Achievements and advances can thus be identified and – where improvements are possible and necessary – programs can be optimally aligned to the respective social challenges and priorities.

Behavioral rules based on values

In all business areas and cultures in which Henkel operates, its Vision and the ten Values derived from it provide guidance for the behavior and actions of all Henkel employees. Henkel's Vision and Values form the basis for a series of behavioral rules for Henkel managers and staff, which are specified in a number of codes.

The Code of Conduct is designed to help Henkel employees to respond correctly and appropriately when faced with ethical or legal issues; the Code of Teamwork and Leadership provides guidance for the conduct of managerial staff and employees; and the Code of Corporate Sustainability defines the principles and expectations of sustainable business practices and corporate social responsibility at Henkel. Together, the Codes are the basis for Henkel's implementation of the United Nations' Global Compact initiative.

Standards for sustainability

The Code of Corporate Sustainability is given concrete form by internal standards. The standards are based on the existing requirements for safety, health and environmental protection, which have been comprehensively revised and given a new, process-

related, structure. They are supplemented by requirements for social responsibility and by Group-wide purchasing guidelines. Quality requirements are integrated as required by each specific business. In developing the standards, one major focus was dealings with suppliers and business partners. In 2004, a pilot study on the introduction of the new standards was carried out. The detailed requirements and the structure of the standards were then further developed in 2005, and criteria, responsibilities and implementation schedules were defined. The new standards have been in force throughout the Group since the start of 2006 and will be implemented by the end of 2006.

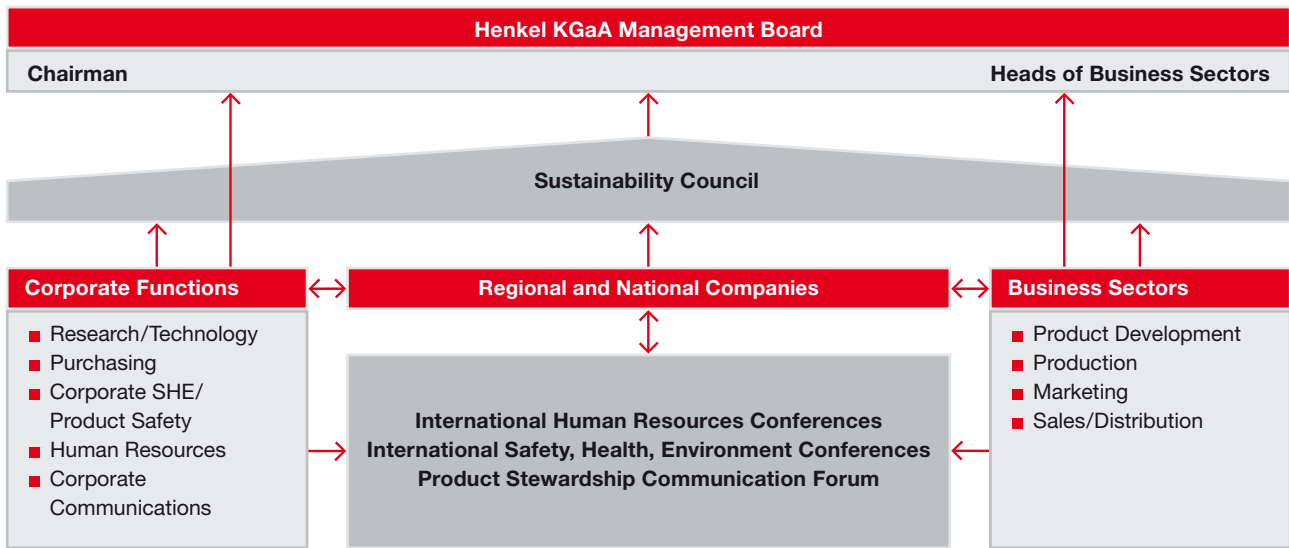
Integrated management systems

The requirements of Henkel's business processes have been documented as necessary in integrated management systems, which the individual Henkel companies adapt to the circumstances prevailing at their own sites. In doing so, they take account of differences in production methods and types of products manufactured, as well as national and administrative regulations.

Henkel regularly checks the implementation of the requirements by means of internal audits and other instruments. They are a key element of risk management and document the progress achieved in implementing the internal standards in the Group.

To achieve continuous improvements, ambitious objectives and binding measures are defined at all levels on the basis of the audit results. Furthermore, Henkel companies also have their management systems externally certified, if this yields competitive advantages. At the end of 2005, about 55 percent of the production volume came from sites certified to the international ISO 14001 environmental management standard.

Organization for sustainability



Organization for sustainability

► Management Board

The Henkel Management Board bears overall responsibility for sustainability policy and aligns the Company’s business policy to the requirements of sustainability and corporate social responsibility.

► Sustainability Council

The Sustainability Council, whose members are drawn from the entire Group, acts as a global steering body. On behalf of the Management Board, it drafts decision papers and monitors their implementation. Chaired by the Chief Technology Officer Research/Technology, it steers global activities in collaboration with the regional and national companies, the operative business sectors, and the corporate functions.

► Regional and national companies

The responsible managers in the regional and national companies steer the implementation of the Group requirements and compliance with legal requirements. With the support of the corporate functions and the operative business sectors, they develop an implementation strategy appropriate to the individual sites and their local circumstances.

► Business sectors

The operative business sectors shape the sustainability strategy in their area of responsibility and provide 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.

► Corporate functions

Research/Technology works on key technologies and supplies the basis for sustainable products. The associated Safety, Health, Environment and Product Safety department coordinates corporate sustainability issues for Henkel.

Human Resources is responsible for personnel and social policies.

Purchasing steers the worldwide purchasing activities of the Group and- in cooperation with the business sectors – develops requirements, strategies and instruments. *i*

Global challenges – Local responsibility

Contribution to sustainable development

Henkel is committed to supporting and promoting sustainable development in the 125 countries in which the Company operates. The basis for achieving this is Henkel brands and technologies, which are designed to make a valuable contribution to society. As a good citizen, the Company is also involved in many different social activities that go beyond its business interests. Henkel faces a wide variety of social challenges and local priorities in the various regions and market segments in which it does business. On the basis of worldwide standards, Henkel therefore seeks to give due consideration to the values, needs and expectations of people in different countries and markets, so that it can contribute to sustainable development.

Regional perspectives

For its 2004 Sustainability Report, Henkel asked independent sustainability experts from Brazil, Germany, India, Russia, and the USA to describe the challenges and priorities they see in their countries and regions.

This year's Report includes additional perspectives from China, Hungary, Italy and Mexico. Together they present a balanced picture of Henkel's regions and markets in emerging economies and industrialized countries. The experts were chosen on the basis of their knowledge of the challenges their countries face and their experience in corporate sustainability management. The dialogue with these experts helps Henkel to assess local and regional challenges and define key areas for its activities. These contributions offer our stakeholders an oppor-

Key areas	Expectations in industrialized countries	Expectations in emerging economies
Economic development	<ul style="list-style-type: none"> ▶ Remain competitive and offer development opportunities to emerging economies 	<ul style="list-style-type: none"> ▶ Contribute to the country's development, especially in structurally weak regions
Ethics and management	<ul style="list-style-type: none"> ▶ Promote the adoption of environmental and social standards, throughout the value chain, especially among suppliers ▶ Create transparency regarding economic, ecological and social aspects of corporate activities, especially in emerging economies ▶ Support human rights 	<ul style="list-style-type: none"> ▶ Act ethically and legally ▶ Establish high environmental and social standards, and set an example for suppliers and competitors ▶ Help to build management competencies and institutions
Employees and jobs	<ul style="list-style-type: none"> ▶ Promote job security through employee training and development ▶ Proactively address challenges like equal opportunity and population aging 	<ul style="list-style-type: none"> ▶ Create jobs and train employees ▶ Ensure occupational safety and health protection ▶ Promote and raise employee awareness of environmental protection
Products and marketing	<ul style="list-style-type: none"> ▶ Ensure product safety ▶ Offer quality products at fair prices ▶ Promote sustainable consumption through ethically and ecologically sound products, and by informing consumers and raising their awareness 	<ul style="list-style-type: none"> ▶ Develop and market quality products for those at the bottom of the affluence pyramid ▶ Ensure that products are safe and environmentally compatible ▶ Consider the cultural and social context
Resource efficiency and climate protection	<ul style="list-style-type: none"> ▶ Stronger focus on products: Dematerialization of the economy by moving from product- to service-oriented business models ▶ Help to reduce greenhouse gas emissions 	<ul style="list-style-type: none"> ▶ Transfer know-how and modern energy- and resource-conserving technologies ▶ Satisfy growing consumer needs with products that use limited resources efficiently
Social commitment	<ul style="list-style-type: none"> ▶ Work toward meeting the United Nations' Millennium Development Goals ▶ Help to solve social problems, also by encouraging employee volunteering 	<ul style="list-style-type: none"> ▶ Support and promote, in particular, disadvantaged children and young people ▶ Raise public awareness of environmental protection ▶ Promote education and research for sustainable development

tunity to assess more precisely the achievements and progress described in the Sustainability Report in relation to the challenges in the different regions and markets.

Global challenges – regional priorities

The statements made by the experts reveal that many of the challenges of sustainable development are global. The overarching themes in industrialized countries and emerging economies are similar, but priorities and perspectives differ widely from region to region, as can be seen from the table (left). The full versions of the experts' statements (right) can be found in this Report, in the 2004 Sustainability Report, and on the Internet.

Emerging economies, in particular, expect multinationals to contribute to the development of their countries. In industrialized countries, in contrast, maintaining competitiveness is increasingly becoming a key challenge.

Continuous dialogue

Sustainable development is a challenge involving the whole of society, and viable and permanent solutions can only be found through a dialogue with all social groups. To be able to assess the interests of the different stakeholders and evaluate them in relation to one another, Henkel continuously seeks a dialogue with stakeholders and experts at the local, regional and Group levels.

One way of doing this is to publish sustainability information in the languages of the different countries, such as the Italian and Chinese versions of the Sustainability Report. Articles also appear in the press, including specialized publications, and concise information is given on the Internet pages of the countries' sites.



▶ **“Being a good citizen and an active participant in society.”**
Henrique B. Cavalcanti
 President of FUNATURA,
 Brazilia, Brazil



▶ **“Companies have operational responsibilities and citizenship opportunities.”**
Prof. Dr. Marco Frey
 Centre for Research on Energy
 and Environmental Economics,
 Milan, Italy



▶ **“Recognizing and utilizing social challenges as a motor for sustainable product innovations.”**
Christian Hochfeld
 Deputy Director, Öko-Institut e.V.
 (Institute for Applied Ecology),
 Berlin Office, Germany



▶ **“Successful companies can exist only in successful and sustainable societies.”**
Prof. Dr. P. D. Jose
 Institute of Management,
 Bangalore, India



▶ **“Accepting national challenges as a way to gaining public confidence.”**
Dr. Mikhail Kozeltsev,
 Regional Environmental Center (RREC),
 Moscow, Russia



▶ **“Changing behavior and developing knowledge”**
Prof. Dr. István Láng
 Member of the Hungarian
 Academy of Sciences,
 Budapest, Hungary



▶ **“Thinking ‘one world’ and servicing the same home”**
Prof. Dr. Peng Sizhen
 Director, Center for Environmentally
 Sound Technology Transfer,
 Beijing, China



▶ **“Predict the future by creating it”**
Prof. Alejandro Sosa
 Director, Global Environmental
 Management Initiative (GEMI),
 Mexico



▶ **“Trust takes years to build, but only a mistake or two to lose.”**
Dr. Allen White
 Vice President and Member of
 the Board of Directors, Tellus Institute,
 Boston, Massachusetts, USA

Dialogue

Henkel communicates openly and actively and seeks a dialogue with its stakeholders. The Company uses a wide range of communication instruments to satisfy the specific information needs of different target groups. Henkel views the dialogue with its stakeholders as a challenge and a source of new ideas for aligning the Company to sustainability.

Dialogue with employees

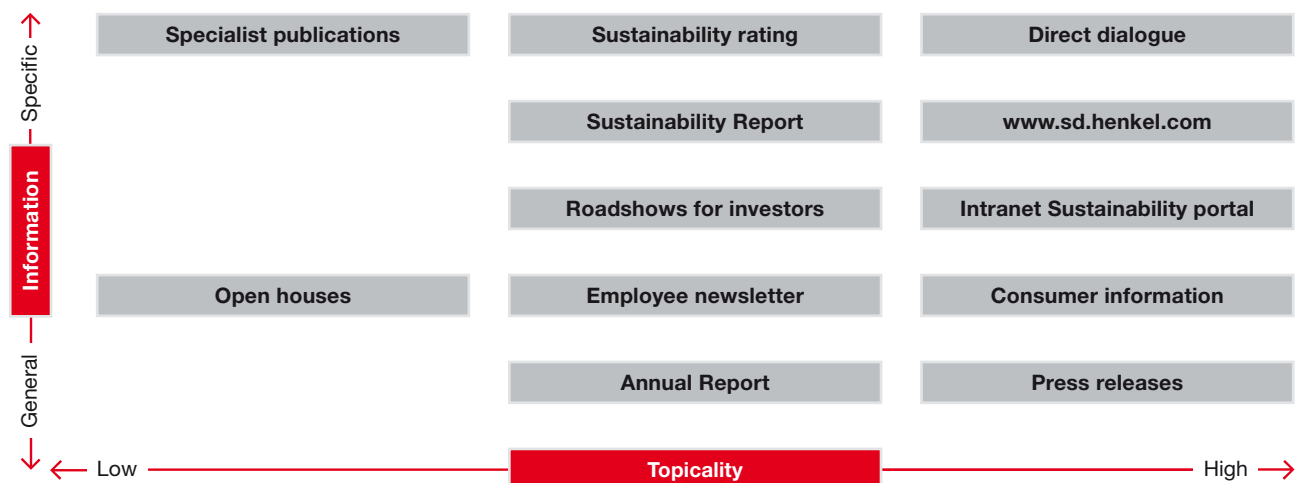
Henkel’s policy of active and open communication with its employees centers around a free exchange of information and constructive discussions. Issues such as environmental protection, occupational health and safety, and the Company’s social responsibility are also regular topics in the dialogue with the employee representatives and other internal bodies. Moreover, Henkel has established a range of instruments for communication regarding sustainability. Articles in the employee newsletter, Henkel-Life, and the Sustainability portal on the intranet play a major role. They are supplemented by specific technical information for the employees responsible for sustainability matters. For example, the bimonthly Sustainability Newsletter, which is distributed by e-mail, provides information about current issues

in the Henkel world. Henkel companies worldwide also initiate activities appropriate to their specific needs to anchor sustainability themes in the minds of their employees. Such activities may include annual health and safety weeks, special courses for trainees, and contests on subjects such as environmental protection and occupational safety.

Dialogue with experts

As Henkel is always looking for new insights and wants to share its experiences with others, it engages in discussions with external experts on a national and international level. For example, Henkel participated in the HERA initiative to assess the safety of ingredients of laundry detergents and household cleaners, a joint project of the European Chemical Industry Council (CEFIC) and the International Association for Soaps, Detergents and Maintenance Products (A.I.S.E.). Through the REACH Implementation Projects of the EU Commission, Henkel also takes part in the dialogue on the restructuring of the European Union’s new chemicals policy.

Overview of sustainability communication



» Companies have operational responsibilities and citizenship opportunities «

» Businesses have to manage their operational responsibilities well in order to be socially acceptable and maintain their capability to operate in the market. For an international consumer-goods company like Henkel the key responsibilities are:

- ▶ Ensuring that its products are safe for consumers and the environment,
- ▶ Not harming the environment and addressing global warming,
- ▶ Ensuring responsible behavior along the supply chain,
- ▶ Treating its employees fairly, and
- ▶ Providing quality products at a fair price.

Italian consumers are paying more and more attention to environmental issues and to product safety. But only a minority is willing to pay more for environmentally friendly products at this point.

However, Henkel's citizenship responsibilities provide the potential to differentiate itself and enhance its reputation. In Italy these entail in particular:



- ▶ Ensuring the potential for continued value creation in Italy while creating development opportunities for emerging economies,
- ▶ Addressing potential human rights abuses in developing countries, and
- ▶ Contributing to solutions for social problems, such as demographic change, defense of diversity, and employment stability.

These responsibilities have to be translated into local activities. From an Italian perspective two factors appear to be particularly important:

- ▶ Involving the employees in the definition of the necessary measures and enabling them to participate in activities to solve social problems in their communities, and
- ▶ Solving problems through voluntary commitments and NGO partnerships, especially where common areas of interest can be defined. «

▶ **Prof. Dr. Marco Frey,**
Research Director, Centre for Research on Energy
and Environmental Economics and Policy
Bocconi University, Milan, Italy
www.unibocconi.it

Henkel in Italy

Henkel has sold laundry detergents and household cleaners in Italy since 1933. Its launch of the laundry detergent Dixan in 1959 was a great success. The sales organization for chemical and technical products was consolidated in Henkel Chimica in 1971. In the 1980s, Henkel acquired additional companies, enabling it to enter the Italian cosmetics market. Today, Henkel produces and markets in Italy laundry detergents and household cleaners, cosmetics and body care brands, consumer and craftsmen adhesives, and adhesives, sealants and surface treatments for the industrial sector.

Sites

Henkel has seven production sites in Italy.

Employees

1,599 people work for Henkel in Italy.

Sales in 2005

Henkel generated sales of 734 million euros in Italy in 2005.

Major brands

- ▶ **Laundry & Home Care:** Dixan, General
- ▶ **Cosmetics/Toiletries:** Neutromed, Testanera Brillance
- ▶ **Consumer and Craftsmen Adhesives:**
Loctite, Metylan, Pattex, Pritt, Sista
- ▶ **Henkel Technologies:** Adhesin, Bonderite, Hysol, Liofol,
Loctite, P3, Technomelt, Teroson

Further information

www.henkel.it

Dixan

General

Neutromed
pH5.5
DERMO-EQUILIBRO

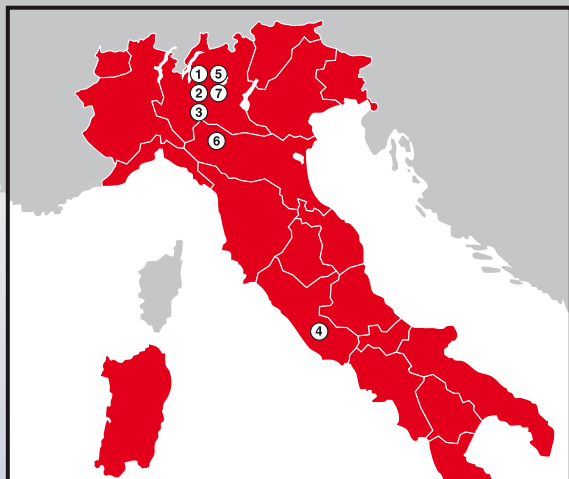
TESTANERA
BRILLANCE

Metylan

Sista

Liofol
"nothing our step ahead"

Adhesin



Caleppio di Settala (Milan)	①
Casarile (Milan)	②
Cerano	③
Ferentino	④
Lomazzo	⑤
Parma	⑥
Zingonia (Bergamo)	⑦



▶ Henkel sponsored the presentation of the UN Millennium Development Gates at the “Heidelberg Agenda-Tage.” They are part of a worldwide information campaign under the motto “No excuse – 2015,” launched by the United Nations to communicate its development targets and stimulate dialogue.

▶ In Portugal, Henkel organized an exhibition in the biggest department stores of Lisbon and Porto to draw attention to its commitment to environmental protection and social responsibility.

Proactive information

Nothing can replace direct contact. It helps the Company to get to know the wishes, concerns and doubts of its neighbors and customers as well as consumers. It offers the Company an opportunity to explain its activities and serves as a basis for mutual understanding. In 2005, therefore, Henkel again organized a number of events and activities to promote dialogue. They included neighborhood newsletters, open house days, joint projects with schools in the region, and participation in regional and national initiatives. In Italy and Japan, for example, sustainable development was discussed with journalists and sustainability experts at Henkel press conferences. As part of a regional training program for teachers, staff at the Düsseldorf-Holthausen site explained Henkel’s sustainable business practices.

Dialogue within the Global Compact

Henkel sees the United Nations’ Global Compact as a network in which the partners can share experience, discuss methods of promoting sustainable development, and learn from each other. Since joining the Global Compact in July 2003, in addition

to its annual progress reports, Henkel has reported in the Global Compact Learning Forum on a public-private partnership project it carried out jointly with the German Society for Technical Cooperation (GTZ) and has submitted a project example illustrating the fulfillment of certain principles.

On a national level, Henkel participates in the German Global Compact network. The members of this network initiate joint projects and engage in intensive exchanges. ⓘ

Recognizing achievements, promoting dialogue

Henkel sponsors a number of environment awards, to recognize outstanding sustainability achievements and to promote dialogue on these themes. In 2005, for example, Henkel sponsored the Von Martius Environment Prize of the German-Brazilian Chamber of Commerce in Brazil for the fifth time in a row. The award goes to projects that promote the economic development of the country while taking environmental factors into account.

In Austria, Henkel has been one of the sponsors of the environment award of the Austrian Society for the Environment and Technology (ÖGUT) since 1999.

Product stewardship

A broad approach to responsibility

In its Vision and Values, Henkel has declared its dedication to sustainability and corporate social responsibility. Its contribution consists of products and technologies that make people's lives easier, better and more beautiful. They are the basis of the Company's business. Acting responsibly throughout the value chain is a key factor in conducting this business.

Henkel began to consider environmental and social issues and take the public's expectations seriously at a very early stage. For example, the Company introduced regular ecological testing of detergents and household cleaners as long ago as 1959.

Henkel is convinced that sustainability pays. Trust in the Company and the Henkel brand helps to create entrepreneurial opportunities and drives business success. Irresponsible actions could very quickly destroy this trust again.

Renewable raw materials

Henkel has used ingredients based on renewable raw materials for many years to optimize the overall characteristics of its products, wherever this is compatible with ecological, economic and social considerations.

The proportion of renewable raw materials used in the surfactants – washing active substances – for laundry detergents and household cleaners is about 35 percent. Soaps and shower gels are based for the most part on renewable raw materials. In the case of adhesives – for consumers and craftsmen as well as the industrial sector – there are numerous applications in which renewable raw materials (e.g. starch, cellulose, dextrans and proteins) are used. Renewable raw materials are firmly established key components of glue sticks, wallpaper pastes, and packaging adhesives. The proportion in bottle labeling adhesives, for example, is approximately 45 percent.

Research & development

Henkel factors in the principles of sustainability and social responsibility from the outset, when initiating research projects and during product development. The Company develops innovative products and technologies that fulfill the expectations and needs of customers and consumers.

The first-class quality of Henkel's products means more than convenience and high product performance. It includes all-encompassing product safety and ecological compatibility. Potential risks are therefore systematically assessed at the research stage and during product development.

Raw materials

Henkel has used ingredients based on renewable raw materials for many years to optimize the overall characteristics of its products, wherever this is compatible with ecological, economic and social considerations. Other ingredients are based on fossil (non-renewable) and mineral raw material sources. The production of the raw materials used is generally not very energy-intensive or a source of critical emissions.

Henkel expects its suppliers to conduct themselves in a manner that conforms to its own corporate ethics and to apply appropriate standards.

Example: More than

33%

reduction in dosage of classic powder detergents since 1993

Example: About

35%

renewable raw materials in surfactants for laundry detergents and household cleaners

Dialogue for the sustainable harvesting of palm oil

Henkel supports the World Wide Fund for Nature (WWF) in its initiative to develop new solutions for sustainably harvesting palm oil and preventing the destruction of rain forests in Indonesia. Henkel uses – indirectly, via its raw materials suppliers – less than 0.2 percent of the world's palm oil and palm kernel oil as a raw material. Nevertheless, Henkel sees it as its duty to contribute its experience and specialist knowledge to the joint search for feasible solutions. In 2005, therefore, Henkel again attended the international Roundtable on Sustain-

Production	Transport	Use	Disposal
<p>Henkel has 176 production sites worldwide. Most of its production methods consist of mixing processes and are not energy-intensive. Henkel assigns a high priority to occupational health and safety in the manufacture of its products. Occupational health and safety measures appropriate to the risks of the substances and processes used are therefore applied.</p> <p>Henkel develops new methods and improve existing ones, to continuously increase safety and cost-efficiency while simultaneously reducing the consumption of resources and the burden on the environment. Through the transfer of technologies and knowledge, Henkel contributes toward social progress worldwide.</p>	<p>By maintaining regional production sites for relatively bulky products, Henkel reduces transport costs and unnecessary loads on the environment. This applies especially to Laundry & Home Care products, as well as parts of the product portfolios of the Cosmetics/Toiletries, Consumer and Craftsmen Adhesives, and Henkel Technologies business sectors.</p> <p>In the case of relatively compact products with a low specific weight, the transport costs are lower, so that, where possible, they can be produced centrally and in larger quantities. Cyanoacrylate adhesives (instant glues), for example, are produced at just three sites.</p>	<p>Henkel products and technologies are safe and compatible with health and the environment if they are used as intended. They make people's lives easier, better and more beautiful. Brands and technologies from Henkel make an important contribution to health and hygiene and to efficient use of resources, and prolong the service life of products. High-performance detergents clean fabrics gently, even at low washing temperatures. Adhesives and sealants help to protect buildings against dampness, heat and cold. And anti-corrosion surface treatments extend product life.</p>	<p>Laundry detergents and household cleaners, cosmetic and body care products, and hygiene products all end up in wastewater after use. Henkel formulates them so that the aquatic environment is not negatively impacted by their use. When chemical products are employed in industrial applications, it is sometimes necessary to pretreat the wastewater using state-of-the-art technologies to remove harmful substances before the water is discharged into the sewage system. For consumer products, Henkel has reduced the volume of packaging waste by introducing innovative forms of packaging. For industrial customers, re-usable packaging systems are also available.</p>
<p>Example: A</p> <p>20%</p> <p>reduction in annual carbon dioxide emissions was achieved by the Kruševac site in Serbia-Montenegro in 2005</p>	<p>Example: About</p> <p>220,000 t*</p> <p>of laundry detergents and household cleaners have been transported annually by rail instead of road since 1994</p> <p>* metric tons</p>	<p>Example: Around</p> <p>30%</p> <p>lighter aircraft fuselages through innovative lightweight composites</p>	<p>Example: Around</p> <p>15%</p> <p>less board for economy packs of powder detergents in Germany through introduction of a new carry pack</p>

able Palm Oil, and is participating in a project to develop ways of tracing the chain of custody of sustainably harvested palm oil from the plantation to the industrial end user.

Naturally Pritt

The Pritt Stick shows how Henkel replaced mineral oil based raw materials by suitable renewable raw materials at an early stage. In 1991, Henkel started to develop alternatives to a variety of raw materials. The prospect of finding a substitute raw material that would reduce dependence on mineral oil based polyvinylpyrrolidone (PVP) was also economically

interesting, as the great demand for PVP was met by just a few suppliers. The quality of the glue stick produced with an alternative raw material had to be at least equal to that of the existing product. Starch ether was identified as a potential alternative raw material, as starch has good adhesive properties when it is appropriately chemically modified. After a development period and a test phase of two years, consumer tests were successfully concluded and the first generation of the starch-based Pritt Stick was produced. In 2000, PVP was finally completely replaced. Worldwide, Henkel is the only supplier of starch-based glue sticks.

Uniform assessment criteria for suppliers

Henkel demonstrated its acceptance of responsibility throughout the value chain at an early stage, when it published its Safety, Health and Environment standards (SHE standards) in 1997. On the basis of the standards, the purchasing departments and business sectors have implemented processes for assessing the safety, health and environmental performance of their suppliers and contract manufacturers.

To implement the requirements of the revised SHE standards and the Group-wide purchasing guidelines, Henkel formulated uniform sustainability criteria in 2005 and used them to draft a questionnaire covering safety, health, the environment, quality, human rights, employee standards, and anti-corruption policies. The questionnaire is the basis for assessing suppliers and contract manufacturers. It is supplemented by specific requirements and instruments of the business sectors, such as systematic audits of contract manufacturers.

In an initial pilot phase, Henkel Purchasing tested the questionnaire with European suppliers. In 2006, it is being systematically introduced. The aim is to cover 80 percent of Henkel's purchasing volume by the end of 2006.

On the right track

"Ecological? It's only logical!" In 1994, under this slogan, Henkel introduced a new distribution concept for laundry detergents and household cleaners in Germany. Since that time, a large proportion of long-distance freight has been shipped from the Düsseldorf and Genthin sites by rail and transported to eight regional warehouses. Each year, around 220,000 metric tons of laundry detergents and household cleaners are thus carried by rail instead of road. Only half as much energy is needed to ship them, and emissions to the air and noise nuisance have been clearly decreased. Henkel also profits from this logistics concept. Thanks to the optimal utiliza-

tion of transport capacity, favorable rail transport prices, and improved loading conditions, the Company saves about one million euros each year.

Logistical improvements were also made elsewhere, such as by better utilization of capacities and, where possible, by switching from road transport to rail. For example, after extensive negotiations about the rail link to the cosmetics plant in Wassertrüdingen, Germany, Henkel had the transport of some raw materials transferred back to the railroad. About 1,500 metric tons of alcohol are now delivered annually by rail tanker car.

Safe product, backed up by good advice

Industrial and retail customers, as well as professional craftsmen and consumers, can be sure that Henkel products and technologies are safe if they are used as intended. Their compatibility with health and the environment is assessed in detail. This involves evaluating the properties of the individual ingredients, their concentrations in the product, and the conditions under which the product is to be used. Depending on whether a product is intended for consumers or for industrial use by trained personnel, Henkel optimizes the necessary precautionary and protective measures.

If, despite appropriately designed packaging and detailed instructions, products are used incorrectly or mishaps occur, Henkel customers and consumers can always contact its advice services. At Henkel's Düsseldorf headquarters these also include a special hotline for emergencies. A team of doctors and toxicologists is available around the clock to take emergency calls and provide advice and online assistance.

Henkel's customers and consumers are not the only ones to benefit from these services. By analyzing the questions received and by monitoring its products in the market, the Company can identify potential problems at an early stage and channel the knowledge gained into its product development.

» Thinking ‘one world’ and servicing the same home«

» During the last two decades, China has experienced rapid economic growth and dramatic industrialization and urbanization. This has involved the massive use of limited resources and resulted in serious environmental damage. Due to three major challenges – the large population, shortage of resources and environmental pollution – pursuing economically, socially and environmentally sustainable development is the only solution.

Henkel’s direct investments in China strengthen the local capital market, bring advanced production technology, and provide high quality products, as well as creating employment opportunities at its facilities.

As a multinational corporation operating in China, Henkel could contribute to local sustainable development while fulfilling its corporate social responsibilities by:

- ▶ Operating efficient and safe production facilities and extending the concept of a circular economy from its plants to the life-cycle of its products and by-products,



- ▶ Developing safe and environmentally friendly products and using its products as well as its communication to increase public awareness of sustainability practices,
- ▶ Continuously training its employees in environmentally friendly and safe production and educating the youth about sustainable development,
- ▶ Sharing information on Henkel’s environmentally friendly practices with its suppliers and customers, demonstrating the benefits of eco-efficiency – especially to local small and medium companies (SMEs) – and disseminating knowledge about sustainable business strategies,
- ▶ Cooperating with all stakeholders and partners to combat major problems such as poverty, global warming, decreasing bio-diversity, and ozone depletion. «

▶ **Prof. Dr. Peng Sizhen**

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Henkel in China

From 1887 to 1913, the Company's founder, Fritz Henkel, imported tea from China to Germany. To serve the Asian markets more efficiently, Henkel established Henkel Chemicals in Hongkong in 1971. From the 1980s on, Henkel sold adhesives, industrial cleaners, and oleochemical products to Chinese companies. Henkel opened an office in Beijing in 1988 and, in 1989, it contributed to the restoration of a section of the Great Wall of China. Henkel launched its first Chinese joint venture in 1990: Shanghai Henkel Chemicals. This company produced and marketed industrial cleaners, surface treatment chemicals and cleaning products. Today, Henkel produces and sells in China laundry detergents and household cleaners, cosmetics and body care brands, consumer and craftsmen adhesives, and adhesives, sealants and surface treatments for the industrial sector.

Sites

Henkel has twelve production sites in China.

Employees

3,310 people work for Henkel in China.

Sales in 2005

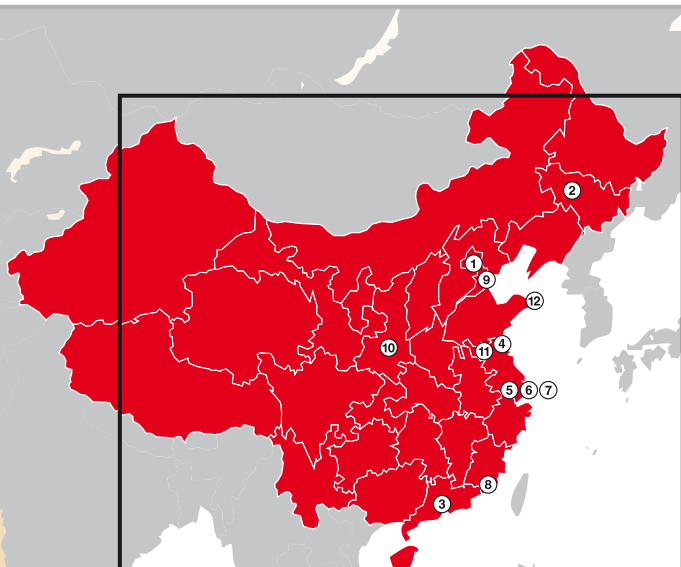
Henkel generated sales of 254 million euros in China in 2005.

Major brands

- ▶ **Laundry & Home Care:** Wipp, Wipp Exploding Salt
- ▶ **Cosmetics/Toiletries:** Guangming, Haiermian
- ▶ **Consumer and Craftsmen Adhesives:**
Ceresit, Metylan, Panda, Pattex, Thomsit
- ▶ **Henkel Technologies:** Adhesin, Bonderite, Hysol, Liofol, Loctite, P3, Technomelt, Teroson

Further information

www.henkel.cn



Beijing	①
Changchun	②
Guangzhou	③
Lianyungang	④
Shanghai Nanhui	⑤
Shanghai Putuo	⑥
Shanghai Yangpu	⑦
Shantou	⑧
Tianjin	⑨
Xian	⑩
Xuzhou	⑪
Yantai, Shandong	⑫

Requirement of the EU chemicals policy

Consumers in 125 countries trust in brands and technologies from Henkel every day. The first-class quality of Henkel's products means more than convenience and high product performance. It includes all-encompassing product safety and ecological compatibility. Henkel therefore supports the basic idea of the European Commission's REACH proposal on chemical policy, concerning the registration, evaluation, authorization and restriction of chemicals. The European Commission's proposal for transposing the basic idea into a regulatory framework must, however, be improved. Henkel has been actively participating in the process of formulating suitable proposals for a more pragmatic approach. This work helped to bring about the approval of improvements to REACH by the EU Parliament and the Council in late 2005. The amendments that are still needed must be taken into account during the further course of the legislative process.

The assessment of product ingredients under the expected REACH regulations can be integrated into Henkel's existing processes as soon as the concrete requirements are made known. To limit additional costs caused by REACH, Henkel has already introduced certain processes in preparation for the future requirements.

Alternatives to animal testing

Henkel is responsible for safety, health and environmental matters relating to the production, distribution and use of its products. In fulfilling this responsibility, the raw materials and finished products are subjected to numerous tests and studies, most of which are required by law. Moreover, Henkel applies additional standards that guarantee a high level of product safety for consumers and the environment. Henkel does not make use of animal testing unless it is required to do so by law, and if no legally approved alternative test methods exist with which the appropriate data could be obtained. There is a

legal obligation to conduct tests on animals if no relevant safety information is available about an ingredient or if the available information is inadequate.

Henkel has been working intensively for over two decades on the development of alternative methods with which necessary data can be obtained without carrying out animal testing. The Company is pushing for acceleration of the currently long-drawn process of legal accreditation of alternative test methods.

Joint efforts

On November 7, 2005, the European Parliament established the European Partnership to Promote Alternative Approaches to Animal Testing, between the European Commission and industry. The chemical, crop protection, pharmaceutical, cosmetic, detergent and household cleaners, and biotechnology sectors are represented in the Partnership. In the Brussels "3 Rs Declaration," the partners agreed to apply advanced methodology to refine, reduce, and ultimately replace animal testing altogether.

The European Partnership intends to set up an action program with the aim of developing alternative methods and novel approaches to testing and evaluation. The program will be reviewed and made publicly available each year. Henkel played an active role in drafting the declaration and is participating in the action program through its research company Phenion. Henkel has concentrated its research activities for the development of alternatives to animal testing in Phenion.

Laundry & Home Care

Less is more

To lessen the burden on the environment, Henkel continuously works toward increasing the performance of its laundry detergents while decreasing the dosage. In the case of classic powder detergents, further optimization of the formulations made it possible to reduce the amount of detergent per wash cycle to 170 milliliters – equivalent to 95 grams – throughout Western Europe. The recommended dosage for classic powder detergents is therefore now more than one third less than it was in 1993. To help consumers become accustomed to the lower dosage amounts, an appropriately graduated scoop is enclosed in new packs for the first six months. The scoops – as well as useful hints on correct dosage and sustainable laundering – can also be obtained at any time simply by calling the consumer hotline.

Clean even at low temperatures

Low washing temperatures save energy and therefore make a significant contribution toward protecting the environment. They also protect the colors and the fabrics of laundry items. To ensure that laundry is cleaned even at 30 or 40 degrees

Celsius, the formulation of Persil Color was revised to make it even more effective. The low-temperature formula removes even the most stubborn stains at a washing temperature of 30 degrees Celsius. Special polymers help to prevent color transfer between laundry items. Persil Color with Low-Temperature Formula has been launched in Germany, Austria, Switzerland and Belgium.

With lime and vinegar: Dishwashing in India

One of the keys to Henkel's global success is the adaptation of its products to satisfy the regionally specific wishes and needs of consumers. This recipe for success has enabled Pril liquid, for example, to win around 75 percent of the liquid dishwashing detergent market in India. However, these detergents are too expensive for a considerable segment of the population. To offer innovative and high-performance products to consumers with less spending power, Henkel has brought out a bar soap dishwashing product. Conventional bar soaps are good at removing grease and fat, but cannot neutralize the odors of the strong spices used in India. Henkel responded to this problem by launching its Pril Lime and Vinegar bar soap. It eliminates odors

Focus on sustainability

Henkel's product policy is based on the needs of consumers. They expect Henkel products to be highly effective, safe and convenient to use, and environmentally compatible. One of Henkel's success strategies is the use of specially tailored regional brands and technologies. Worldwide, products go through approval processes before release, to ensure that they are safe for health and the environment. The basis for this is a Group-wide formulation information system.

A priority objective in product development is to combine steadily improving detergent perform-

ance with lower temperatures and further reductions in the amount of product that has to be used. The most recent developments are the further reduction in product dosages in Europe and the new Persil Color with improved washing performance at low temperatures.

Thanks to the Europe-wide harmonization of consumer advice services and hotlines, consumer feedback can be channeled into the product development process faster and more comprehensively.



from dishes and has excellent grease dissolving properties. With the Pril bar soap, Henkel was able to open up a new market segment.

Power products wanted

As people's lifestyles change, so do their cleaning habits and their expectations regarding hygiene and cleanliness. Scrubbing and scouring are out; cleaning and care products are expected to remove even the most stubborn soiling quickly and effortlessly. The products therefore have to be powerful, but without damaging the surfaces being cleaned. The three new Bref brand specialty cleaners meet this requirement. They are simply added or sprayed from a handy bottle, and develop especially high cleaning power. Bref Power Cleaner removes the most persistent lime and soap deposits and even eliminates rust stains; Bref Multi-Grease Dissolver gets rid of burned-on grease, engine oil and rust. And Bref Hygiene Cleaner with Active Chlorine removes various types of soiling, as well as bacteria and mold, in the bathroom and kitchen. All Bref Power Cleaners contain surfactants that are readily and rapidly biodegradable.

Not only in the dosage and application information on the packaging, but in a variety of other ways, Henkel informs consumers on how to use the special cleaners effectively, safely, and in an environmentally sound manner. Besides special information brochures and detailed product information on the

Internet, hotlines are available free of charge in many countries to answer consumer queries.

Henkel highly values direct contact with consumers, who are the focus of all its development projects. Such contacts help the Company to gain an even better understanding of consumer expectations, find out how its products are used, and identify unfulfilled customer needs. This information is continuously channeled into the improvement of existing products and the development of new ones. In the case of the Bref Multi-Grease Dissolver, for example, this led to a significant improvement in the formulation. Independent test households have confirmed this, and market results substantiate the success of this approach.

Henkel signs Charter for Sustainable Cleaning



Henkel again demonstrated its corporate responsibility toward society and the environment when, in March 2005, it became the first company to pass the required audit prior to signing the Charter for Sustainable Cleaning of the International Association for Soaps, Detergents and Maintenance Products (A.I.S.E.). The goal of the Charter is to promote and demonstrate the implementation of sustainable practices in the development, production, use and disposal of detergents and cleaners, i.e. throughout the life cycle of the products.

Cosmetics/Toiletries

A natural solution

About 40 percent of people suffer from sensitive teeth. Often this is because microscopically small passages (dentinal tubules) at the neck of the teeth are exposed. These tubules can convey external stimuli such as heat, cold, acid or pressure directly to the dental nerve. With Theramed S.O.S. Sensitive, a toothpaste is now available which can seal the dentinal tubules with a near-natural protective layer.

The innovative Nanit® active ingredient incorporated in this toothpaste reacts with calcium and phosphate ions in the saliva to form a new, tooth-like protective layer on the necks of the teeth. The idea behind the material originated in basic research. The research company SusTech Darmstadt and Henkel Research developed the material for use in toothpaste.

A clinical study of Theramed S.O.S. Sensitive with Nanit® active substantiated an immediate tangible effect and, after just two weeks, a significant reduction in the sensitivity of the teeth. Theramed S.O.S. Sensitive was launched on the Belgian market in November 2005 and has been available in Germany and Austria since January 2006. The next step will be

its introduction in France and Central and Eastern Europe under the Vademecum brand.

Small can, great impact

A recent innovation in hair styling is the Silhouette Compact Hairspray. Although the size of the hairspray can has been reduced from 750 to 400 milliliters, its contents go further than the 750-milliliter can. Silhouette Compact provides the accustomed perfect hold and is more flexible and convenient in its new small format. The 50-milliliter version is ideal when traveling and at work.

This was made possible by a combination of a newly developed concentrated hairspray formulation and a new microspray application system. The nozzle and the valve were optimized so that the usual styling results can be obtained with a very much smaller amount of product. Silhouette Compact contains almost 50 percent less propellant gas than conventional 750-milliliter hairspray cans. Moreover, less metal and plastic are needed for the packaging. This saves resources in packaging and production and, with about half the weight, in shipping.

Focus on sustainability

Only well-tolerated and easy-to-use cosmetics, which fulfill user expectations, can generate long-term consumer confidence. Besides effectiveness, compatibility with health and the environment have always been top priorities in product development. All cosmetics are therefore subjected to an extensive testing program, which is continuously updated in line with the latest scientific and technical advances.

Henkel studies the health compatibility of its finished products by means of in-vitro tests on cell cultures and dermatological tests. Since the early 1980s, Henkel has worked together with external institutes to develop and optimize alternative test

methods. This will continue to be an important objective of the Company. At present, Henkel is taking part in the European Commission's "European partnership to promote alternative approaches to animal testing." With its research company Phenion, too, Henkel has expanded its research activities aimed at establishing new test methods.

An integral part of Henkel's policy is to provide comprehensive service beyond the products themselves. Through its consumer advice services and the internationally oriented Schwarzkopf Academy, Henkel provides direct assistance to consumers and hairdressers throughout the world.



Showering with yogurt

Yogurt is well known as a healthy food product which promotes positive bacterial flora. It contains proteins, vitamins and minerals, and can also be applied to the skin as an anti-inflammatory. A feel-good innovation in cosmetics is the new Fa Yoghurt shower gel range. The formulations, containing a concentrate of natural yogurt, help the skin to maintain its natural balance. Fa Yoghurt's light, creamy formula cares for the skin and keeps it from becoming dry.

Meeting multiple packaging demands

For cosmetic products in particular, packaging is an important factor influencing the purchasing decisions of many consumers. Premium branded products require packaging that reinforces the brand image, while guaranteeing the perfect hygiene and condition of the product. The packaging must also provide sufficient space for consumer information. These requirements must be reconciled with environmental protection requirements and the provisions of the respective packaging regulations.

Undecided consumers like to test a product before they buy it. To ensure that products are not tampered with, barrier packaging is used, especially for facial care products. A thin polyethylene film, for example, protects Diadermine facial care products from being opened before purchase. It is light

and recyclable. The outer packaging also contains a paper buffer to protect the glass jar during transport.

Packaging developers continuously strive to reduce the amount of packaging material without compromising quality or strength. A current example is the toothpaste tubes for Licor del Polo, Vademecum, Antica Erboristeria and Denivit, which are available in various European markets. An ultra-thin aluminum foil is laminated into the tube material as a barrier layer. The thickness of the foil has now been reduced still further. The new tubes are 21 percent lighter and require less raw material, especially aluminum.

Consumer and Craftsmen Adhesives

No More Nails: Removable assembly adhesive

Assembly adhesives are a powerful alternative to tiresome and dirty operations such as drilling and fastening with screws or nails, and are gaining in popularity. There is just one thing that often puts DIY enthusiasts off. Once the components have been bonded, they are very difficult to separate again.

Under the Pattex brand, Henkel is presenting a new, removable power assembly adhesive. The specially developed formulation allows the bonded surfaces to be separated with a simple kitchen knife or spatula, even after several years. Residual adhesive can then simply be washed off a smooth surface using an ordinary household cleaner, or painted over if the surface is porous. This is an unbeatable advantage for DIYers who want to furnish and fashion their homes flexibly.

In the hard-fought DIY market, Henkel successfully launched the product in early 2005, first in the Benelux countries and then in Italy. In 2006, it became available in Germany, too, and other countries will follow.

Saving energy in the home

In more than 60 countries around the globe, Henkel supplies a broad range of adhesives and sealants that can be used to protect buildings against moisture, heat and cold. While sealant systems help to maintain the fabric of a building, insulation products help to cut energy consumption and therefore contribute to climate protection. In Germany, for example, about one third of carbon dioxide emissions are attributable to domestic heating systems.

Latent heat storage system for Mexican roofs

Climatic conditions in many regions of Mexico are extreme. In the north, the days are often very hot, with temperatures climbing far above 40 degrees Celsius. Air conditioning and fans bring some relief, but are expensive and consume a great deal of energy. As an alternative, Henkel has developed a roof coating that not only reliably seals the roof, but also protects the house against heat and thus helps to save costs.

The coatings, which are applied directly to the roof like thick paint, lower the temperature in the building. Imperfácil, aimed at the DIY market, can

Focus on sustainability

Henkel is a world leader in adhesives and sealants, both technologically and ecologically. The widely varied product range includes home renovation products, adhesive and correction products for the home and the office, and construction adhesives. An important factor in the sustained market success of these products is the fact that they are convenient and safe to use.

Solvent fumes are a major source of environmental pollution associated with bonding. For many years, therefore, Henkel has been consistently replacing solvent-based adhesives with high-per-

formance waterborne products and is steadily increasing its share in a market dominated by solvent-based adhesives. Where technical requirements or market conditions make this difficult, Henkel looks for alternative solutions and sets up long-term substitution programs.

Henkel's adhesives developers also rely on renewable resources to optimize product characteristics. The Pritt Stick is an internationally known example of this. It is now formulated almost completely on the basis of renewable raw materials.



bring about a reduction of up to eight degrees Celsius, and Acriton, for professionals, up to twelve. This is partly achieved through more efficient reflection of sunlight. The crucial element, however, is the use of a latent heat storage system. Small wax spheres in the coating melt and store the heat during the day. When the temperature falls, the wax releases this heat and is ready for the next hot day. Air conditioning and other thermal protection measures are therefore no longer needed or can be considerably scaled down.

No chance for heat bridges

In many buildings, inadequately insulated joints between windows and masonry act as a heat bridge. Heat escapes from the building through these bridges, resulting in unnecessary heating costs.

With Sista Flex, Henkel has developed a polyurethane-based assembly foam for wood, plastic and metal windows to meet special demands. The foam remains flexible after curing and is therefore able to accommodate the natural movement between the window and the masonry as the façade heats and cools. This prevents the formation of cracks, through which heat can escape. The adhesion remains intact, and the windows are securely and firmly bonded.

The foam has excellent acoustic and thermal insulation properties and is a highly efficient sealant. It is also resistant to aging and is a good substrate for paint, adhesives and plaster.

Out of the cold, into the heat

In many countries in Eastern Europe, old buildings often lack thermal insulation. Henkel's Ceresit thermal insulation systems solve this problem at relatively low cost and effort. Flexible system solutions from Ceresit can be readily customized to meet all of the individual requirements of insulating boards, adhesive mortar, and external plaster in a particularly effective way. The result: More comfortable housing and savings of up to 30 percent in heating costs.

The system can also be used to provide buildings with heat protection, therefore cutting the energy costs of air conditioning units. Through its acquisition of a shareholding in Polybit, a manufacturer of coating materials for the construction industry in the United Arab Emirates, Henkel now also has the local expertise to adapt this system to the needs of the Gulf region, so that it can be marketed there.

Henkel Technologies

Soft cleaners for soft energy

In Europe and the USA, wind energy is second only to hydroenergy as an alternative source of power. The rotor blades of wind turbines, which can be up to 60 meters long, are made from fiber-reinforced plastics using special molds. The molds subsequently have to be cleaned, usually manually, with the help of a variety of solvents.

Drawing on its experience of surface cleaning technologies and the processing of composite materials, Henkel developed the surfactant-based cleaner Frekote 915 WB. It contains 70 percent less solvent and is gentle to the sensitive surfaces. Frekote 915 WB leaves no residues and cleans the molds much more efficiently and quickly. Just one year after launching this product, Henkel has established itself as one of the leading producers of cleaners for molds used in the production of rotor blades and other fiber-reinforced plastic components. The product rollout has already started in Europe, Asia and the USA.

Breakthrough in metal pretreatment

For over a century, iron phosphating has been the metal industry's standard process for providing sur-

faces with protection against corrosion before they are painted. With Bonderite NT, Henkel has introduced a nanoceramic coating process – the world's first – that is far superior to iron phosphating in terms of quality, ecology and economics.

Bonderite NT creates a cohesive, inorganic layer which delivers better corrosion protection and better paint adhesion than iron phosphating. The coating can be applied at room temperature, thus cutting energy consumption by up to 30 percent. The process is free of phosphates and toxic heavy metals. The bath life can often be doubled, resulting in an appreciable reduction in the cost and effort of wastewater treatment, waste disposal and plant cleaning. Bonderite NT was launched in the USA in late 2003, where it has been performing well at many customer sites. It has also been in use in Europe since 2005, where it has met with great success.


Fewer biocides through biofilm coupons

Conditions in cooling water circuits provide an ideal environment for the growth of microorganisms. In the course of time, they form a biofilm on the walls of the water pipes that can reduce the efficiency of the system and attack the materials. The water is therefore treated to prevent this. To be on the safe

Focus on sustainability

Henkel's industrial and structural adhesives, sealants and surface treatments create globally recognized system solutions. These are based on a thorough knowledge of customer processes, which enables the Company to develop individually tailored products. Work is often performed in a team context together with the customer, the equipment manufacturer, and suppliers of raw materials. Henkel continuously develops innovative products and technologies which offer customers benefits in environmental and health protection and are also economically advantageous.

In many cases, optimized processes result in major reductions in costs for energy, water, and waste disposal. Society benefits from these innovations, as they reduce the consumption of resources and prolong the products' service life.

With its tailor-made adhesives, sealants and surface treatments, Henkel also makes a major contribution to the development of new, clean sources of energy such as fuel cells and flexible, lightweight solar cells. 



side, more biocides than necessary are often used. To ensure that these biocides are applied in the most effective and economical manner possible, Henkel has developed a method for monitoring the formation of biofilms, which makes time-consuming laboratory tests unnecessary.

Standardized strips of stainless steel, known as biofilm coupons, are inserted into the cooling systems and replaced at regular intervals. The removed coupon is dipped into a reagent, which causes the biofilm to change color. The resulting color is then compared with a defined color scale. Changes can therefore be recognized in good time, enabling suitable action to be taken. Henkel has marketed the HydroBio test kit in Europe since mid-2005. By the end of the year, the coupons were being used successfully by twelve industrial customers.

Safety and comfort in the car

New vehicles are expected to be more comfortable and safer than their predecessors, but at the same time lighter and therefore more economical. Technologies from Henkel help car manufacturers to reconcile these contradictory requirements. Cooperation often starts in the design phase, years before the new model comes off the production line. The amount and positioning of Terokal structural adhesives and Terocore structural foams are jointly defined, so that the lightest possible car can be developed, but with maximum strength and optimal crash-resistance.

Strong compounds

The use of direct glazing adhesives to fit car windshields has long been standard practice. The windshield thus contributes to the structural integrity of the car body. Structural adhesives are also increasingly being used alongside traditional joining techniques such as welding and riveting for other component parts. They distribute loads evenly over a larger area, absorb impact energy more effectively if an accident should occur, and create stronger and stiffer bonds. Moreover, Terokal structural adhesives can also be used to join different materials such as steel and aluminum. Optimal utilization of the diverse properties of materials makes it possible to design vehicles that are much lighter and yet safer.

Reinforcing foams

Launched only ten years ago, Terocore structural foams are now considered state-of-the-art by many automobile manufacturers. They reinforce cavity structures and large surfaces against dents, preventing them from becoming critically deformed in the event of a crash. Terocore structural foams are exceptionally light and can reduce weight by up to 50 percent as compared with conventional steel solutions.

Employees

New challenges

Henkel is constantly growing and developing. Due to the opening up and development of new markets, the proportion of Henkel employees outside Germany increased to more than 80 percent in 2005. At the same time, a number of social changes – such as the aging population of western industrialized states and the rapid growth of many emerging economies – present the Company with new challenges.

To ensure its long-term success in this environment, Henkel relies on employees whose experience, talents and skills reflect the diversity of its markets and customers. Human resources management supports them with a balanced mixture of globally uniform instruments and those tailored to local needs.

Target-oriented management, performance-related remuneration, regular assessments, and continuous learning link the personal dedication of Henkel employees with the success of Henkel. Open communication, trust and respect create a productive work environment.

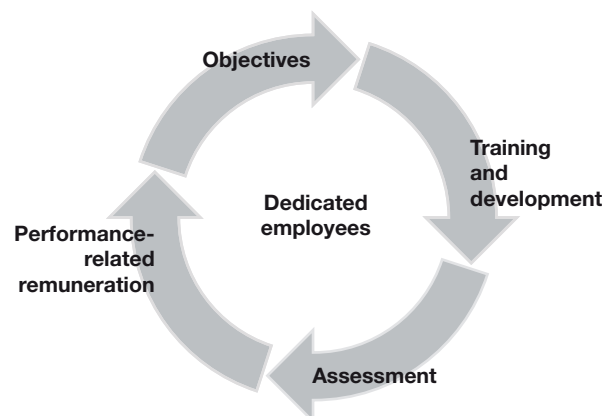
The obligation to respect the personal dignity and guard the privacy and individual rights of all of our employees – together with the principle of equality – are anchored in the Henkel Code of Conduct as important behavioral rules.

Knowledge, creativity, and social competence

Systematic development and fostering of the diverse talents and abilities of its employees is crucial to the Company's success. For this reason, Henkel invests in the knowledge, creativity, and social competence of its employees.

Regular employee assessments are a key prerequisite for this. In confidential meetings between employee and supervisor, development potentials are identified and training measures defined.

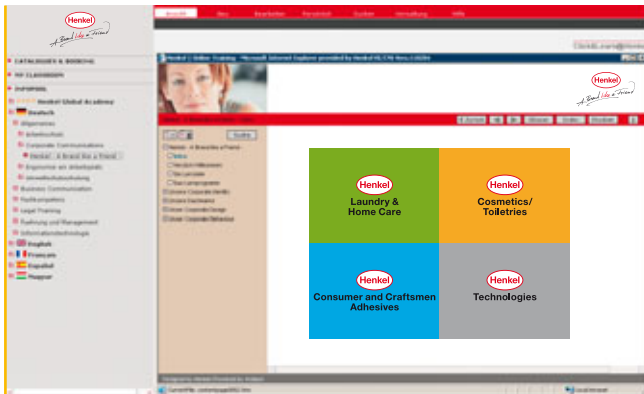
Drivers of corporate success



Henkel has been using Management Competencies Assessment (MCA) worldwide since 1998 as a tool for judging the performance of its managerial staff. Local yardsticks are applied to the human resources development of non-managerial employees, as the instruments used here are more closely aligned to cultural and site-related factors. Systematic assessment and development meetings are already being held for around three-quarters of the non-managerial employees.

Continuous learning

Each Henkel employee spends an average of about 2 days each year participating in job-related and personal development seminars for the purpose of acquiring skills above and beyond those gained during ongoing training in the workplace. These activities are supplemented by the intranet-based "Click and Learn" portal, which was introduced in 2001. It provides learning opportunities online – especially software, language and management courses.



▶ The Infopool of the Click & Learn portal offers courses on a variety of subjects. They are available to employees all over the world in several languages, also via the Internet.

This makes it possible for a wide circle of employees to acquire new knowledge individually at the times that suit them best. The use of online learning to prepare for and follow up on classical seminars that require personal attendance is especially effective.

Recognizing performance

The recognition of individual performance encourages employees to think and act like entrepreneurs and strengthens motivation. Henkel has implemented a globally consistent system of performance-related remuneration for its managerial staff. Corporate, team and individual targets link individual achievement incentives with Henkel's strategic focus.

This principle also applies to non-managerial employees. Approximately 65 percent of them are covered by performance-based incentive systems that enable them to share in the economic success of Henkel and its subsidiaries. The design of these schemes reflects local needs and requirements:

▶ In China, non-managerial employees receive annual bonus payments based on five defined team targets, five personal targets and their work atti-

tude. The latter covers aspects such as acceptance of responsibility, initiative, customer orientation, and teamwork skills.

▶ In the Andean countries Colombia, Ecuador, Peru and Venezuela, all non-managerial employees benefit from a standardized system of performance-related remuneration. Two team targets, derived from the targets of the relevant business unit, are supplemented by three personal targets directly related to the employee's field of responsibility and influence.

▶ Since the profitability of the Luxembourg production facilities for detergents and household cleaners is vitally dependent on the utilization rate of machine capacity, the quarterly bonus payments are linked to this factor.

▶ The performance-related remuneration system is part of the collective wage agreement of Henkel employees in Italy. Every four years, the Company defines the targets for the "premio di partecipazione." Performance indicators for the individual targets as well as the bonus amounts are determined in consultation with the unions and the works council.


Keeping fit

Continuously rising life expectancy and falling birth rates will result, medium- to long-term, in marked changes in the population structure of many industrialized countries. In aging societies, it will be more important than ever for companies to ensure that their employees remain fit.

Henkel has prepared for this by establishing targeted health promotion programs and providing continuous training for employees of all ages. The health programs of individual Henkel companies are designed to take national and cultural factors into account.

Family-friendly company



In the competition “Success Factor Family 2005” organized by the German Federal Ministry for Family Affairs, Senior Citizens, Women and Youth, Henkel earned the accolade of best company in the “large corporations” category. Former Chancellor Gerhard Schröder and Minister Renate Schmidt (left) praised Henkel for its “exemplary corporate commitment to reconciling the demands of career and family.” 

Balancing family and career

Henkel supports its employees in their efforts to coordinate their dedication to their careers and their plans for their private lives. The Family and Career working group develops objectives and solutions for the Company’s German sites. One example is the external “Family Service” bureau, which helps parents to find day care options for their children and can put them in touch with qualified personnel. These services have been available to employees at all German sites since early 2005. Emergency day care in flexible children’s day care facilities was used most often – on more than 100 days.

In Austria, Henkel has cooperated very successfully with the “Employee Service” company since 1998 to offer comprehensive advice and support in regard to marital issues, conflict mediation, and health, pregnancy and family matters.

In Spain, Henkel Ibérica carried out a 3-month pilot project involving courses on time management, raising the awareness of managerial staff, and various family-related services. The project was managed by the service provider “Más Vida Red” (More Life Net). The program will now be expanded within the Company.

Innovation through creativity

Innovation processes require creative employees. Working with an external consulting institute, Henkel therefore developed a program especially designed to promote and develop the creative talents of the research and development staff of its Laundry & Home Care business sector.

A successful innovation process requires a wide variety of talents and skills, which must be employed effectively. A crucial prerequisite is ensuring that the employees are aware of their creative abilities. They must know how to apply these skills and recognize how talents can complement one another as part of a team. Since 2003, more than 80 managerial employees have taken part in a specially designed training program.

Continuous improvement in corporate culture

Following its first global management survey in 2003, based on the Denison organizational culture indicators, Henkel carried out a second such survey in November 2004. The results showed that successes have already been achieved in the more than 400 individual projects that were initiated after the first survey. These initiatives concentrated especially on communicating the Company’s vision in a way

» Changing behavior and developing knowledge «

» All participants in the economy have to integrate sustainable development into their strategy as well as into their behavior in order to achieve this goal.

Since environmental problems cannot be solved without keeping economic progress in mind, industry's resource and energy requirements need to be harmonized with the interests of environmental protection.

In recent years the human aspects of sustainable development have received increasing attention: the way and quality of life, consciousness, preservation of values, traditions, and health. Furthermore, maintenance of employment, as well as the respect for human rights and the democratic institutions are also important for sustainable development.

For Hungary the creation of jobs and the development of environmentally friendly industrial activity in the less developed regions are of particular relevance.



Without radical and definitive change of the present practices, economic development cannot be maintained for much longer. However, we can achieve the positive changes only over a longer transition period, and we have to accept a stepwise incremental progress, as long as the direction is right.

The process of transition into the sustainable stage of economy will certainly take some decades in Hungary – and will be directed and organized by the students of today. Therefore, all those who want to positively contribute to this process should support education at the school and university level, and research into environmentally friendly products and lifestyles for future generations.

After all, it is the thinking and behavior of people, as well as the development of their knowledge, that can make the most important difference in creating a sustainable society. «

► **Prof. Dr. István Láng,**

Member of the Hungarian Academy of Sciences,
Former Member of the World Commission on
Environment and Development
Budapest, Hungary
www.mta.hu

Henkel in Hungary

Henkel products were first produced in Hungary in 1927. Henkel sold Persil, Henko, Ata, Imi and P3 products in Hungary through Persil-Werke G. Voith until 1945. In 1987, Henkel Austria and three Hungarian partners established Henkel Budapest – Hungary's first joint venture with a western majority shareholder. In Hungary today, Henkel Magyarország produces and sells laundry detergents and household cleaners, cosmetics and body care brands, consumer and craftsmen adhesives, and adhesives, sealants and surface treatments for the industrial sector.

Sites

Henkel has four production sites in Hungary.

Employees

779 people work for Henkel in Hungary.

Sales in 2005

Henkel generated sales of 139 million euros in Hungary in 2005.

Major brands

- ▶ **Laundry & Home Care:** Biopon, Bref, Clin, Opti, Persil, Perwoll, Pur, Silan, Sofix, Somat, Tomi Kristály
- ▶ **Cosmetics/Toiletries:** Brillance, Fa, Gliss Kur, Natural & Easy, Palette, Schauma, Taft, Vademecum
- ▶ **Consumer and Craftsmen Adhesives:** Ceresit, Makroflex, Metylan, Pattex, Pritt, Thomsit
- ▶ **Henkel Technologies:** Adhesin, Bonderite, Hysol, Liofol, Loctite, P3, Technomelt, Teroson

Further information

www.henkel.hu

BIOPON

TOMI
KRISTÁLY

Fa

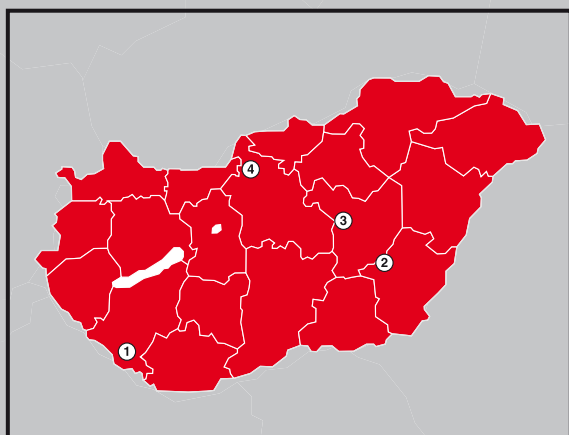
Palette

Ceresit

LOCTITE

Thomsit

Bonderite



Barcs	①
Körösladány	②
Szolnok	③
Vác	④

Well-positioned for the future

Henkel has been operating in a difficult business environment for years now. Moreover, cost pressures from low-wage countries have been steadily increasing. To secure its long-term competitiveness, Henkel has been adjusting to these structural changes at an early stage by reorganizing and closing production sites and streamlining its administrative structures. As a result, it will shed about 3,000 jobs in Europe and North America by the end of 2006. Most of the necessary adjustments have already been initiated and discussed with the employees.

Employee representative bodies were involved early on in the determination and implementation of the reorganization measures. The aim is to find socially reconcilable solutions and avoid dismissals due to company restructuring. This is supported by various activities adapted to site-specific situations.

► As a result of joint efforts, 214 of the 298 jobs at the Hannover site in Germany were saved instead of the originally planned 100. A package of measures jointly formulated by the works council and the company management included more flexible machine and facility operating hours, the introduction of a 40-hour week without additional compensation, a voluntary three-year salary freeze for managerial staff, and cutbacks in payments over and above those covered by the collective wage agreement.

Since the implementation of the current measures, which will run until the end of 2006, 77 employees have left the Hannover site. Of these, 58 went into full or partial retirement, 6 were transferred to Henkel in Düsseldorf-Holthausen, and 11 have accepted severance pay.

► In Brampton, Canada, production was discontinued at the end of 2005. Between July and December, a total of 141 jobs were eliminated. Individual consultations, workshops and courses were offered to support the employees to find new work and cope with the situation. Eleven employees took early retirement, and 44 found new jobs before the end of the year.

► Production was discontinued in Reims, France, at the end of 2005. A total of 169 employees were affected. As the site is located in an economically weak region, Henkel is cooperating until June 2007 with a job placement agency to provide the employees with support in looking for new jobs. The aim is to find jobs for all of the employees, and to find work for 80% of them in the first 6 months of 2006. Six have already transferred to other Henkel sites, and another 10 have been hired by other companies. A total of 52 employees went into early retirement at the end of 2005.

that can be grasped by employees at all levels, and increasing understanding of the Company's strategic direction. In this area, employee involvement clearly increased.

After the second survey, managerial staff launched some 600 targeted projects worldwide, aimed at solving specific problems. The third survey, which was originally scheduled for late 2005, was therefore postponed to allow sufficient time for the projects to be implemented and their effectiveness to be assessed.

In addition to the management survey, Henkel carries out surveys of non-managerial employees, which are implemented individually, depending on the needs and country.

Social commitment

Henkel's social commitment is firmly embedded in its corporate values and in its corporate history. All aspects of Henkel's social commitment that go beyond its business interests – corporate citizenship – are grouped under the “Henkel Smile” program.

► Community Involvement

Through its community involvement, Henkel supports projects at almost all Henkel sites all over the world. The Company supports projects focusing on schools, education, sport, art, culture, the environment, health and science.

► Corporate Volunteering – MIT Initiative

Henkel's employees and pensioners perform volunteer work to benefit society. Through the MIT Initiative (Make an Impact on Tomorrow), Henkel supports this commitment as required with in-kind, product and financial donations, and by allowing employees to take paid time off from work. Assistance is provided for MIT community projects and children's projects.

► Henkel Friendship Initiative

The Henkel Friendship Initiative, established in 2003, is a non-profit organization which helps to provide aid quickly and unbureaucratically throughout the world. It enables Henkel to deliver financial and in-kind assistance directly where it is needed, especially in response to major disasters.

► Corporate Donations

Through corporate Donation Management, Henkel promotes philanthropic projects all over the world, concentrating on social issues, schools and education, science, art and culture, health, sport, and the environment. Political parties are not supported.

In 2005, Henkel was recognized for its long-term support of the international student organization “Students In Free Enterprise” (SIFE). SIFE promotes social responsibility, entrepreneurship, and helping others to help themselves.



In recognition of Henkel's activities grouped under the Henkel Smile program, the government of North Rhine-Westphalia awarded Henkel the “ENTERPreis 2005” in the social commitment category. With the prize, the Ministry of Economic Affairs and Labor recognized the integration of social commitment into the Company's sustainability strategy.

The total amount spent by Henkel on corporate citizenship activities in 2005 amounted to some six million euros. This included donations for the victims of the Indian Ocean tsunami, Hurricane Katrina in the USA, and the earthquake in Pakistan. In addition, Henkel wants to link its sponsoring activities more closely with its social commitment and to encourage its sponsoring partners to join it in supporting social projects. ⓘ

Dynamic growth: MIT Initiative

Through the MIT initiative (Make an Impact on Tomorrow), Henkel has been supporting its employees' commitment to charitable projects since 1998. The employees themselves ensure that all resources are used transparently. Up to now, Henkel has supported 3,383 projects in nearly 100 countries with in-kind, product and financial donations, and by allowing employees to take paid time off from work.

The MIT community projects are selected by local juries and supported by the local Henkel companies. Since 2001, in addition to these, Henkel has sponsored children's projects centrally by donating one million euros annually. 863 MIT children's projects have been supported up to now, including 245 in 2005 alone.

Henkel Friendship Initiative: Prompt aid and long-term measures

A wave of natural disasters hit many regions of the earth in 2005. The Henkel Friendship Initiative provided prompt and unbureaucratic aid for those affected. As well as immediate help, however, the Henkel Friendship Initiative promotes long-term measures. Together with Henkel companies in the affected countries, Henkel provides active assistance in rebuilding shattered communities, such as those devastated by the tsunami in the Indian Ocean.

Following immediate aid measures amounting to one million euros and about 1,000 hours of paid time off from work for employees involved, another 108,000 euros were raised by Henkel employees, pensioners, others, and members of the Henkel family. Some of this money was used to purchase sewing machines for women, thus enabling them to earn money to support their families. In addition, the Agape Grace Children's Home on the outskirts of Chennai, India, was enlarged so that it could take in 30 tsunami orphans. To provide children and young people with job prospects, Henkel also purchased 20,000 square meters of land in a seriously affected region south of Chennai. The foundation stone of a vocational school was laid on the site on December 26, 2005, exactly one year after the disaster.

The Henkel Friendship Initiative donated about 80,000 euros for the victims of the earthquake in Pakistan and India.

Henkel USA contributed 120,000 euros and in-kind donations worth 200,000 euros to the American Red Cross to provide immediate assistance to the victims of Hurricane Katrina. In addition, Henkel USA supported its employees' commitment through some 500 hours of paid time off. Henkel employees in the USA donated 70,000 euros, which Henkel KGaA doubled with a further 70,000.



The Henkel Friendship Initiative provided immediate aid for the husband (right) of Lillian Tan Li Lin, an employee of Henkel Malaysia's Loctite Division. His fishing boat was carried away when the tsunami struck. Abdul-Hakim Zakaria, Henkel Malaysia, presented him with a check for 2,500 euros.

International Donation Management

Henkel invests in education and knowledge through worldwide initiatives to support students and trainees. These include student exchange projects, language courses for immigrant children, and prizes for universities. Henkel supports the education of young scientists through the Dr. Jost Henkel Foundation. Through the 2005 Global Challenge Project, students from New Zealand and South Africa, whose parents work for Henkel, were awarded grants. Students from other continents can also apply for scholarships – especially if they are otherwise unable to finance their studies. In the medium term, the aim is to raise the proportion of scholarships awarded internationally to 25 percent.

Two examples of local support for educational institutions:

- ▶ To help the survivors of the Chechen rebel attack on the school in Beslan, Henkel Russia supported the construction of a trauma center financially and with in-kind donations.
- ▶ Henkel Bulgaria donated 8,000 euros to restore two school buildings in the Montana region which were destroyed by floods in the summer of 2005.

Contribution to global development goals

In 2000, the United Nations defined eight Millennium Development Goals, which were to be achieved by the year 2015. Through the MIT Initiative, Henkel makes many small but important contributions that go beyond its business interests, helping to achieve these goals especially in developing countries and emerging economies, where more than half of the MIT projects are carried out.

The projects initiated by employees and pensioners cover a wide range of themes and all the Millen-

ium Development Goals. For example, 43 percent of the MIT children’s projects were aimed at improving primary education. The projects helped finance the expansion of schools, supply teaching materials and, by providing scholarships, encourage school attendance. Twenty-one percent of the MIT children’s projects contributed to overcoming poverty and hunger. They included projects to help street children and orphans, provide meals, and extend drinking water networks.

MIT children’s projects as they relate to the United Nation’s Millennium Development Goals

Eight Millennium Development Goals	MIT children’s projects in 2005
1. Eradicate extreme poverty and hunger	Argentina: Support for providing meals and a dining room for children in Buenos Aires Bolivia: Help for street children in Llojeta Peru: Establishment of a care center for children in Corazon Philippines: Support for the Bethlehem House of Bread in Baliuag South Africa: Sponsorship for the Tamaho children’s home in Alrode
2. Achieve universal primary education	China: Establishment of a central primary school in Lantian Chile: Support for reading and writing skills of blind children in Vicuña Mackenna Chile: Support for the teaching of mathematics and science in Las Condes Argentina: Support through provision of school books for schools in Buenos Aires
3. Promote gender equality and empower women	Madagascar: Support for a classroom for young women in Amboropotsy Mexico: Help for pregnant women in San Luis Potosí Kenya: Support for the Ngao Amani Women Group – HIV/AIDS orphans – in Ngao and Kipao
4. Reduce child mortality	Albania: Support for the children’s hospital in Tirana Argentina: Improvement of hygienic conditions in the children’s hospital in Beccar Bulgaria: Support for the children’s hospital in Sofia Estonia: Support for the children’s hospital in Tartu Serbia: Support for the children’s ward in the municipal hospital in Kruševac
5. Improve maternal health	Germany: Help for mothers with postnatal depression in Dortmund Belarus: Organization and supervision of mother and child vacations for Chernobyl children in Italy Ukraine: Support for the Institute for Pediatrics, Obstetrics and Gynecology in Kiev
6. Combat HIV/AIDS, malaria and other diseases	Argentina: Support of an HIV/AIDS prevention project in Buenos Aires Colombia: Help for operations on disfigured children in Bogotá Peru: Support for a center for children with tuberculosis in Lima Slovenia: Support for children with cerebral palsy in Maribor Thailand: Support for the Baan Gerda children’s village in Lopburi
7. Ensure environmental sustainability	Bangladesh: Support for the purchase of water filters for children in Mollahat Tanzania: Construction of a well beside a school to control epidemics in Msongozi Peru: Financing drinking water mains in Corazon USA: Support for materials for the teaching of geography, politics, and environmental sciences in Elgin, Illinois
8. Develop a global partnership for development	Brazil: Support for training courses for nurses in São Paulo Italy: Support for computer-aided speech therapy for disabled children in Milan Congo: Financing for a computer room for 200 students in Bakavu Turkey: Support for at least eight years of schooling for girls in Izmir



Making children's dreams come true

Many children dream of someday sitting in the cockpit of an aircraft. For the boys and girls of the Gerda Henkel Children's Day Care Center in Düsseldorf-Holthausen, this dream came true. On December 21, 2005, the children enthusiastically took possession of a four-meter-long wooden aircraft. Henkel had the aircraft built with the idea that, after it had been used for the photos for the Sustainability Report (see the photos above, below and right), it could be given

to the Gerda Henkel Children's Day Care Center. Eleven children were present in the photo studio: Sarah Beyers, Christina Gillitzer, Yesim Karakaya, Mustafa Karakaya, Mieke Krupp, Nina Nguyen, Liliane Schneider, Anton Schüle, David Stankic, Laura Szepanski, and Anica Urhan.

The Gerda Henkel Children's Day Care Center is run by Arbeiterwohlfahrt Familienglobus GmbH and is financially supported by Henkel KGaA. Children between four months and ten years of age can be looked after all day at the Center.



Production sites worldwide

Europe

Austria		Hemel Hempstead		Russia	
Vienna	■ ■ ■ ■ ■	Leicester	■ ■ ■ ■ ■	Engels	■ ■ ■ ■ ■
Estonia		Newark	■ ■	Kolomna	■ ■ ■ ■ ■
Pärnu	■ ■	Winsford	■ ■ ■ ■ ■	Perm	■ ■ ■ ■ ■
Finland		Greece		Syzran	■ ■ ■ ■ ■
Oitti	■ ■ ■ ■ ■	Metamorfossi (Athens)	■ ■ ■ ■ ■	Tosno	■ ■ ■ ■ ■
Valkeakoski	■ ■ ■ ■ ■	Hungary		Serbia-Montenegro	
France		Barcs	■ ■ ■ ■ ■	Kruševac	■ ■ ■ ■ ■
Arnage	■ ■ ■ ■ ■	Körösladány	■ ■ ■ ■ ■	Slovenia	
Bruges	■ ■ ■ ■ ■	Szolnok	■ ■ ■ ■ ■	Maribor	■ ■ ■ ■ ■
Châlons-en-Champagne	■ ■ ■ ■ ■	Vác	■ ■ ■ ■ ■	Spain	
Cosne-sur-Loire	■ ■ ■ ■ ■	Ireland		Abrera (Barcelona)	■ ■ ■ ■ ■
Louviers	■ ■ ■ ■ ■	Ballyfermot (Dublin)	■ ■ ■ ■ ■	La Coruña	■ ■ ■ ■ ■
Nemours	■ ■ ■ ■ ■	Tallaght (Dublin)	■ ■ ■ ■ ■	Malgrat	■ ■ ■ ■ ■
Royaucourt-et-Chailvet	■ ■ ■ ■ ■	Italy		Montornés	■ ■ ■ ■ ■
Germany		Caleppio di Settala (Milan)	■ ■ ■ ■ ■	San Adrián	■ ■ ■ ■ ■
Bopfingen	■ ■ ■ ■ ■	Casearile (Milan)	■ ■ ■ ■ ■	Santa Perpétua	■ ■ ■ ■ ■
Düsseldorf-Holthausen	■ ■ ■ ■ ■	Cerano	■ ■ ■ ■ ■	Alcalá de Guadaíra (Seville)	■ ■ ■ ■ ■
Genthin	■ ■ ■ ■ ■	Ferentino	■ ■ ■ ■ ■	Sweden	
Hannover	■ ■ ■ ■ ■	Lomazzo	■ ■ ■ ■ ■	Gothenburg	■ ■ ■ ■ ■
Heidelberg	■ ■ ■ ■ ■	Parma	■ ■ ■ ■ ■	Möln dal	■ ■ ■ ■ ■
Heidenau	■ ■ ■ ■ ■	Zingonia (Bergamo)	■ ■ ■ ■ ■	Switzerland	
Herborn-Schönbach	■ ■ ■ ■ ■	Luxembourg		Erlinsbach	■ ■ ■ ■ ■
Krefeld	■ ■ ■ ■ ■	Foetz	■ ■ ■ ■ ■	Turkey	
Leverkusen	■ ■ ■ ■ ■	Poland		Cayırova	■ ■ ■ ■ ■
Porta Westfalica-Neesen	■ ■ ■ ■ ■	Ciechanów	■ ■ ■ ■ ■	Izmir	■ ■ ■ ■ ■
Sankt Augustin	■ ■ ■ ■ ■	Dzierżoniów	■ ■ ■ ■ ■	Tuzla	■ ■ ■ ■ ■
Unna	■ ■ ■ ■ ■	Racibórz	■ ■ ■ ■ ■	Ukraine	
Viersen-Dülken	■ ■ ■ ■ ■	Stąporków	■ ■ ■ ■ ■	Balakleya (Kharkiv)	■ ■ ■ ■ ■
Wassertrüdingen	■ ■ ■ ■ ■	Wrząca	■ ■ ■ ■ ■	Vyshgorod (Kiev)	■ ■ ■ ■ ■
Willich	■ ■ ■ ■ ■	Romania			
Great Britain		Pantelimon (Bucharest)	■ ■ ■ ■ ■		
Belvedere	■ ■ ■ ■ ■				
Coventry	■ ■ ■ ■ ■				
Dunstable	■ ■ ■ ■ ■				

Africa/Middle East

Algeria		Kenya		South Africa	
Aïn Témouchent	■ ■ ■ ■ ■	Nairobi	■ ■ ■ ■ ■	Wadeville (Johannesburg)	■ ■ ■ ■ ■
Chelghoum Laïd	■ ■ ■ ■ ■	Lebanon		Tunisia	
Réghaïa (Algiers)	■ ■ ■ ■ ■	Beirut	■ ■ ■ ■ ■	Sfax	■ ■ ■ ■ ■
Egypt		Mauritius		Mornag (Tunis)	■ ■ ■ ■ ■
6th of October City	■ ■ ■ ■ ■	Terre Rouge (Port Louis)	■ ■ ■ ■ ■	United Arab Emirates	
Port Said	■ ■ ■ ■ ■	Saudi Arabia		Umm Al Quwain	■ ■ ■ ■ ■
Iran		Jeddah	■ ■ ■ ■ ■		
Ghazvin	■ ■ ■ ■ ■	Riyadh Central	■ ■ ■ ■ ■		
Saveh	■ ■ ■ ■ ■	Riyadh Industrial City	■ ■ ■ ■ ■		
Israel					
Haifa	■ ■ ■ ■ ■				

Regions

Worldwide responsibility

Henkel works continuously throughout the world to improve safety, health and environmental protection, develops its employees, and assumes social responsibility. This section describes these activities at a number of individual sites and the measures and programs they use to respond to the challenges in their regions and align themselves to local needs.

The implementation of the Group-wide standards is regularly checked by means of internal audits. The central audit program covered 22 sites in 2005. Alongside various best-practice examples, a need for improvement was identified at a number of sites in relation to the execution of risk analyses and the storage of dangerous substances. The auditors found that there was an urgent need to take action at two sites to remedy shortcomings in the handling of readily flammable liquids. Appropriate improvement measures were immediately initiated.

Overview of the sites

Henkel has 176 production sites in 52 countries. The regional maps on pages 30 and 31 provide an overview. The Company also has administrative, research and marketing sites in many countries, as well as warehouses and distribution centers.

To further improve the efficiency of production structures throughout the Group, Henkel again reviewed existing capacities during the past year and realigned individual businesses. Three sites were sold during the year under review, and production was discontinued at another 14 sites.

Eight new sites were added through acquisitions. Where necessary, newly acquired companies are brought up to the standards of Henkel.



Science and technology play a key role in social change. To encourage students to study these subjects, Henkel established the Hugo Henkel Prize, worth 22,500 euros, offered for the first time in the administrative district of Düsseldorf in 2005. Teaching concepts that have already been implemented at secondary schools, are firmly anchored in the school's teaching goals and demonstrably improve the level of education are considered.

Europe

Henkel CEE Academy

The Henkel CEE Academy was established by the Company in 2001 to harmonize human resources development measures for its employees in the Henkel Central Eastern Europe (CEE) region and ensure the implementation of uniform standards. Prior to this, each country had been responsible for its own training and continuing education activities. With the exception of sales training, there were very few examples of internationally coordinated human resources development programs.

In 2001, the Academy was introduced step by step in the individual countries. Since 2005, employees from 30 CEE countries have been able to participate in either local courses or international seminars. The range of available seminars has been harmonized with Henkel's central training program and includes obligatory training modules as well as individually tailored learning modules. The objective is two-fold: to develop operational expertise and to foster intercultural skills. Henkel has thus established a standardized human resources development program, designed to meet the needs of the region, which at the same time incorporates and expands the instruments used throughout Henkel for human

resources development and steering. Furthermore, the Henkel CEE Academy encourages the development and strengthening of common values and a cross-organizational corporate culture.

Germany: Career/family balance

Henkel expects each individual employee to demonstrate a high level of performance, flexibility, and ability to work under pressure. The Company's German "Social Services" units offer professional support in achieving a healthy career/family balance. In specific cases, they can help with part-time work arrangements, find children's day care facilities, and advise on applications for stays at mother-and-child wellness centers.

Conflicts in the workplace are also an important theme. The social workers try to pinpoint the sources of the conflicts and work with all persons involved to arrive at mutually acceptable solutions. The "Social Services" units also maintain contact with a network of qualified advisors and therapists.

France: Excellent logistics

Henkel Technologies produces industrial adhesives, predominantly water-based, at its site in Châlons-en-Champagne. For delivery to customers, some 8,200 standardized 1,000-liter containers used to be needed each year. In 2004, a project aimed at optimizing the site's logistics was launched. For customers for whom this was technically possible, the amount of adhesive in each container was increased by 10 percent. In fact, acting upon Henkel's advice, some customers decided to dispense with containers completely and switch to delivery by tank truck. A total of 500 containers fewer are now needed, thus saving about 20 metric tons of plastic and 10 tons of metal each year. Optimization of handling, warehousing and transport logistics has resulted in overall savings of approximately 60,000 euros annually.



Henkel received the Sodalitas Social Award for its social commitment in Italy. The Company is one of the twelve Italian companies most active in corporate social responsibility (CSR). The Sodalitas Foundation acknowledged Henkel for the commitment of its employees within the framework the MIT Initiative, as well as its support of Sodalitas' work to promote the development of CSR in Italy.

In May 2005, the French Ministry of the Environment recognized Châlons with the "Label de la Semaine du Développement Durable" [sustainability week award].

Serbia and Montenegro: In-house steam supply

By installing its own steam generation facility, Henkel was able to cut annual carbon dioxide emissions from its Kruševac site by 20 percent. This involved the installation of a steam boiler, a hot water boiler, and a feed-water conditioning system. A new network of steam, hot water and condensate recycling pipelines was also laid. The change in infrastructure and optimization of the building heating system will permit the site to save more than 200,000 euros a year.

Romania: PR Award for Excellence 2005

To mark its tenth anniversary in Romania, Henkel initiated the "Together for a Cleaner Danube Delta" project. The aim of the project is to save the flora and fauna threatened by environmental pollution in the Danube Delta. Henkel received the "Golden PR Award for Excellence 2005" in the category "Non-commercial campaigns" for this initiative.

Russia: Optimized compressed air generator

The Perm site's existing compressed air generator has been optimized. This has enabled the facility to cut its electricity consumption by about 25 percent, corresponding to some 2,500 metric tons of carbon dioxide. Thanks to the reduced consumption of compressed air and energy, together with lower maintenance costs, the site expects to cut its annual costs by more than 300,000 euros.

Africa/Middle East

South Africa and Kenya: Campaigns against HIV/AIDS

In many African countries, HIV/AIDS has become one of the greatest social disasters in the history of the continent. The Henkel sites in South Africa and Kenya are also affected by this problem. Henkel South Africa has responded by introducing an HIV/AIDS policy, which was developed in collaboration with health officials and representatives of local employee organizations, trade unions, and the non-governmental organization Khanya Family Centre. The program implemented at the Alrode site focuses on prevention by raising employee awareness. Education about how AIDS is transmitted is also aimed at employees who work with HIV-positive people.

Similar awareness-raising measures are in place at Henkel in Nairobi, Kenya. Events organized at the site include discussions on the status and spread of the disease and lectures by doctors on prevention.

In addition to emphasizing preventive measures, both sites have clearly voiced their policy of non-discrimination and non-stigmatization.



In 2005, Henkel was recognized in India with the Government of Pondicherry's Environmental Protection and Conservation Award for 1999-2003 for its successful initiatives for sustainability and social responsibility. Honorable Chief Minister N. Rangaswamy, presented the award to Mr. A. Satishkumar (second from left), Managing Director of Henkel India.

Tunisia: Gratifying accident figures

Henkel Alki produces laundry detergents at its Mornag site in Tunisia. Besides the approximately 130 Henkel employees, workers on the site include staff of contractors commissioned with a variety of tasks, including maintenance work. They, too, are obliged to comply with safety precautions and are intensively involved in the site's safety courses. Over the past three years, accidents involving employees of both Henkel and contractors have thus been reduced to one quarter.

Asia/Pacific

Occupational health recommendations in Asia

To implement occupational health standards, Henkel Technologies provided consulting services at eight Asian sites. A two-member team – a specialist in occupational medicine from Henkel in Düsseldorf and the regional manager for safety, health and environmental protection – advised sites in China, India, Indonesia, Korea and Thailand about health risks, prevention and medical care.

» Predict the future by creating it «

» Mexico today is undergoing an in-depth transition: Its economy is rapidly opening to the world and receiving large amounts of foreign direct investments. Mexico has made clear progress in environmental matters, though it is still necessary to fine tune the regulatory framework. Furthermore, Central and Northern Mexico urgently need to use their scarce water resources more rationally. However, several very serious social problems threaten Mexico: uncertainty in terms of public safety, unemployment, and the lack of a political consensus on the nation's most important political reforms.

For its part, Henkel can make a very significant contribution to resolving these challenges, meeting Mexico's diverse social and economic needs through its activities:

- ▶ Contributing to innovation, transferring knowledge and technology in safe, environmentally friendly products, and making better use of non-renewable resources.



- ▶ Offering employees fair and safe working conditions, improving their quality of life, and contributing to the development of human capital.
- ▶ Continuing with the business ethic that has characterized the company, respecting human rights and having a positive impact, through example, on the communities in which the company is located.
- ▶ Creating value and reinforcing the reputation of the company around the world, while stimulating growth in its communities, acting not just as an inhabitant but as a citizen of these communities.
- ▶ Improving the environmental performance of its products throughout their life cycle, promoting integrated solutions and the rational use of non-renewable resources. «

▶ **Prof. Alejandro Sosa,**
Executive Director, Global Environment
Management Initiative (GEMI)
Mexico City, Mexico
www.gemi.org.mx

Henkel in Mexico

Henkel has had a presence in Mexico since 1959. In 1964, Henkel acquired a shareholding in Onyxmex, through which it sold various products especially fatty alcohol sulfates. Henkel expanded its activities in 1988 by acquiring Gemisa, a producer of metal chemicals. Mexico is Latin America's second largest market for laundry detergents. In 2000, Henkel acquired a participation in the laundry detergent producer Salgado and, the following year, it acquired Colgate-Palmolive's heavy-duty detergent and soap business in Mexico. Henkel today produces and sells in Mexico laundry detergents and household cleaners, cosmetics and body care brands, consumer and craftsmen adhesives, and adhesives, sealants and surface treatments for the industrial sector.

Sites

Henkel has four production sites in Mexico.

Employees

1,380 people work for Henkel in Mexico.

Sales in 2005

Henkel generated sales of 274 million euros in Mexico in 2005.

Major brands

- ▶ **Laundry & Home Care:** 1-2-3, Mas, Viva
- ▶ **Cosmetics/Toiletries:** Citre Shine, Dial, Smooth & Shine
- ▶ **Consumer and Craftsmen Adhesives:** Fester, Pritt, Resistol, Sista, Tangit
- ▶ **Henkel Technologies:** Adhesin, Bonderite, Hysol, Liofol, Loctite, P3, Technomelt, Teroson

Further information

www.henkel.com.mx



Ecatepec de Morelos	①
Naucalpan de Juárez,	
Edo. de México	②
Salamanca	③
Toluca	④



The two-day program included an assessment of the medical equipment, evaluation of the suitability of emergency measures, and optimization of care for employees in acute situations. Close collaboration between the sites and the local medical institutions is of the essence here. Doctors and hospitals were therefore involved in the program to ensure effective cooperation. The implementation of occupational health standards not only ensures good medical care, but raises employee motivation.

India: HIV/AIDS education

Henkel's concern regarding HIV/AIDS extends beyond Africa. In India, breaking through the taboo that surrounds the disease is one of the major challenges. Henkel is a partner of the SNS Foundation, a non-governmental organization in India offering a number of services. At the Henkel site in Gurgaon, for example, it organizes health courses and a weekly consultation hour, from which the local population also benefits.

India: Centre of Excellence in Environment Management

Henkel India and the Institute of Management Technology (IMT), one of the ten leading business schools in India, have established the "Centre of Excellence in Environment Management" in Ghaziabad, New Delhi, where future managers can be made aware of and trained in environmental protection. The aim is to draw attention to environmental management in the business world and increase public awareness of the environment through special projects. The Centre will also function as a platform and discussion forum for environmental management topics in an Indian and a global context.



In Brazil, Henkel continuously works to raise awareness of environmental protection, health, and accident prevention among its employees, their families, and their neighbors. The sites sometimes employ unconventional methods. The fashion show "From trash to luxury" in Itapevi, for example, makes use of creative works of art to show what is disposed of each day and make people aware of recoverable materials.

The Americas

USA: Commitment to supplier diversity

It is not easy for small, local firms to become suppliers to a major company. Establishing the first contact with the company can often be an insurmountable obstacle, even if the firm's products and services are innovative and competitive. The purchasing departments of Henkel companies in North America are therefore committed to ensuring supplier diversity and doing business with small, local suppliers. Through these efforts, Henkel sites also contribute to economic development in their communities.

In 2004, a team of purchasers was set up to pool the experience of the various Henkel companies and areas of business in the USA. At Dial, for example, one factor in its choice of a supplier is the involvement of its staff in organizations that support women and minority owned businesses. Dial employees establish links with these organizations, thus creating new opportunities for potential suppliers to contact companies.

This commitment is appreciated. Cathy Pilato, Purchasing Manager – Plastics Procurement at Dial, for example, was honored for her work with the

Women's Business Enterprise Council (WBEC) West. As a WBEC-West Board member, she was active in the committee that awards WBEC certifications to women-owned businesses. These certifications help such businesses to qualify as suppliers for larger corporations.

USA: Continuous improvements in occupational safety

All Henkel companies pursue various programs aimed at raising employee awareness of occupational safety. These programs are tailored to the situations and employee needs at specific sites.

At the Henkel site in Olean, New York, for example, daily safety talks take place before the start of each shift. Henkel takes a broad view of its responsibilities, and the talks cover not only safety issues and current accident issues at work, but potential dangers in the home. The program has already paid off: The number of occupational accidents at the Olean site went down from 12 in 2004 to 4 in 2005.

In Oak Creek, Wisconsin, Henkel decided to create safety teams. Each employee is assigned to a team, each team having a different area of responsibility. The teams' tasks include monitoring and analyzing safety aspects of work procedures, investigating accidents, assuring compliance with safety regulations, and developing recommendations for improvements. The teams also receive training and meet regularly to share their experiences.

Henkel's occupational safety improvements have not gone without notice outside the Company. The Seabrook site in New Hampshire, for example, was awarded the "Star Among Stars" Bronze Award of the Occupational Safety and Health Administration (OSHA) in May 2005, for its low accident rate. Seabrook reduced the number of accidents from one in 2004 to zero in 2005.

USA: Safety and equal opportunities in the workplace

For Dial Corporation, which joined Henkel in March 2004, equal career opportunities and safety in the workplace have long been fundamental principles. In 2000, to reduce the number of injuries to production employees typically caused by lifting and carrying, Dial introduced physical aptitude tests for job applicants. A seven-minute routine, simulating the physical demands of a work shift, is used to determine whether applicants are capable of performing their future tasks safely. The results of the test speak for themselves. Since its introduction, the number of injuries has fallen by 80 percent.

In 2001, the U.S. Equal Employment Opportunity Commission (EEOC) raised an objection to this aptitude test. The test allegedly violated Title VII, the federal anti-discrimination law, as more men than women pass the test successfully. In February 2005, the U.S. District Court for the Southern District of Iowa ruled that the test does violate U.S. anti-discrimination law and, on September 29, 2005, ordered Dial to pay a total of 3.2 million U.S. dollars. Most of this sum is accounted for by plaintiffs' claims for loss of earnings. The EEOC's request for punitive damages was rejected by the jury.

Dial still feels that it has a duty to protect the health and ensure the safety of its employees in the workplace. As the job applicant test demonstrably resulted in fewer injuries, Dial is appealing the decision.

Indicators

Transparency

Henkel uses indicators Group-wide to identify potential improvements, steer actions, and monitor target achievement. They are also important as a compact and transparent means of informing the public of progress and performance. The published sustainability data are based on the environmental indicators of the European Chemical Industry Council, augmented by social and economic indicators.

A worldwide picture

The production-related data were determined at 158 Henkel sites in 52 countries. These sites were selected on the basis of criteria that include their production volumes, the quantities and types of emissions, and the resources consumed. They account for 95 percent of the Company's worldwide production. Data from newly acquired companies are usually integrated two years after their acquisition.

Occupational accidents are registered using a globally uniform reporting system. The coverage extends to 92 percent of Henkel employees.

The data on lethal occupational accidents and on operational incidents relate to Henkel as a whole.

A comparable basis

Henkel is growing, as is the number of sites contributing data to the Group environmental indicators – from 104 in 2001 to 158 in 2005. Large acquisitions, in particular, lead to jumps in the figures. Acquisitions in 2004 – especially Dial and Sovereign Specialty Chemicals – resulted in an increase of about 20 percent in the production volume of Henkel.

To simplify interpretation of the indicators, hatching is used to clearly show the proportion attributable to acquired companies in 2004 and 2005. The index curve on the graphs shows the progress of

Employees by region

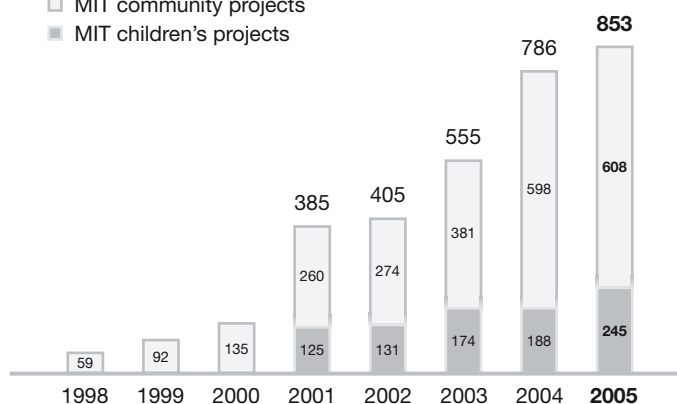
	2004	2005	in %
Germany (including apprentices*)	10,802	10,688	20.3%
Europe (excl. Germany)	17,736	17,628	33.5%
Africa/Middle East	5,154	5,415	10.4%
North America	6,772	7,271	13.8%
Latin America	4,325	4,208	8.0%
Asia-Pacific	6,411	7,355	14.0%
Henkel	51,200	52,565	100.0%

At the end of 2005, Henkel had 52,565 employees. Through acquisitions, the number of employees rose by some 2,450 during the year. Without the acquisitions, the number of employees would have decreased by 2.2 percent. Worldwide, 8,508 employees hold managerial positions. The share of women in management is about 24 percent.

* At the end of 2005, the German Henkel companies had 464 apprentices.

Number of social projects supported MIT (Make an Impact on Tomorrow)

- MIT community projects
- MIT children's projects

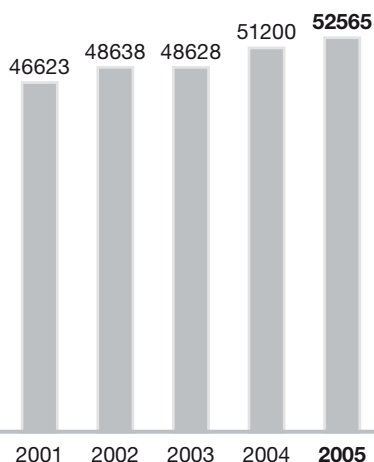


the indicators relative to the volume of production (per metric ton of product). It includes acquisitions. The base for the index curve (=100 percent) is the year 2001.

The indicators for the year 2001 have been calculated on the basis of Henkel's present activities, that is, without the chemical subsidiary Cognis and the stake in the joint venture company Henkel-Ecolab, both of which were divested in 2001.

Employees

as of December 31, 2005



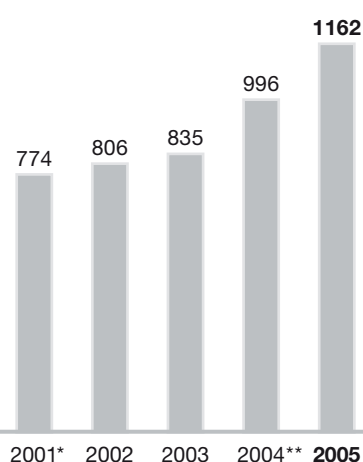
Sales

in million euros



Operating profit (EBIT)

in million euros



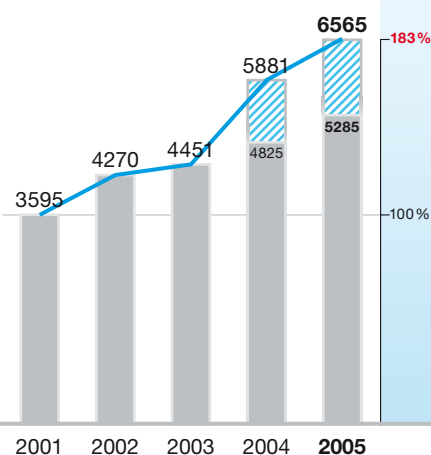
* Continued activities

** 2004 restated: The figures for 2004 have been restated owing to the retroactive application of IFRS 2 (Share-based Payment). In addition, actuarial gains and losses have also been set off in full against equity in accordance with IAS 19.93A, and this standard too has been applied retroactively effective January 1, 2004.

2004 comparable: Effective fiscal 2005, scheduled goodwill amortization ceases to be applicable. The figures for the years 2001 to 2004 have been adjusted accordingly to render them more readily comparable. Accounting changes implemented at Ecolab Inc., St. Paul, Minnesota, USA, have also been applied to the 2004 figures for better comparability. Further information about changes in the balance sheet accounting and valuation methods can be found in the notes on pages 69 and 70 of the 2005 Annual Report.

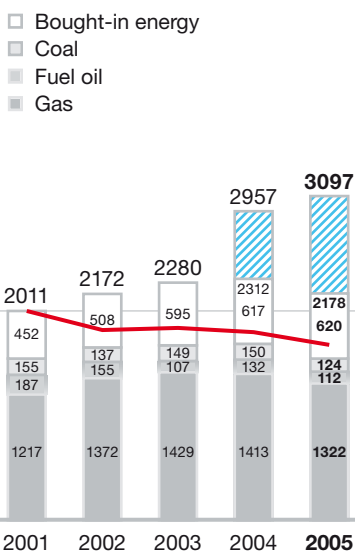
Production volumes

in thousand metric tons



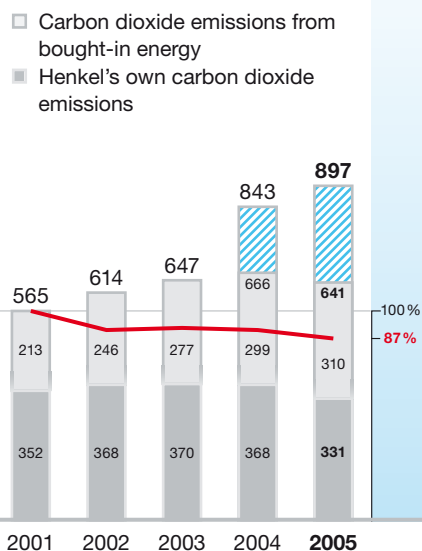
Energy consumption

in 1000 megawatt hours



Carbon dioxide emissions

in thousand metric tons



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

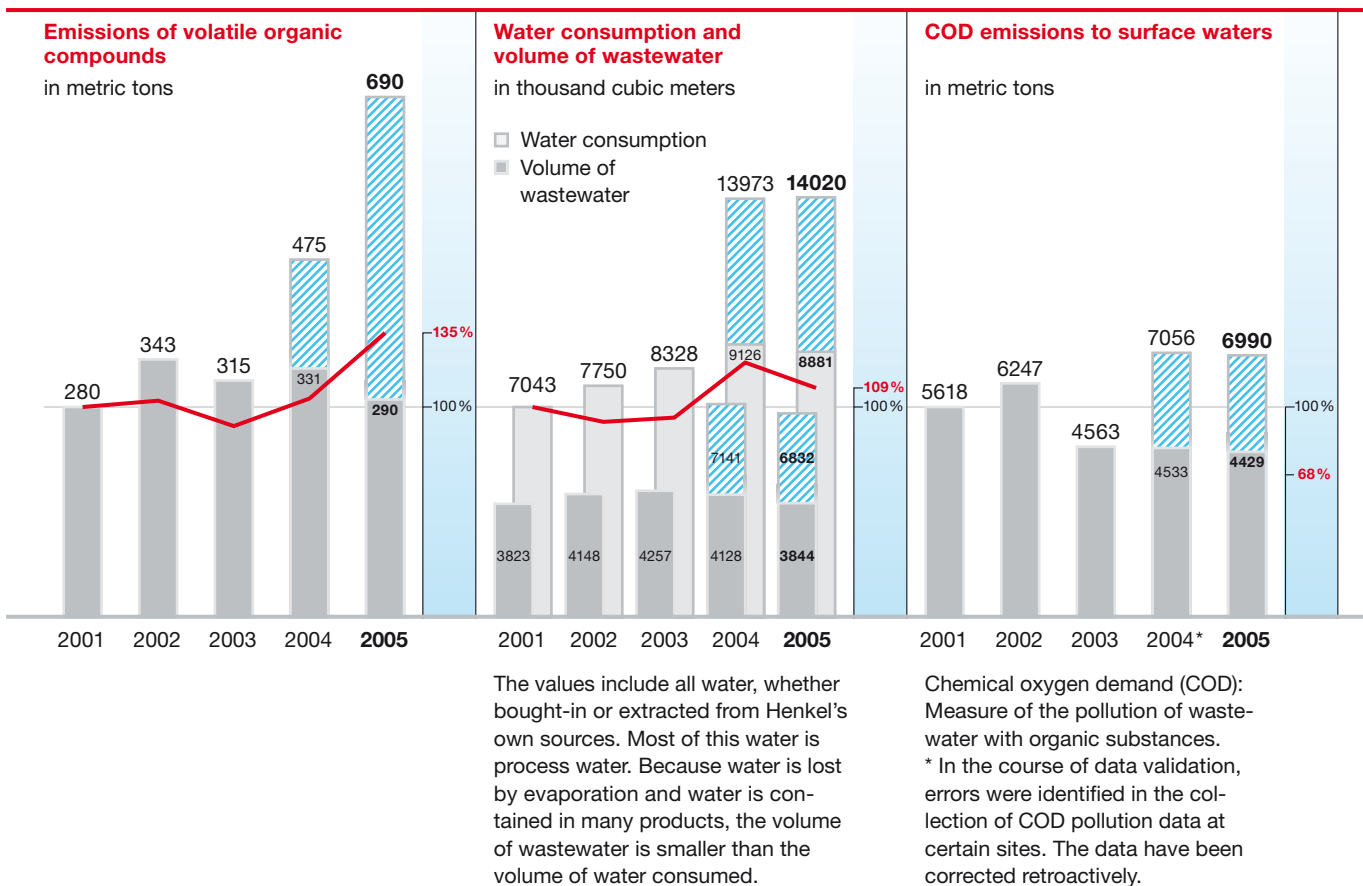
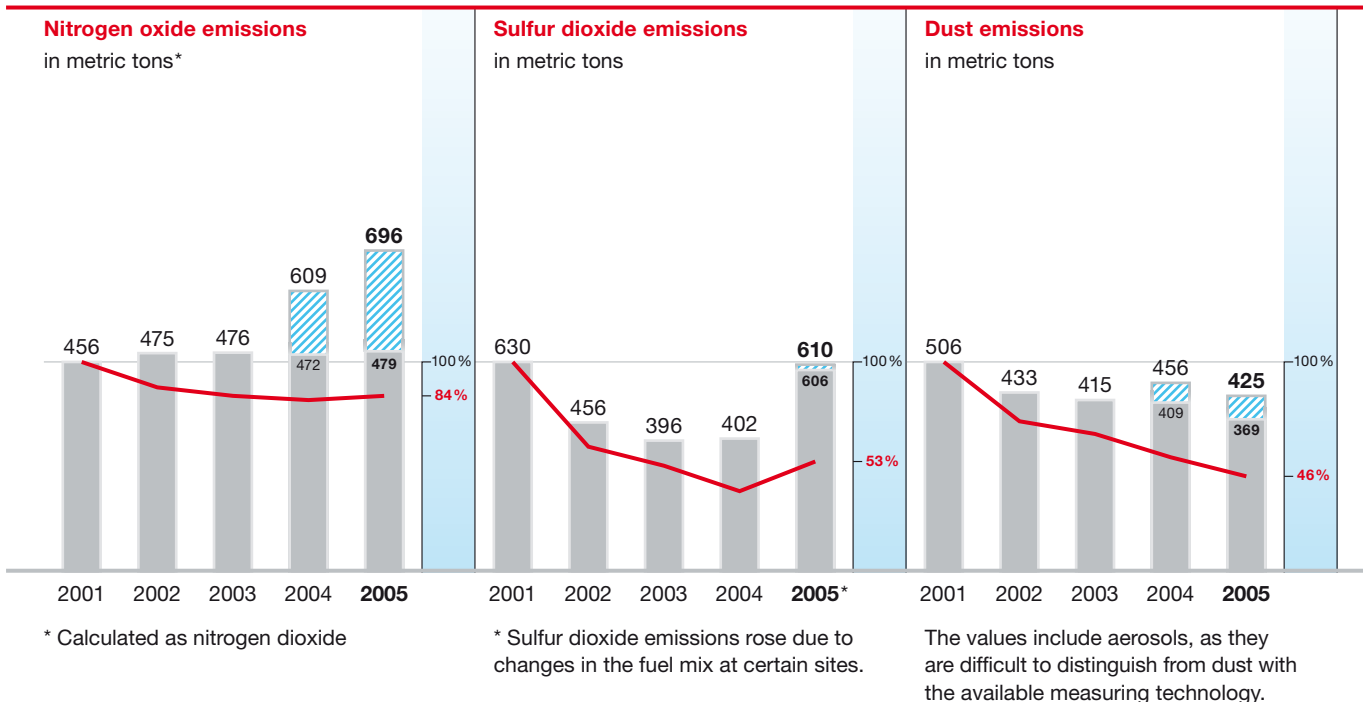
Energy generation accounts for almost all of the carbon dioxide released as a result of Henkel activities. The given values include carbon dioxide formed during the generation of bought-in energy at non-Henkel sites. The amount has been estimated with the help of generally accepted factors.



To simplify interpretation of the environmental indicators, hatching is used to show the proportion attributable to acquired companies in 2004 and 2005.



The index curve on the graphs shows the progress of the indicators relative to the volume of production (per metric ton of product). It includes acquisitions. The base for the index curve (=100 percent) is the year 2001.



To simplify interpretation of the environmental indicators, hatching is used to show the proportion attributable to acquired companies in 2004 and 2005.

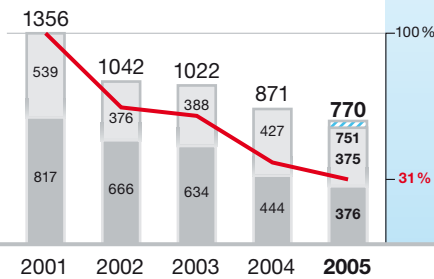


The index curve on the graphs shows the progress of the indicators relative to the volume of production (per metric ton of product). It includes acquisitions. The base for the index curve (=100 percent) is the year 2001.

Emissions of heavy metals to wastewater

in kilograms

- Lead, chromium, copper, nickel*
- Zinc

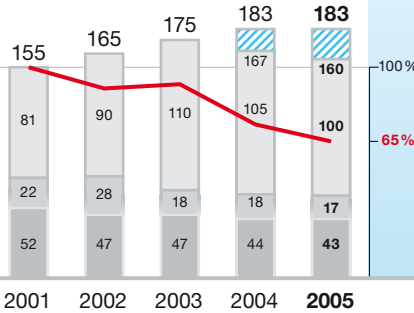


As zinc is usually less harmful than other heavy metals in terms of its effects on the environment, the zinc load is shown separately.
* Particularly hazardous heavy metals, such as mercury and cadmium, are not relevant.

Waste for recycling and disposal

in thousand metric tons

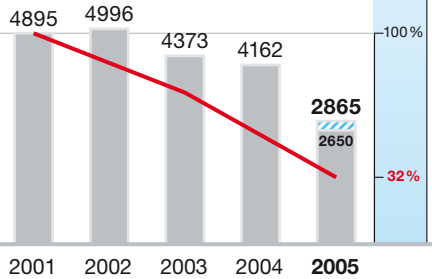
- Waste for recycling
- Hazardous waste for disposal
- Waste for disposal



“Hazardous waste for disposal” includes all kinds of waste that are classified as hazardous under the laws of the respective countries and the hazardous wastes listed in the Basel Convention of 1989. Because individual countries continue to extend their list of hazardous wastes, it is possible for the volume of hazardous waste to increase without any change having occurred in the waste situation within Henkel.

Consumption of chlorinated hydrocarbons

in metric tons

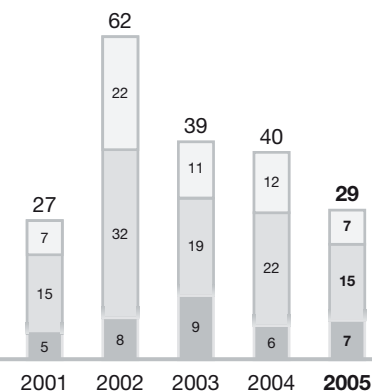


Methylene chloride, which is used in Great Britain in paint strippers, accounts for most of Henkel’s consumption of chlorinated hydrocarbons.

Complaints from neighbors

Number of complaints

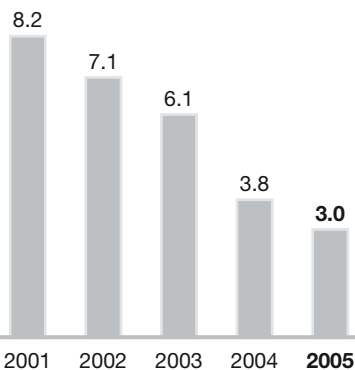
- Odor
- Noise
- Dust



The number of sites covered increased from 104 in 2001 to 158 in 2005.

Occupational accidents per 1,000,000 hours worked

At least one day lost*

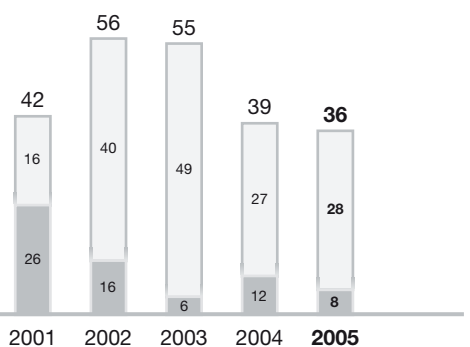


* Excluding commuting accidents
92 percent of Henkel employees were covered (excluding employees of contractors).

Serious occupational accidents

More than 50 days lost

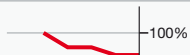
- Accidents during typical production activities
- Accidents while walking or moving around (e.g. stumbling)



Until 2001, data on serious accidents were only gathered from production sites. In 2002, a standardized worldwide reporting system was introduced for the entire Group. Considerably more employees are therefore now covered.



To simplify interpretation of the environmental indicators, hatching is used to show the proportion attributable to acquired companies in 2004 and 2005.



The index curve on the graphs shows the progress of the indicators relative to the volume of production (per metric ton of product). It includes acquisitions. The base for the index curve (=100 percent) is the year 2001.

Long-term goal: Zero accidents

Every accident is one too many. This is why Henkel launched a Group program in the year 2000 with the long-term objective of reducing occupational accidents to zero. One of the defined interim targets was a 45-percent decrease by 2005. In fact, a reduction of 67 percent in accidents per hour of work was achieved, so that Henkel is well ahead of schedule. The next step will be to halve the number of accidents again by 2010.

Worldwide focus

Unfortunately, despite the generally positive trend in recent years, two lethal occupational accidents occurred in 2005. In both cases, an employee of a contractor carrying out work on a Henkel site died.

This shows that considerable efforts are still needed, especially in regard to involving on-site contractors and their employees. The basis for this is providing information to the companies and their employees about the occupational health and safety requirements of Henkel, and monitoring to ensure compliance with these requirements.

Reporting of accidents and operational incidents

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

- ▶ Lethal injury to a Henkel employee or an employee of a contractor carrying out work for Henkel,
- ▶ Endangerment of the neighborhood or the environment,
- ▶ Tangible losses of more than 50,000 euros,
- ▶ A high level of public reaction.

The measures taken in response are also described.

In addition, contractors' employees will be more closely integrated in existing training systems and will be addressed through targeted measures. In order to evaluate the success of these measures, contractors' employees who carry out work at Henkel sites are to be integrated into the system of reporting accidents that result in the loss of one or more days of work.


Serious accidents and operational incidents






Location	Accident/operational incident	Measures initiated
Tuzla, Turkey, May 8, 2005	An employee of a contractor engaged by Henkel fell from a height of 10 meters while carrying out cleaning work on a silo. He died from his injuries. To make his work easier, he had removed a section of grating from the floor of the work platform, and later fell through this opening.	All sites were informed about the accident and instructed to inform their own employees and contractors' employees regularly and emphatically about the possible consequences of unsafe behavior. Workplace safety analyses should also factor in unlikely but not impossible risks.
Engels, Russia, October 6, 2005	An employee of a construction firm engaged by Henkel died when the walls of a trench collapsed and buried him. The employee was present in the trench despite the fact that work on a new sewer system had been halted. Continuous rainfall had softened the soil.	All sites were informed about the accident and made aware of the importance of emphasizing the necessity of compliance with safety standards to the supervisory staff of contractors, and of closely monitoring such compliance. In addition, sites worldwide were informed about the necessary safety measures to be taken when work is carried out in trenches.
Hemel Hempstead, Great Britain, December 11, 2005	Fortunately, the major fire at the Buncefield oil depot near Hemel Hempstead caused only material damage at the Henkel site 400 meters away.	During the almost week-long evacuation of the site and the subsequent repair work, important functions and some of the employees were relocated to other Henkel sites in the vicinity.












Objectives

Corporate objectives

Through ambitious objectives and the continuous improvement of its business processes, Henkel achieves greater corporate success and continuously contributes to sustainable development. The production sites also increasingly publish objectives of

their own. Henkel reports on all of these objectives – and their achievement status – on the Internet. 

Henkel	
Laundry & Home Care	
Cosmetics/Toiletries	
Consumer and Craftsmen Adhesives	
Henkel Technologies	

Objectives	Status	
Ethics and management		
Continued development of Group-wide safety, health, environment and quality management to establish a sustainability management system by the end of 2005	Achieved: The Code of Corporate Sustainability describes the principles and expectations of sustainability and corporate social responsibility. It is complemented by concrete internal standards. The new SHE standards came into effect throughout the Group at the start of 2006 and will be implemented by the end of 2006 (see page 6).	
Development of standardized sustainability criteria for integration in Group-wide procurement processes by the end of 2005	Achieved: Sustainability criteria were developed, together with a questionnaire based on the criteria, and were tested in 2005 through an initial pilot project for European suppliers. The rollout is scheduled for 2006.	
Further development of test methods that make no use of animals	Alternative methods have long been used, when legally permitted. Participation in joint programs with other companies, so that new test methods can be more effectively researched and established (see page 15).	
Preparation of product safety systems for the European Union's new Registration, Evaluation and Authorization of CHemicals (REACH) system	As part of a Group project (main focus on Europe), processes have been implemented to enable product ingredients to be systematically evaluated with respect to the REACH requirements, so that the requirements – insofar as they are known – can be integrated into existing procedures within the Company.	
Worldwide certification of environmental management systems of the Laundry & Home Care business sector to international standards	25 sites certified in Europe, Africa/Middle East and Asia; other sites preparing for certification.	
Worldwide certification of environmental management systems of the Consumer and Craftsmen Adhesives business sector to international standards	16 sites certified in Europe, South America and Asia; other sites preparing for certification.	
Worldwide certification of environmental management systems of the Henkel Technologies business sector to international standards	52 production sites certified worldwide; other sites preparing for certification.	
Social commitment		
International rollout of the employee initiative "Make an Impact on Tomorrow" (MIT) by the end of 2005	Achieved: Henkel employees in more than 52 Group companies were involved in 966 local and international MIT projects in 2005 alone.	
Facilitating career/family balance. Ongoing development and expansion of options available to employees	Award in Germany as a family-friendly company. A variety of measures have been established at German and international sites (see examples on page 26).	
Employees and jobs		
Long-term objective: Zero occupational accidents. New medium-term objective, by the end of 2010: 50-percent reduction	Base year 2005: 3.0 occupational accidents per 1,000,000 hours worked	
Continuous improvement of corporate culture on the basis of regular and systematic employee surveys. The long-term objective is to be at least among the top 25 percent of companies in all dimensions of corporate culture.	Long-term objective (see page 26)	

Sustainable products and resource efficiency

Development of a sustainability check for new product categories	A list of criteria has been drawn up. In the next phase, the indicators for the individual criteria will be defined and tested for implementability.	●
European rollout of the TheoPrax Internet portal, to provide background information about laundering, dishwashing and cleaning to professionals and interested members of the public	The project start has been postponed.	●
Continuous innovation focusing on greater convenience, better performance, and lower dosages, thereby contributing to the more efficient use of resources and helping to reduce water pollution	Permanent objective: See pages 16 and 17.	●
Systematic assessment of the environmental compatibility of the raw materials used in cosmetic products	Assessments are already available for substances used in major quantities and are considered in product assessments; the assessment system is now being systematically expanded to cover all existing and new substances.	●
Continuous further development of skin models for testing the efficacy of products so that consumer benefit can be increased	Innovative face care products have been successfully launched; one current example is Diadermine Wrinkle Expert.	●
Use of renewable raw materials, preferably vegetable-based	Permanent objective: See pages 10 and 19.	●
Resource conservation and environmental protection through implementation of the latest production technology	Permanent objective: At some sites, programs to reduce energy and water consumption and waste have been implemented.	●
Increase in the proportion of extremely low-emission dispersion-based flooring adhesives with the EMICODE EC1 quality mark to 90 percent by the end of 2005, thereby contributing to environmental and health protection	Not achieved: In view of the very difficult market conditions in recent years, the proportion of products with the EMICODE EC1 quality mark could only be increased to 71 percent.	●
Replacement of parquet flooring adhesives with a high solvent content by low-emission alternatives, thereby contributing to environmental and health protection	Successful launch of two parquet flooring adhesives on an innovative silane basis, Thomsit P 685 and Thomsit P 690, which have replaced almost 30 percent of the solvent-based parquet adhesives in Germany.	●
Continuous optimization of the entire range of products in line with safety, health and environment considerations	Permanent objective: See examples on pages 20 and 21.	●
Expansion of the market for very lightweight and economical tile adhesives, and technology transfer to other product categories, thereby contributing to resource efficiency	This technology has now been introduced in floor leveling compounds in Germany. Rollout in other countries and technology transfer to further product categories are in preparation.	●
Development of PVC-free coating and sealing systems for car bodies	Achieved: First PVC-free coating and sealing systems with noise-deadening properties have been adopted by customers.	●
Elimination of lead-containing soldering pastes in the electronics industry, thereby contributing to environmental protection	Sales of lead-free soldering pastes increased from 5 percent in 2004 to more than 50 percent in the final quarter of 2005.	●
Elimination of nickel from rinse water in car body pretreatment in the automotive industry, thereby helping to protect water resources	Successful conversion of first production plants in Europe; the technology has been developed further to eliminate other heavy metals; successful feasibility studies on pilot plants at various European car makers.	●
Development of ultrapure adhesives and sealants for fuel cells, thereby contributing to the development of clean energy sources	Requirements profiles drawn up with fuel cell manufacturers; first prototypes are being tested by potential customers.	●
Development of innovative lightweight composite materials for the aircraft industry, thereby helping to cut fuel consumption	The technologies developed by Henkel have been well received by potential customers. Product testing continues.	●
Development and marketing of biodegradable water treatment products for cooling and process water circuits in power plants and refineries	Products have been developed and are being used successfully in the first cooling water circuits of power plants.	●
Development of tailor-made system solutions for technologies that make use of renewable resources, thereby contributing to the development of clean energy sources	Sealants for wind turbines and cleaners for rotor blade molds have been successfully established in the market.	●

External ratings

Henkel's leading role in sustainable development and corporate social responsibility is confirmed by international rating organizations and sustainability analysts.



06 Zürich/New York: In 2005, Henkel was again included in the European Dow Jones Sustainability Index DJSI STOXX as one of the leading companies in the Nondurable Household Products sector. Henkel was deleted from the DJSI World in 2005. Dow Jones has restructured the sectors, and only one company is now listed in the Nondurable Household Products sector of the DJSI World. [i](#)



London: For the fifth consecutive year, Henkel was included in the international FTSE4Good ethical index. [i](#)



Brussels: Henkel was ranked as one of the two sector leaders in the Sustainability Index established in 2002 by the Belgian rating agency Ethibel. [i](#)



Paris: Henkel has been included in the Euro-zone advanced sustainability performance index (ASPI) of the French rating agency VIGEO since 2001. [i](#)



Milan: Henkel has been listed in the Ethical Index Global of the Italian financial services provider E. Capital Partners since 2002. [i](#)



SARASIN

Basel: In September 2005, the Bank Sarasin updated Henkel's sustainability profile and confirmed the Company's top level ranking ("high"). [i](#)

oekom r|e|s|e|a|r|c|h Munich: In May 2004, Henkel was declared to be the top sustainability performer in its sector in the "Corporate Responsibility Rating" of oekom research AG. [i](#)

Sustainability ranking of the DAX 30 companies

Henkel took first place in the second sustainability ranking of the largest companies in the German stock index "Deutscher Aktienindex" (DAX 30). The ranking was published by the sustainable investment research agency scoris in June 2005. The rankings are based on a comparative analysis of the following seven criteria: ethical business conduct, social commitment, management and controlling, customers and quality, employees, environment, and human rights and suppliers. Henkel was awarded 82.1 of a possible 100 points. [i](#)

Top grades for sustainability report

In February 2005, the Henkel Sustainability Report 2003 was named the best German sustainability report by future e.V., the IÖW Institute for Ecological Economy Research, and the business magazine Capital.

The quality of Henkel's sustainability reporting was also confirmed in September 2005 by the Global Stakeholder Report produced by communications agency Pleon. Among the leading companies named, Henkel took fourth place and was the highest ranking German company. [i](#)

Socioecological study of heavy-duty detergents

A pilot study carried out in Germany for consumer watchdog Stiftung Warentest analyzed social and ecological aspects of the production of heavy-duty detergents by 15 companies. The results of the study were published in February 2005. Regarding corporate responsibility, i.e. corporate policy, treatment of employees, environmental protection, and product development, Henkel was the only producer to be awarded the rating "very strongly committed" to social and environmental aspects.

Vision and Values

Henkel is a leader with brands and technologies that make people's lives easier, better and more beautiful.



We are customer driven.



We develop superior brands and technologies.



We aspire to excellence in quality.



We strive for innovation.



We embrace change.



We are successful because of our people.



We are committed to shareholder value.




We are dedicated to sustainability and corporate social responsibility.



We communicate openly and actively.



We preserve the tradition of an open family company. 

Credits

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