

CODE OF RESPONSIBLE CONDUCT FOR BUSINESS

Preamble

Business needs to be accepted by the public. However, as entrepreneurs and managers, we are aware that people currently have limited confidence in our actions.

As consumers, members of the public often have a very high opinion of the products and services supplied by companies, and many people are satisfied with their own personal employment situation. Nevertheless, they often take a skeptical view of the social market economy as citizens. For a long time, surveys have been revealing a growing dissatisfaction with the economic system, with companies and with their decision makers.

Special criticism is aimed at directors and managers, because many people are of the opinion that they have not lived up to their responsibilities or fulfilled their function as role models. The aim of our initiative, in which various companies are involved, is to counter this lack of confidence. With this aim in mind, we have set the following process in motion.

- We have formulated a “Code of Responsible Conduct for Business”.
- We wish to establish this code of practice firmly in our companies and we want to be measured by our success in achieving our stated aims. We invite all companies to join our initiative.
- We wish to embark on an intensive dialogue with the public.

With this code of practice, we aim to set standards for responsible entrepreneurial activity that are visible, relevant to everyday life and capable of being verified. These standards are intended to conform to society’s expectations and values. This code of practice also incorporates the existing principles and aims of other company initiatives.

Summary

1. Our principles

- Business must serve the good of the people.
- Business that serves the good of the people requires competition.
- Business that serves the good of the people is based on merit.
- Business that serves the good of the people takes place globally.
- Business that serves the good of the people must be sustainable.
- Business that serves the good of the people demands responsible conduct by decision makers.

2. Our position on controversial topics

- Profits are awarded to companies in recognition of their achievements and are precondition for their existence. Responsible leadership consists of striving to make profits in a manner that encourages and does not undermine confidence in the market economy and its enterprises.
- Qualified and motivated workforces are essential to the long-term success of companies. Responsible leadership demands that employers respect their employees and promote their welfare. All alternative personnel strategies must be explored before redundancies are made; if redundancies are necessary, appropriate consideration must be given to the hardships caused to those affected.
- The principle of performance and reward on a reciprocal basis must be generally recognized. Responsible leadership demands that financial disadvantages for the workforce also have to be reflected in the remuneration of management.
- Rules form the basis of our social order. Responsible leadership demands that national and international laws and regulations must be respected. Violations must be resolutely pursued and punished.
- Political decision-making processes that are oriented towards the common good demand that all those who are affected by these decisions are able to represent their interests in an appropriate manner. Responsible leadership means that companies have to represent their own interests openly and transparently.
- An environment in which life is worth living is one of society's fundamental demands and an essential precondition for long-term economic success. Responsible leadership respects the quality of life of coming generations.

3. Our investment in the confidence factor

An efficient, productive and sustainable economy depends on investment by companies in fostering responsibility, training their staff and ensuring equality of opportunity in order to gain the confidence of society at large. In the long term, business will only be able to perform its role in society if it is widely accepted that business **must serve the good of the people**.

As signatories to this initiative, we will make every effort to ensure that these insights gain greater acceptance both nationally and internationally.

1. Our principles

Business must serve the good of the people

The task of business is to supply goods and services. Business serves the good of the people:

- in their role as consumers, by supplying them with high-quality, affordable and innovative goods and services that satisfy their wishes;
- in their role as employees or entrepreneurs, by offering them the chance to earn a living, to achieve prosperity, to fulfil their personal aspirations and to participate in society;
- in their role as citizens, enabling them to coexist in a spirit of solidarity by paying taxes and social security contributions and entering into voluntary social engagement.

Business that serves the good of the people requires competition

Competition continually forces companies to search for the best possible solutions to fulfill the wishes and needs of the people and to improve their quality of life. The profit motive is an incentive to enterprises and entrepreneurs to invest in these efforts. Profit is a precondition for manufacturing products and providing services that are socially desirable, which encourages innovation, creates jobs and generates income from which duties and taxes can be paid to the state. Nevertheless, competition must be fair: profit may not be made by damaging third parties. Rules are therefore needed that are generally valid and binding for all, as is guaranteed in Germany by the regulatory framework of the social market economy.

We acknowledge the responsibility we have to make our contribution to shaping the future of the social market economy. It is in our interest to safeguard the social market economy by achieving lasting entrepreneurial success and to develop it further under the conditions posed by globalization.

Business that serves the good of the people is based on merit

Economic success depends on personal achievement and personal responsibility. The value of goods and services is defined by supply and demand in a market in which many individuals and companies are active. However, people will only be willing to perform and achieve success if they are given suitable incentives. High performance must be rewarded, but an unwillingness to perform does not deserve recognition. Time and again, innovation processes, the competition between communities and countries to attract business and the consequences of social change have led to a "devaluation" of familiar, traditional ways of working. At the same time, the demand for other ways of working is increasing. This leads to progress and benefits, but it also causes hardships. We are committed to avoiding these hardships as far as possible, or at least to limit their consequences, in cooperation with our social partners and state institutions.

- The welfare state makes it possible for people who are not in a position to look after themselves to lead a dignified life. The resources that are needed to achieve this are largely provided by companies and their employees.
- Equality of opportunity in education for people of different origin and background and high educational standards are both important factors that decide whether people are able to use their individual skills to take part in economic life. Business must make its contribution by offering its employees in-house training and other opportunities. Companies also have a responsibility to create opportunities for people whose productivity is restricted to enable them to take part in working life.

Business that serves the good of the people takes place globally

Markets are growing together. Mutual dependency is increasing, the competition between communities in different countries to attract investment is becoming more pronounced and this leads to social hardships. However, competition does not mean that one man's loss is another man's gain. The global economy depends on cooperation: more and more people are involved in the process of creating value, they complement each other with their skills and they can jointly reap the benefits provided by the global division of labor. Exporting nations such as Germany particularly profit from globalization. However, global competition also needs fair and reliable rules to ensure that all people are able to gain an advantage. The OECD Guidelines for Multinational Enterprises, the ILO Constitution and the United Nations Global Compact are all established policy initiatives that point in this direction. We support the aims of these initiatives.

As enterprises that are globally active, we will support and promote the political processes that are necessary to enable fair and reliable international rules to be devised.

Business that serves the good of the people must be sustainable

The limited availability of natural resources, capital, time, knowledge and individual skills places a duty on business to keep looking for better ways to utilize these resources for the good of the people. The efficiency of value-added processes needs to be assessed at regular intervals and improved. This is the only way that more and more people will be able to make a living in spite of diminishing resources.

Our yardstick for evaluating innovation and value-added processes is the principle of sustainable development. Sustainable development consists of "passing on an intact ecological, social and economic fabric to future generations"¹.

Business that serves the good of the people demands responsible decision makers

Business can only perform its role of social cooperation in the service of the people if all of those involved live up to their responsibilities.

For us, corporate responsibility primarily means that we have to be reliable and keep our promises. We must keep to the rules and pursue any infringements of the rules as far as we are able. We must also demand new rules when these are absent and participate in drawing up these rules. As decision makers, we are committed to both success-oriented and value-oriented leadership in the spirit of the principles described here. We, together with our employees and social partners, wish to establish these principles at all levels within our companies.

¹ As defined by the German Sustainable Development Council

2. Our position on controversial topics

Profits and morality

Many people have raised doubts as to whether the profit motive and responsible conduct are compatible.

Our position - Profits are awarded to companies in recognition of their achievements and are precondition for their existence. Responsible corporate governance consists of striving to make profits in a manner that encourages and does not undermine confidence in the market economy and its enterprises.

Only companies that make a profit can safeguard their continued existence and protect the jobs of their employees. Profits are also essential to fund innovation and investment. Competition in a market economy that is governed by fair rules ensures that only those enterprises that provide products and services that are useful to their customers are able to generate profits in the long term. Corporate profits, in the form of the duties, taxes and social security benefits that they fund, also benefit those who are unable to take part in economic activity. The question of how these profits are made is of decisive importance: profits that are generated by disregarding valid rules and standards – such as by exploitation, pollution, corruption or anticompetitive activities – are unacceptable, because they damage society and future generations.

For us, earning profits responsibly involves both increasing the long term value of the company and adhering strictly to a set of key preconditions. The main preconditions are the rule of law and the regulatory framework provided by the market economy and the principles of entrepreneurial freedom and social partnership. Other important factors are social cohesion, an environment that is worth living in, and the confidence that society has in the economy, its enterprises and its decision makers. We will pay due attention to these factors in our business decisions.

Redundancies

Companies are often accused of lacking a sense of responsibility and being disloyal to employees when redundancies are announced.

Our position - Qualified and motivated workforces are essential to the long-term success of companies. Responsible corporate governance demands that employers respect their employees and promote their welfare. All alternative personnel strategies must be explored before redundancies are made; if redundancies are necessary, appropriate consideration must be given to the hardships caused to those affected.

The employees, with all their many different qualities and aptitudes, play a decisive role in securing the success of companies in international markets. Companies therefore have a responsibility to continually train and develop their employees. At the same time, the dynamics of the markets and the transformation in the global division of labor mean that personnel structures have to be constantly modified and adapted. Companies that are engaged in international business carry the same responsibility for all of their employees at all different locations, and they are required to respect national rules. In many cases, jobs that are created abroad also stimulate growth and create employment in the company's home country.

In the event of a crisis, we will initially exhaust the possibilities offered by flexible working instruments in close consultation with employee representatives in order to protect as many jobs as possible. If job reductions or redundancies cannot be avoided, we will do everything possible to assist those affected to find alternative employment.

Management remuneration

The income awarded to top managers appears excessive to many people, but the main criticism is that rewards are given for poor performance.

Our position - The principle of performance and reward on a reciprocal basis must be generally recognized. Responsible corporate governance demands that financial disadvantages for the workforce also have to be reflected in the remuneration of management.

The principle of performance and reward on a reciprocal basis must apply to all employees including management. Sub-standard performance must not be rewarded. Managers have a special responsibility, because the actions of management substantially determine the success of the company. This has to be taken account in managers' remuneration. The criteria against which the appropriate level of remuneration can be assessed include the scope of managers' responsibilities, their personal performance, the general economic situation, the success of the company and its future prospects, commensurability with the level of pay in comparable organizations and the general pay structure that applies within the company². Remuneration criteria should be designed to reward responsible conduct.

On the basis of these criteria, we can regulate the remuneration of managers according to their contribution to leading the company to long-term success and not to short-term gain.

Respect for rules

Businesses have been accused of not taking sufficient action against breaches of the rules in their own ranks.

Our position - Rules form the basis of our social order. Responsible corporate governance demands that national and international laws and regulations must be respected. Violations must be resolutely pursued and punished.

The rule of law and the regulatory framework provided by the market economy provide the foundations for business success in Germany. The strength of these foundations depends to a large extent on their acceptance by the general public. Companies and their decision makers cannot expect to enjoy the confidence of the public if they are allowed to disregard the prevailing rules without being held to account.

We will therefore decisively confront any breaches of the rules and bring the perpetrators to account. We will distance ourselves clearly and unmistakably from any explicit transgressions within in our own ranks.

² Compare with definition by the German Government Select Committee on the German Corporate Governance Codex.

Representation of interests

Companies are often accused of exerting undue influence on political decision-making processes.

Our position - Political decision-making processes that are oriented towards the common good demand that all those who are affected by these decisions are able to represent their interests in an appropriate manner. Responsible corporate governance means that companies have to represent their own interests openly and transparently.

Fair political decision-making processes and the formation of public opinion demand that due consideration is given to all those who are affected by decisions and that their various different interests are carefully weighed up against each other. In view of the expectations that society has of business, it is not only legitimate but also essential for business to represent its own interests in a responsible manner. However, companies need to declare their interests publicly and openly. We do not tolerate any deliberate disinformation or distortions of the facts.

We will therefore contribute our competencies and submit our points of view to the decision process in a transparent manner, and we also intend to look for new ways to stimulate dialogue. In future, we will seek to enter into dialogue with the relevant groups in society more actively.

Environmental protection

Business has been accused of attaching too little importance to climate and environmental issues.

Our position - An environment in which life is worth living is one of society's fundamental demands and an essential precondition for long-term economic success. Responsible corporate governance respects the quality of life of coming generations.

Responsible economic competition must always pay due regard to the quality of life of future generations. Innovation and the development of new technologies will make an important contribution to reducing the consumption of natural resources and will continually help to reduce adverse effects on the climate and the environment. We wish to take part in the competition to develop innovations that offer companies sufficient incentives to make the necessary investment. We will therefore analyze the chances offered by innovations and the risks that they pose in an open, professional and fair dialogue with society at large.

We agree to abide by this code of conduct, which is binding (as of 23 December 2011).

Companies:



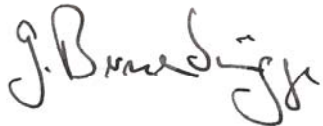
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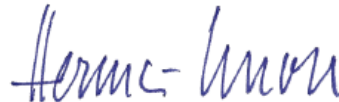
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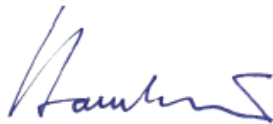
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Herbert Hainer
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Frank A. Dassler
General Counsel, adidas AG



Dr. Jürgen Hambrecht
Chief Executive Officer, BASF SE (2003 to 2011)



Dr. Kurt Bock
Chief Executive Officer, BASF SE (from 2011)



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Chief Financial Officer
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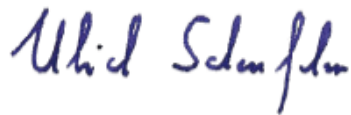
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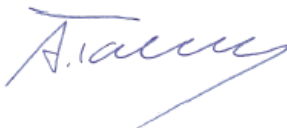
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