

**Statement by Kasper Rorsted,  
Chairman of the Management Board  
Analyst and Investor Conference for Fiscal 2008  
February 25, 2009**

Ladies and Gentlemen:

Welcome to our analyst conference for fiscal 2008.

I am delighted to see you all again here today. We last met in November when we published our Q3 financials. On that occasion, we also explained to you our strategic priorities. In the meantime, these have been extensively communicated throughout the company. All our employees are aware of the journey upon which we are embarking and what contribution they can make in ensuring that we reach our destination. I will talk in more detail about our pursuit of these strategic priorities later on in my presentation to you. First, however, allow me to review our last financial year.

**Overview 2008**

2008 was not an easy year. And I do not just mean the difficult situation in the financial markets and the high volatility of foreign exchange rates. Recent history appears to show no precedent in which all the major economic areas have slid into recession simultaneously. Worldwide economic growth decreased from over 3 percent in the first half of 2008 to zero in the last quarter. The downturn has, of course, also left its mark on our operations. While we were very satisfied with progress during the first half of the year, in the second half of 2008 we felt the impact of the significant slowdown in economic activity, particularly in the markets of America and Western Europe. Overall we have noticed increasing reluctance to purchase among consumers and also substantially decreasing demand for industrial goods. This applies particularly to our markets within the building, automotive and electronic sectors. Overall, high raw material costs put strong pressure on our profitability.

Nevertheless, fiscal 2008 was essentially a successful year for Henkel.

- The Cosmetics/Toiletries business sector turned in a strong performance throughout the year with market share gains and positive margin development.
- With an organic growth rate of around 13 percent, the emerging regions were the prime sales drivers for the Henkel Group. The share of Group sales here rose from 34 percent in 2007 to 37 percent in 2008.
- All our business sectors succeeded in further expanding their market shares in Eastern Europe. At the end of fiscal 2008, we had registered the largest market share in Europe that we have ever achieved.
- We launched our global efficiency enhancement program early in 2008. As a result, we are well placed to meet the challenges that the future will bring.
- We have shifted the emphasis toward the development and growth of our top brands. In 2008, our top three brands (Persil, Schwarzkopf and Loctite) grew 1.8 times faster than Henkel as a whole.
- The integration of the National Starch businesses is making good progress. The synergies realized in 2008 are significantly above plan.
- Having sold our stake in Ecolab, we were able to refinance the purchase of the National Starch businesses and create a comfortable liquidity cushion for 2009.
- Finally, in 2008, we defined our strategic priorities and medium-term financial targets for 2012 and have already started implementation.

### **Key Financials 2008**

Lothar Steinebach will be explaining the financial figures to you in detail. I will just restrict myself to the key financials.

Our **sales** rose by 8.1 percent to 14.1 billion euros. This significant increase is primarily due to the purchase of the National Starch businesses. In **organic** terms, that is to say adjusted for foreign exchange and acquisitions/divestments, sales rose by 3 percent, with our businesses in the emerging markets making a particularly important contribution.

**Operating profit** (EBIT) after adjusting for one-time gains and charges, and also restructuring charges, rose by 9.1 percent to 1,495 million euros. As in the case of the guidance given in London for fiscal 2008, this figure does not include amortization of intangible assets amounting to 35 million

euros arising from purchase price allocation in connection with the acquisition of the National Starch businesses. With this amortization charge from purchase price allocation, EBIT rose by 6.6 percent to 1,460 million euros.

Before amortization of intangible assets arising from the acquisition of the National Starch businesses, **EBIT margin** rose 0.1 percentage points to 10.6 percent. Adjusted return on sales decreased from 10.5 percent to 10.3 percent.

Adjusted **earnings per preferred share** amounted to 2.26 euros, representing a plus of 3.2 percent. With the amortization from purchase price allocation, it remained at the level of the previous year, namely 2.19 euros.

Let me say a few more words regarding the individual business sectors:

Our business sectors were variously affected by the changing market conditions. While Cosmetics/Toiletries turned in a thoroughly solid performance, the strong increase in raw material and energy prices impacted the performance of our Laundry & Home Care business sector through to the third quarter to an unprecedented degree. In a very strong fourth quarter, we were able to once again significantly increase both organic sales and profits in this business sector. The improvement was primarily price-driven. In the Adhesive Technologies business sector, the impact of the raw material cost increases experienced was likewise substantial. Added to this, in the second half of the year declining demand in our markets in Europe and North America and a global decrease in industrial production adversely affected both our profitability and our sales. And this spread to all segments by October at the latest. The impact of the slump in business activity was particularly noticeable in those operations within our portfolio that serve industrial customers (i.e. in the construction, electronics, automotive, metal processing and the general industry sectors).

### **Strategic Priorities**

In a difficult market environment, it is all the more important that we achieve our strategic objectives to

- achieve our full business potential
- focus more on our customers
- and strengthen our global team

quickly and to maximum effect.

I would like to begin by telling you about the progress that we have made in the implementation of measures aligned to achieving our full business potential.

## **Achieve our full business potential**

### **Portfolio**

Allow me to start with the successes registered in our portfolio: In the Laundry & Home Care business sector we have increased our market shares in Eastern Europe by 4 percentage points during the past three years. This way, we were able to consolidate our number two position in the market and close the gap to the number one spot. In Eastern Europe, Persil continues to drive sales growth. Moreover, in the automatic dishwashing segment we have regained market leadership in Germany.

In Cosmetics/Toiletries, we have markedly improved our European market positions in the hair cosmetic segment. We are now number two in the styling segment and number three in the care segment. In addition, we were able to consolidate our number two position in the colorants segment.

The acquisition of the National Starch businesses has substantially strengthened our Adhesive Technologies business sector. Thanks to the strong presence of National Starch in Asia particularly, we have also been able to extend our position as world market leader. And the extended product range and complementary portfolio of technologies mean that we can serve our customers even better than before.

We will continue to allocate disproportionate investments to selected markets and regions of major importance for our future growth. Our organic sales growth in the emerging markets amounted to 13 percent. These markets now provide 37 percent of our total sales, and we increased their profitability by over 50 percent in the period from 2004 to 2008. In Asia, the increase of 40 percent was mainly due to the acquisition of the National Starch businesses. In Eastern Europe, the market shares of all three of our business sectors are higher than ever.

## **Brands strategy**

We intend to further build on and expand our strongest brands. This is also important for us as a means of competing against private label products. Our three top brands Schwarzkopf, Persil and Loctite, also grew almost twice as fast as our consolidated sales total in 2008. They now represent one quarter of that figure.

In Cosmetic/Toiletries our Schwarzkopf brand underwent a disproportionately strong increase with organic sales growth of 7.5 percent. In North America, we are now market leader in the body wash segment with our Dial brand. This is a great success as, at the beginning of the year, we were back in the number five position. And with our Taft brand, we are the clear number one in Europe's hair styling segment. With our Palette brand, we are also Europe's number one in the colorants category.

This strengthening of our top brands is to be accompanied by a strict policy of disposal of brands that do not form part of our core business. In the Cosmetics business, for example, we disposed of six brands in the USA and Great Britain in 2008. In the Adhesives business, we sold our water treatment activities.

## **Operational excellence**

In driving operational excellence we are focusing not only on the integration of the National Starch businesses but also and particularly on optimizing our supply chain, on achieving better capacity utilization at our production sites and on cost-reduction measures in the areas of administration and procurement.

Integration of the National Starch businesses is proceeding very well. Last year we realized synergies of around 33 million euros, 13 million more than planned. In 2008 we shutdown ten factories as part of the process of optimizing our adhesive production capacity worldwide.

Within the Laundry & Home Care business sector, we are adapting our structures to the market requirements of the future. Consequently we have now announced the closures of our sites in Genthin in Germany and also in Malgrat in Spain. Our approach here is one of the utmost caution and we are fully aware of our social responsibilities.

In the Cosmetics segment, we sold our plant in Aurora, USA, to a toll manufacturer. In Asia, we are strengthening our production capability in Thailand and, as part of the same process, have closed factories in Shanghai and Beijing.

We are also systematically using every opportunity for standardization and cost reduction in our administration and purchasing functions. In order to benefit from economies of scale, we have almost doubled staffing levels in our shared service centers in Bratislava and Manila to 300 employees. Increasing our usage of shared service centers results in annual double-digit millions of euros in savings.

In Purchasing, we have realized economies of scale by bundling together our expenditures and concentrating these outgoings on fewer suppliers, the number of which was reduced by 7 percent in the second half of the year. We have also introduced a systematic assessment process to determine the financial credit risk of our suppliers. In order to reduce complexity in both procurement and production, we reduced the number of different raw materials used in 2008 by six percent compared to 2007.

## **Focus more on our customers**

### **Customer relationship management**

We are observing a further increase in retail and trade consolidation, and concentration by our customers on a few strong suppliers. For this reason, we have made it one of our key priorities to focus even more on our customers. This is why we have, internally within the company, made 2009 our “Year of the Customer”. The aim of this program is to make the customer focus of all our employees even sharper. We want to collaborate even more closely with our customers at all levels of the company. In endeavoring to further deepen and develop our partnerships with our customers, we will be focusing in particular on customer contact programs aimed at the highest level of seniority. The better our strategic goals can be reconciled with those of our customers, the more opportunities will arise for us to jointly generate profitable growth and develop new markets and areas of business. Our sales to many of our key accounts are today expanding twice as quickly as total consolidated sales.

## **Sustainability/CSR**

Our customers are also appreciative of the fact that we count among the pioneers in our sector with respect to the issue of sustainability. Today we have also released our 2008 sustainability report, which you will find together with the annual report in the presentation box. This underlines the importance that we attach to the issue of sustainability and corporate social responsibility. Through the combination of first-class performance and highest possible responsibility for people and the environment our products set new quality standards. I would like to give you some examples to illustrate what I mean:

The launch of our new brand Terra Activ in five household cleaner categories represents an important innovation. In this product line, the proportion of ingredients based on renewable raw materials is 85 percent on average. Eco-Smart refill packs for our Dial liquid soaps in the American market use around 67% less plastics than conventional refill bottles. This not only reduces packaging waste, it also cuts energy consumption in manufacture and transport. For the food and packaging industry, the safety of flexible packaging is a matter of the highest priority. So we revised our Liofol laminating adhesives, enabling them to offer previously unachieved safety levels following the shortest of curing times.

We are also proud of our sustainability performance at the operational level. In the last five years, for example, we have reduced our energy consumption by 11 percent per ton of output. Meanwhile, waste produced and water consumption have been cut by 30 and 35 percent respectively.

Our achievements and our issue leadership in this field are also externally assessed and recognized. In December, for example, we were acknowledged as Germany's most sustainable brand. In the USA, we have recently received from Walmart the "Global Sustainability Award" for our extensive activities in the area of sustainability. These encouraging successes add to our determination to dedicate to this issue the serious effort that it deserves.

## **Strengthen our global team**

Our employees are and will always be our most important asset. In tough times particularly, it is they who hold the key to success. I regard the diversity and internationality of our team as one of the key competitive advantages of Henkel, especially as our business becomes ever more

globalized. More than half our top managers are non-German. The proportion of women in senior managerial positions now stands at over 25 percent – and is rising rapidly.

In addition, our policy is to develop and promote our managerial staff from within the company. Yet we are also keen to meet our responsibilities when it comes to training the Henkel people of tomorrow. In the year under review, we hired 10 percent more apprentices than in 2007.

Ladies and Gentlemen, as you can see, we have made advances in all areas related to our strategic priorities. And we will be further extending these advances in the course of the coming years in order to achieve the financial targets for 2012 that we communicated to you in November.

## **Outlook**

### **Market development 2009**

While in the last year world economic growth was around 2 percent, we are currently expecting it to shrink by around 0.7 percent in 2009. In October, the outlook for 2009 was for growth of 2.2 percent. This development is an indication of the lack of reliability that currently attaches to economic forecasts. We are observing a change in the purchasing habits of consumers in response to the economic situation. Although even in uncertain times they tend to fall back on trusted products and names, they are nevertheless more price-sensitive and increasingly buy different pack sizes. Industrial customers are adapting their capacities and reducing stocks. Some are temporarily closing their factories and introducing short-time working in response to declining worldwide demand. Based on these circumstances, we have developed a series of planning scenarios and defined a range of countermeasures in order to support our growth, profitability and liquidity. 2009 is therefore also expected to be an important milestone on the way to achieving our financial targets for 2012.

### **Countermeasures**

The first thing to mention in this regard is our “Global Excellence” efficiency enhancement program, which we introduced a good year ago. We were quick to recognize the sign of the times and this program was the right step taken at the right moment.

In order to grow our sales, we intend to focus even more on quality, strong brands and the development of successful innovations. In the consumer goods businesses, we are increasing our

promotion activities and making sure that we get more bang for our marketing buck. This also means offering consumers more of the packaging sizes that tend to be in particularly high demand in economically difficult times. In our industrial business, we are offering our customers increased technical support while helping them to optimize the ways in which they use our products. Through this approach, we are able to assist them in finding ways to reduce costs and increase efficiency along their value chain. Generally, our aim is to underpin our image as a totally reliable partner, a key factor in times of crisis.

We also intend to further reduce costs in the future in order to strengthen our profitability. This is to be achieved, for example, through the optimization of formulations and the adaptation of our production capacities to smaller purchase quantities. Depending on market requirements this includes the temporary closure of individual adhesives production plants and the possibility of reduced working time.

The sale of our Ecolab stake means that our liquidity situation is comfortable. That also includes the redemption of the remaining bridge loan by the end of the first quarter of 2010. Henkel's finances are also generally solid, and we will be putting particular emphasis on the generation of cash flow in 2009 to augment them further. For this reason, we have reduced our capital expenditures volume by more than 30 percent and adjusted it to the current market environment. Moreover, we have frozen our acquisition budget. However, we will continue to invest in innovations, in our strong brands and also in the emerging regions, in order to avoid jeopardizing our future growth. On the customer side, we intend to reduce outstanding debts and step up our debt recovery activities.

### **Targets for 2009**

We expect that the difficult market conditions prevailing in the real economy and also in the financial markets will continue to exist during the remainder of 2009. The general economic climate and its further development are difficult to predict, hampering specific forecasts for the current financial year. Nevertheless, we are confident of outperforming our markets in terms of organic growth. We have already introduced a number of measures on the operational side, from which we expect positive momentum to develop. These measures and also the relaxation in raw material prices will support the development of our operating profit and that of earnings per preferred share. As soon as our markets enable us to make properly reasoned assumptions, we will communicate quantified expectations.

## **Well prepared for the future**

We feel that we are well prepared for the challenges ahead.

Allow me just to summarize the main reasons why we are confident of emerging from 2009 in a strong position:

1. We have outstanding growth drivers: These include our strong brands, successful innovations, a high share of sales in the emerging markets and strong sales with our top customers.
2. The Global Excellence program and the integration of the National Starch businesses will bring us savings this year totaling 225 million euros.
3. Developments in raw material prices can be expected to bring significant relief on the cost side. Raw material prices have, in recent months, fallen significantly. The oil price alone has dropped by a good two thirds compared to its record high last year.
4. Interest levels have fallen substantially and we anticipate that short-term rates will remain low. Nevertheless, we also expect that the spreads will remain at a high level.
5. Governments all over the world have introduced economic stimulus programs in order to crank up business activity and to mitigate and curtail the recession.
6. We have defined a set of clear strategic priorities which enable us to achieve our financial targets for 2012. With a number of measures already initiated we will be making sure that 2009 also supports achieving these targets. Consequently I would like to assure you once again that our ambitious targets for 2012 will remain in place.

Because, Ladies and Gentlemen, without commitment and without optimism, there can be no success.

This information contains forward-looking statements which are based on the current estimates and assumptions made by the corporate management of Henkel AG & Co. KGaA. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate, etc. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by Henkel AG & Co. KGaA and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside Henkel's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and others involved in the marketplace. Henkel neither plans nor undertakes to update any forward-looking statements.