Statement by Kasper Rorsted
Chairman of the Management Board
Conference-Call
November 11, 2009, 10.00 a.m.

Ladies and Gentlemen:

Welcome to our conference call.

As you know, two weeks ago we published our preliminary financials for the third quarter of 2009 due to the fact that our results significantly exceeded analyst consensus estimates as known to us at the time.

Today I would like to give you a more precise overview of our third-quarter performance. I will also be dealing with our strategic priorities, as we have made substantial progress over the last twelve months.

Our CFO Lothar Steinebach and I will then be happy to answer your questions.

Ladies and Gentlemen,
again in the third quarter of this year, there was very little change in the economic environment. The world economy is still very fragile and it remains very difficult to forecast future developments. Although we may have bottomed out and industrial production is picking up again in some sectors, there are as yet no signs of a sustainable recovery in sight. Meanwhile, raw material prices have again increased.

So it is all the more pleasing for us that, even in these challenging times, we have been able to continue the encouraging trend of the second quarter, actually exceeding the level of performance generally anticipated.

The good results registered in this last quarter reflect the degree of market stabilization that has taken place and also the benefits now being derived from our restructuring and cost adjustment programs.

Our biggest brands – Persil, Schwarzkopf and Loctite – have also once again made an appreciable contribution to the good performance. As in the two previous quarters of this year, they have achieved disproportionate growth.

That brings me specifically to the key facts and figures characterizing this third quarter of 2009.

Sales decreased by 7.3 percent to around 3.5 billion euros. In organic terms, that is to say after adjusting for acquisitions, divestments and foreign exchange, the decline was just 2.5 percent. That means that we have further improved compared to the first two quarters of 2009, in which organic sales decreased at a considerably higher rate.

Operating profit increased from 191 million euros to 290 million euros. This substantial rise of something over 50 percent is partly due to the fact that the prior-year quarter was burdened by high restructuring charges.

After adjusting for one-time gains and expenses and also restructuring charges, at 385 million euros, operating profit was only just below the 391 million euros of the prior-year quarter.

Adjusted return on sales increased by 0.6 percentage points to 11 percent.

Due to the increased EBIT, net earnings for the quarter improved from 107 million euros to 180 million euros. Adjusted quarterly net earnings after minority interests amounted to 240 million euros compared to 251 million euros in the prior-year quarter.

We were also able to make good progress in the management of our net working capital. Our efforts to further reduce inventories and receivables led to a substantial decrease in net working capital of 2.5 percentage points to 10.3 percent of sales.

Thanks to our strong cash flow, we also succeeded in reducing net debt compared to the end of the second quarter of 2009, by a further 700 million euros, to 3.2 billion euros.

The performance of our individual business sectors again produced a very mixed picture in the third quarter, and I would like to deal with this in a bit more detail.

At Laundry & Home Care, we posted organic sales growth of 2.4 percent, this increase once again being supported by good performance in our growth regions. We posted double-digit growth rates in Eastern Europe and in Africa and the Middle East.

A number of successful innovations also contributed to this encouraging development. One example is Persil ActicPower, the most advanced laundry detergent under the premium Persil brand. In the USA, Henkel's innovation Purex 3-in-1 also continued to perform very well.

In nominal terms, sales declined by 2.9 percent to 1.04 billion euros, with foreign exchange in particular exerting a negative impact of 5.3 percent.

Operating profit rose significantly – by 17 percent to 137 million euros, and return on sales improved by 2.2 percentage points to 13.2 percent. Over the same period we have further invested in our markets and increased our marketing spend.

Reflected in these results are the stability of our selling prices, the benefits accruing from our cost reduction and efficiency enhancement measures as well as declining material prices.

With organic growth of 3.7 percent, our Cosmetics/Toiletries business sector was once again able to exceed the already very good performance of the two preceding quarters. And we again outperformed our relevant markets in the process.

Coming in at a nominal 764 million euros, sales were just below the level of the prior-year period.

This encouraging development was especially well supported by the growth regions of Eastern Europe, Asia-Pacific and Latin America. However, we also posted growth in Western Europe.

Our strong brands Schwarzkopf, Fa and Dial contributed particularly to this development. With major innovations, they continue to score heavily with our customers. Schwarzkopf is the fastest-growing hair cosmetics brand in Europe, and its market shares have risen to new highs. The further roll-out of the new brand Syoss has also been very successful, while in the USA the body wash variant Dial Anti-Oxidant has developed into the best new product launch in its category.

Despite the challenging economic environment, we have not achieved growth at the cost of profitability. In fact, operating profit generated by Cosmetics/Toiletries increased by 3.3 percent to 99 million euros. After adjusting for foreign exchange, the rise was even higher at 6.8 percent – achieved despite the fact that we also increased our marketing spend over the same period. Return on sales rose by 0.5 percentage points to 13 percent.

As in the preceding two quarters, things were somewhat different at the Adhesive Technologies business sector. However, here too we have made progress in continuing the process of recovery initiated in the second quarter, albeit on a still low level compared to the previous year.

Organic sales were 7.6 percent below the figure for the prior-year quarter. That represents an improvement of almost 8 percentage points compared to the second quarter of this year.

In nominal terms, sales declined by 12.4 percent to around 1.6 billion euros. However, in all regions the rates of decline have been reduced compared to those of recent quarters. The regions of Latin America and Africa/Middle East have actually begun to show moderate growth again in terms of sales adjusted for foreign exchange.

The consumer-related segments such as Adhesives for Craftsmen and Consumers, or Packaging, Consumer Goods and Construction Adhesives once again exhibited more stability overall.

Operating profit decreased by around 47 percent to 89 million euros. Included in this figure are one-time charges of valuation losses on assets held for sale of 24 million euros and also restructuring charges amounting to 37 million euros.

Consequently, adjusted operating profit only decreased by 20.6 percent to 150 million euros. Compared to the previous quarter it actually increased by 32 percent.

Return on sales decreased by 3.6 percentage points to 5.5 percent, although the adjusted figure only declined by one percentage point to 9.2 percent.

The substantial improvement in operating profit realized in the course of the year is attributable to our Global Excellence program and the faster realization of synergies arising from the integration of the National Starch businesses.

Allow me now to speak about the progress that we have made in pursuit of our strategic priorities. One year ago, we stated that their achievement was key to attaining our long-term financial targets.

Our aims were threefold, namely:

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

I would like to begin by telling you about the progress we have made in the implementation of measures aligned to achieving our full business potential. These include optimizing our portfolio, focusing on our top brands, reinforcing our innovative strengths and improving our processes and structures.

With regard to our portfolio, the growth in our market shares has been impressive. In Europe, for example, our Laundry and Home Care business achieved an all-time high. Cosmetics/Toiletries won the top 3 position in the European market for the first time. The good performance in the German retail business which helped us to further expand our market leadership position is worthy of particular mention here. Our two consumer businesses continued their very successful development in the growth regions. Here we were able to register double-digit growth.

However, the active management of our portfolio also means to resolutely divest non-core activities. This is why, for example, we have recently sold off a number of consumer adhesive businesses in North America.

To achieve our full business potential, we also need to make our strong brands even stronger. Our top ten brands account for around 40 percent of our sales and are a major driver when it comes to increasing profitability. All the more so because we want to effectively standardize our branding concepts, formulations and marketing activities on an international scale.

We have also consequently further improved our processes and structures.

In Purchasing we have concentrated the major part of our expenditures on packaging materials on some 40 suppliers. In IT we have signed contracts with three strategic suppliers and consequently substantially reduced the number of external service providers in this field. We have also further expanded the utilization of our Shared Service Centers in Bratislava and Manila.

The implementation of our efficiency enhancement program and the integration of the National Starch businesses are also critical to improving our processes and structures. And we are making better progress in both these projects than originally planned.

In the third quarter, our efficiency enhancement program yielded economies of 35 million euros. We expect total savings for the current financial year to be some 125 million euros.

The synergies arising from the integration of the National Starch businesses brought us savings of 40 million euros in the third quarter. And our expectation remains that the merger will yield synergies this year of around 150 million euros.

In addition to achieving our full business potential, focusing more on our customers is right up there at the top of our agenda.

As you know, we declared 2009 to be our “Year of the Customer”. One of the aspects of this undertaking has been to endeavor to work more closely with out customers both on an international and a strategic level.

We have meanwhile established a schedule of regular meetings with our 20 biggest customers at board level. This enables us to get an earlier indication of how our customers are developing and what expectations they have of us. And both sides benefit from the common understanding that develops.

Now we have decided to extend this top-to-top initiative beyond the initial 20 global key accounts to our major regional and local customers.

The third of our key priorities is to strengthen our global team. And here too, we have made good progress over the last twelve months. We have defined our personnel strategy, restructured our organization and further standardized our processes. With the help of a newly established talent management process we identify highly qualified employees that we systematically further develop by means of tailor-made development programs.

Why, you may ask, am I talking in such detail about our strategic priorities? - Because we are convinced that the resolute pursuit of these priorities will bring about the economic success that we desire.

I also want to make it perfectly clear to you that, despite all the difficulties encountered, 2009 will not be a lost year for Henkel. We will continue to do our homework. We have formulated our objectives on the basis of a thorough analysis of the potential that lies within our portfolio. This potential has not changed in the wake of the crisis.In pursuing our strategic priorities, we are positioning ourselves for future success; we regard ourselves as well prepared to achieve these targets.

Finally, I would like to come to our outlook for full fiscal 2009.

Despite the recently apparent stabilization of the markets at their low level of activity, it remains difficult to assess the overall economic situation and how it is likely to develop going forward.

Now what does this mean for Henkel?

We are confident of again outperforming our relevant markets.

We have introduced a number of measures on the operational side, from which we expect further positive momentum to develop. Moreover, the fact that the price situation on the raw materials markets has eased compared with that of the previous year will have a positive effect.

All this will support the development of operating profit and earnings per preferred share.

We expect our consumer businesses to continue to perform well in the fourth quarter as they have in the first nine months of this year, albeit with a degree of deceleration. We anticipate that the performance of our Adhesive Technologies business sector will be an improvement on that of the period January through September 2009.

Due to the fact that the overall economic environment remains difficult to assess we will continue to keep all our options open to be able to react flexibly on the economic market developments.

We will announce our outlook for fiscal 2010 at our press conference on February 25, 2010.

Ladies and Gentlemen,
Thank you for listening.

Lothar Steinebach and I are now ready for your questions.

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