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Starting point 2008

The year 2008, the starting point for determining Henkel's medium-term financial targets up to 2012, has been heavily impacted by the financial market crisis, slowing growth rates and deteriorating consumer confidence, especially in developed economies like the US and Western Europe. Yet, Henkel continues to be confident that due to increasing affluence of households and industries in emerging markets, these will continue to exhibit solid growth rates and offer upside potential for profitable growth. Henkel's markets will see difficult trading while consolidation on the retail side and highly volatile raw material markets continue.

However, over the past five years, Henkel has been able to accelerate the rate of organic growth from around 3% to a level of 5-6%. All the business sectors have contributed to this positive development.

Outgrowing attractive markets

While the rather challenging business climate has slowed down overall economic growth, Henkel remains at a solid 4.3% rate year-to-date, thereby outperforming the average growth rates of all the market segments in which the company operates. Moreover, Henkel has been able to generate significant margin improvement since 2003.

With robust and well positioned businesses, a substantial presence in emerging markets, an improved portfolio and further concentration on innovations, Henkel is confident that the company is well prepared for a challenging 2009.

Although growth is expected to slow further and margin pressure prevails, a substantial part of Global Excellence savings and National Starch synergies will kick in, contributing to the target achievement in 2012.

Strategic Priorities

In order to achieve its medium-term financial targets 2012 Henkel has defined three key strategic priorities:

- **Achieve full business potential**
- **Focus more on the customers**
- **Strengthen the global team**

Achieve full business potential

Achieving the full business potential will deliver substantial margin increases and additional sales growth. The key drivers are the streamlining of the portfolio, the concentration on and strengthening of the top brands, market-oriented innovations and further enhancing operational excellence.

The main objective when improving the portfolio is to optimize the regional and category based structure to accelerate top-line growth and enhance operating margins.

With regard to categories, Henkel's target in **Laundry & Home Care** is to increase profitability in the mass categories such as heavy duty detergents and hand dishwashing detergents while driving growth in highly profitable specialty categories like hard-surface cleaners or fabric finishers.

The target for **Cosmetics & Toiletries** is to keep its strong position as an innovation leader in all categories, leverage its margins through value-added innovations and further strengthen Schwarzkopf as a master brand.

Adhesive Technologies, which has been significantly strengthened through the recent acquisition of the National Starch businesses, will be targeting to increase profitability of its Automotive and Consumer Adhesives businesses, drive growth in specialty solutions businesses and exploit scale effects from innovations in Industrial Adhesives.

Expanding sales share from emerging markets

Investments in the regions are aligned to their growth potential. Henkel will overproportionally invest in the fast-growing emerging markets. The target is to expand sales share to at least 45% by 2012. Achievement of this target will be supported by further selective expansion in emerging markets, which offer promising opportunities for profitable growth.

Concentration on top brands and market-driven innovations

The focus on fewer but stronger brands along with further concentration in the brand portfolio on regional and global brands will help increase brand equity – the ultimate weapon against the threat of commoditization and in differentiating from private labels. Building brand equity through substantial investment in Henkel's top brands will lead to improved perception of product performance and greater customer loyalty due to more emotional attachment.

Henkel expects its top brands to be major drivers of top-line growth, since in the past the top brands' growth rates have substantially outperformed the average organic sales growth rate both of the respective business unit and of the respective industry.

Furthermore, the streamlining of Henkel's brand landscape is destined to continue. Complexity reduction will mainly be achieved by divesting non-core or low-performing brands and further consolidating products and applications under fewer, strong brands. Currently, Henkel's top three brands account for 25% of sales. It is the company's target to substantially increase their share by 2012 and to grow the top brands twice as fast as Henkel's total growth rate.

Innovations

In order to improve its proximity to its markets and customers, Henkel has incorporated its central R&D activities into the relevant business units. The three business sectors have meanwhile reached a critical mass that enables them to take full responsibility of their own research activities. This decision will contribute to decreasing the cycle time of major research projects and to reducing overall time to market. Henkel's customers will see the company deliver better products even faster.

To support margin improvement, Henkel has a strict policy whereby innovations will only be launched if they are accretive to the overall gross margin of the business unit. In its consumer businesses the innovation efforts focus on the increasing importance of care and convenience. In Adhesive Technologies innovations are focused, for example, at trends for new materials and applications in the field of lightweight construction and the 'go green' initiatives for more sustainable products and technologies.

Operational Excellence

Purchasing

Continuous improvements in the cost of goods sold are crucial to compensating for the expected increases in raw material costs. Especially important for a reduction in material costs – the main driver of the cost of goods sold – is the further pursuit of effective purchasing strategies such as low-cost country

sourcing and the concentration on strategic suppliers to generate critical mass benefits.

Manufacturing & Supply Chain

In Western Europe and North America, Henkel is streamlining the number of its manufacturing sites as part of the company's efficiency enhancement program already announced in February, in order to reduce complexity and increase capacity utilization. In Eastern Europe, however, additional capital expenditures are necessary to support the strong growth being achieved with building adhesives in the construction segment. On the supply chain side, Henkel is increasing its market proximity and reducing logistics costs through local manufacturing of products, reduction of suppliers and bundling volume with selected transport and warehouse providers.

SG&A Optimization

The second lever – besides reducing the cost of goods sold – for Henkel to substantially streamline its cost base relates to SG&A (selling, general & administrative expenses) optimization. Here the company intends to systematically seize opportunities likely to arise from standardization, shared services and the outsourcing of non-core activities. Dedicated task forces are working on increasing the level of process and system standardization across all business units and regions by, among other things, increasing process automation with appropriate IT solutions. Wherever reasonable, manual and duplicated process steps will be either eliminated or consolidated into shared service centers to benefit from economies of scale and labor arbitrage. Henkel has established shared services mainly for its financial processes in Bratislava and Manila and intends to extend them end-to-end by incorporating further transactional services. Additionally, Henkel is continuously consolidating administration sites and has outsourced non-core activities such as facility management and IT infrastructure.

Implementation of the measures related to the Global Excellence program and the realization of planned synergies following integration of the acquired National Starch businesses are progressing on schedule. Both initiatives will be major contributors to Henkel's cost-saving and efficiency enhancement efforts and are substantial drivers in reaching the 2012 margin target.

Focus more on the customers

In focusing on customers, Henkel places primary emphasis on extending win-win relationships by aligning strategic directions, expanding value-added services and leveraging its capabilities, such as leadership in CSR, to satisfy customer needs. As part of this, Henkel is strengthening the bonds to its top clients. The company is doing this by establishing top-to-top customer contact programs. This helps to develop customer-oriented innovations and to sell systems and solutions that boost customers' profitability by reducing their manufacturing costs or improving their supply chain. Leveraging geographic expansion and being close to the customer is a competitive advantage Henkel intends to strengthen further.

Strengthen the global team

Henkel employees all over the world are the company's most valuable asset. Therefore people management is the major responsibility of every Henkel manager. Strategic people management ensures that the company has at its disposal the right employees with the right competences at the right time. Leaders shall primarily be developed from within, while the employment of outside talent familiar with the needs of our customers in the local markets and the cultures in the different countries is being encouraged. The diversity of its global team is a competitive advantage which Henkel is continuously improving. Currently, 40 different nationalities are working at the Henkel Headquarters and the share of women in the company's management team is around 25% and continuously rising.

As part of a revision of its HR strategy, Henkel has redesigned its performance assessment process. Open feedback, clear reward of individual contribution to the company's performance and tailor-made plans for the further development of the employees ensure that a competent and motivated team will master the challenges ahead.

Medium-term financial targets

Consequences of the previously outlined strategic initiatives can be quantified as follows.

Henkel's financial targets for 2012:

Average organic sales growth: 3-5%

Adjusted return on sales (EBIT margin): 14% by 2012

Average growth in adjusted earnings per preferred share: > 10%

Main drivers to reach these targets are the company's measures in the areas of its portfolio mix and brand strategy, innovations, operational excellence and price increases.

After the predominantly debt financed acquisition of the National Starch businesses, the priority for the near future is to reduce financial debt to an "A"-credit rating. In the light of an intended consolidation of the capital structure and the improvement of the financial ratios no major acquisitions are planned in the short-term. The disposal of non-core or low-performing assets will continue to be an integral part of the portfolio strategy.

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