Henkel Excellence is our Passion

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Presentation

Operator: Good morning and welcome to the Henkel conference call. With us today are Kasper Rorsted, CEO, Carsten Knobel, CFO, and the Investor Relations team. Today's conference call is being recorded and the webcast is available at www.henkel.com/ir. At this time I'd like to turn the call over to Mr. Kasper Rorsted. Please go ahead sir.

Kasper Rorsted: Good morning ladies and gentlemen and welcome to our conference call. First, I would like to focus on the key developments of the fiscal year 2012. Then Carsten Knobel, our CFO, will provide you with the fourth quarter and the fiscal year 2012 financials in greater detail. After that I will briefly comment on the key achievements for the period '08 to '12. I will close my presentation with the financial targets for the horizon 2016 and the outlook for fiscal year 2013. And finally we will take your questions.

I'd like to begin by reminding everyone that the presentation, which contains the usual formal disclaimer for forward-looking statements within the meaning of relevant US legislation, can be accessed via our website at Henkel.com/ir. The presentation and discussion are conducted subject to the disclaimer. We will not read the disclaimer, but propose we take it as right into the records for the purpose of this conference call.

Our strategy for the last four years is well known to you. It's based on our business potential, customers and team, and we've now come to the end of our last four-year period. We also went through what the strategy for the next four years would look like, built on outperform, globalize, simplify and inspire, and I'll take you briefly through some of those details at the end of this presentation.

Let me now take you through the key developments of 2012. For the year 2012 our guidance was 3% to 5%; we came in at 3.8%. Our adjusted EBIT margin target for fiscal year 2012 was 14%; we came in at 14.1%. And our adjusted EPS growth guidance that we changed in the summertime from 10% to 15% came in at 17.8%, meaning that we hit or over-achieved all our KPIs for the fiscal year 2012.

When I look upon the achievements, we saw solid organic growth driven by all businesses. We saw a substantially enhanced profitability and Carsten will take you through the details. We continue to optimize our portfolio and we'll continue to do so also in the future. That is part of the value creation within our organization. We expand our level of shared services to become faster, quicker, but also more efficient. We have greatly enhanced our cash generation, which you'll also see in greater details from Carsten. And last but not least, we continue to strengthen our global team and also use our performance culture as a driver for overall Company performance.

On the downside we continue to see weakness in Southern Europe, with Southern Europe being negative and overall Western Europe being slightly negative or at a stable level. We see Latin America with reduced growth dynamics. And we're also seeing continued geopolitical unrest, particularly in the Middle East, that overall did not greatly impact our business but did disrupt our business within quarters. We expect this volatility to continue.

On previous calls we have said that partly the slowdown in Latin America were due to internal factors. We have not been happy with the way our consumer Adhesive has come out in 2012. We have taken management changes and other decisions to readdress this situation and we should expect a turnaround in our business throughout 2013. So some of our businesses in Latin America were impacted by growth dynamics, quote/unquote political situations, and some were impacted by internal performance-related criteria, and I think we've been very transparent around this throughout the year.

How do the numbers look like? 5.8% reported, 3.8% organic, taking the number to EUR16,510m. We took the gross margin up year over year by 130 basis points. The adjusted EBIT margin -- adjusted EBIT grew by 15.1%. The margin went from 13% to 14.1%, very similar to the guidance we gave following the third quarter that we were very focused on delivering our 14% EBIT margin that we have put out in front of us for the last four years. Our adjusted earnings per share grew almost 18%, more precisely 17.8%. Net working capital at an all-time low at 5.2%, down 210 basis points, meaning taking our free cash flow up to above EUR2b for the first time ever. So in essence it was the most successful year we've ever had, with significant progress in all key financial items.

With this, I'd like to hand over to Carsten who will take you through more detail for the fourth quarter and the full fiscal. Carsten please.

Carsten Knobel: Thank you Kasper. Good morning to everybody and, as Kasper has just said it, after he has given the first insight I will now briefly recap on the Q4 and then give you some more details on our full year 2012. Looking first on our key financials for the Q4, we have seen a very positive solid top line growth combined with further margin improvements in gross margin and in EBIT margin, and very strong cash generation.

To go into the details, the sales came in with EUR4,002m, highest Q4 quarter ever for Henkel, which is a nominal growth of 5.3% and an organic growth of 4%. Our adjusted gross margin showed 46.4% number for the Q4, being 140 basis points up compared to the Q4 2011. The adjusted EBIT was up 8.4%, delivering an adjusted EBIT absolute of EUR544m and the adjusted EBIT margin for the quarter reached 13.6%, again 40 basis points up compared to the previous-year quarter. Our adjusted EPS, EUR0.87, being up 13%. And the free cash flow reached EUR685m, so tripling the number compared to the Q4 2011 which came in with EUR226m.

Let me now move to the sales growth and the EBIT margin by business sector. Our Laundry & Home Care business came in with 4.7% organic net sales growth. This was supported by our emerging markets and also by our mature markets. And our adjusted EBIT margin again could be increased by 70 basis points to a level of 14.3%.

Our Beauty Care business continued its profitable growth path. We realized an organic growth of 2.1%, especially driven by our performance in the emerging markets, being more precise with a double-digit development. And our performance in the mature market was impacted by the development of the Southern European countries in that respect because of the weak performance. At the same time, we continued to increase our adjusted EBIT margin now to a level of 14.6%, which is 10 basis points up compared to Q4 2011.

And moving now to our Adhesive Technology business, after the Q3 where we had an organic growth of 1%, we could come in, in the Q4 with a 4.6% organic net sales development here driven by strong performance in the emerging markets but also from North America. Also the adjusted EBIT margin could be increased to a level of 14.1%, which is 30 basis points up.

In total, Henkel, as I said before, 4% in terms of organic sales growth. We had certain positive influences of the FX effects, mainly the US dollar, China's renminbi and the Russian ruble for the Q4. And the margin in total, as I said before, 13.6%, being up 40 basis points through our development.

With that, I would like to move now to the full year 2012. And first, starting with Henkel in total. The nominal growth, reported growth is 5.8%. We have positive FX effects of 270 basis points, mainly coming from the US dollar, the Chinese renminbi and the Japanese yen, which delivers an FX adjusted growth of 3.1%. We have A&E effects of 70 basis points, which brings us to organic growth of 3.8%.

All the three divisions, as you can see, are supporting this development, and let me start now with our Laundry & Home Care business. Laundry & Home Care came in with a 4.7% organic net sales growth, thereof a price component of 3.4% and a volume of 1.3%. All our regions contributed to this development. We had a strong performance in the emerging markets, even a double-digit in Africa/Middle East and a very strong development in Eastern Europe. Looking at our businesses, Laundry with a strong growth while Home Care came in with a solid performance.

Moving now to our Beauty Care business. Our Beauty Care business came in with a solid organic net sales growth of 3.1%, a balanced mix of price and volume with 1.8% price and 1.3% of volume. Especially the emerging markets, with a double-digit development, performed in that respect, being with a North American solid performance and Western Europe on previous-year level, especially impacted by our Southern European development which made it only on the previous-year level. Looking at our businesses, our retail business with a solid growth. Our hair salon business because of a tough and declining market came in with a rather stable development in, as I said before, a declining market.

Moving now to our Adhesive Technology business, the organic growth came in with 3.6%. 3.5% of that is price and 0.1% is volume. Please be reminded, as I have reported at also the quarters before, that we are actively doing portfolio shifts and by that exiting certain businesses. And the effects of this exiting businesses are shown 100% in our volume development and this is around 100 basis points impact, as I have also reported that in the previous-year quarters. The growth of the 3.6% was mainly coming again here from our emerging markets, but also from North America. Western Europe fell short of the previous-year level mainly due to the weakness of our Southern European businesses and in that respect affecting all business areas within our Adhesive sector.

Looking at the businesses in total, transport/metal with a very strong development, general industry came in solid, and electronics on previous-year level. You know that in the first half we had negative development in our electronics business, but we could compensate that in the second half of the year and, as I've said before, slightly above the previous-year level.

With that, proceeding now to Henkel in total by looking on our regions. Our emerging markets came in with the all-time high share of 43%, slightly below the 45% which we have targeted in 2008 for the end of 2012. The emerging markets showed an organic net sales growth of 7.8% and, as you can see from the chart, driven by the strong Eastern European business with plus 6%, a double-digit from Africa/Middle East, and also very strong development in Asia, 7.4%, and here highlighting especially China with a double-digit contribution to our development.

Our Latin American business, as already indicated in the quarters before, had a mixed development, a very strong, being precise a double-digit growth, in Mexico, while our Brazilian business, especially due to our Adhesives situation, came in below the previous year. Two factors here. One, the slower market development in Brazil than in the years before, but also own challenges which we had to face especially in our Adhesives consumer business.

Western Europe, as you can see, slightly below the previous year due to the weakness in Southern Europe. And a very solid development, 4.8%, in the other part of our mature markets in North America.

With that I would like to move to the adjusted EBIT by business sector and starting again with our Laundry & Home Care business. 14.5% is the adjusted EBIT margin we reached for the full year 2012 and this is 130 basis points up compared to the year before. Also in our Beauty Care business, once again we could increase our adjusted EBIT margin by 30 basis points also to a level of 14.5%. Our Adhesive Technology business could increase their margin by 120 basis points, first time in history crossing the 15%, being precise 15.1%. And in that respect we have to state that this is also due to the portfolio shift which we have executed and the benefits we're getting out of that.

In total with that Henkel came in with 14.1%, so above the target of 14% which had been announced in 2008 for the end of 2012. And this is an increase of 110 basis points, reaching a level of EUR2,335m or being up 15.1% compared to the year 2011.

Moving now to our income statement adjusted and here first looking on our sales to gross profit development. Also here with 47.1% we could once again increase our gross margin, as we have shown in every quarter, by around 130 basis points. And this was even possible by a negative impact for 200 basis points of cost of goods for the full year, which we could compensate by a disciplined execution of countermeasures, price increases but also innovative products we brought to the markets.

Further in the income statement adjusted now. Sales to adjusted EBIT, here I would like to point on two highlights. First, the marketing, selling and distribution expenses, they have been decreased by 30 basis points. Here we have to differentiate. Our selling and distribution expenses, we're significantly down in that respect, while our marketing expenses, being more precise our media investments, could be increased over all businesses with a mid-single-digit growth. Our administrative expenses, a further reduction of again 10 basis points to a level of 4.4% reduction.

With that I would like to move to the reported to adjusted EBIT. Looking at that I would like to start with briefly commenting on the restatement of our 2011 EBIT reported. In December 2011 we received a fine by the French antitrust authorities of around EUR92m. The amount was fully paid, but we filed an action against the decision. This claim against the authorities of paying back the fine was recognized within the full year 2011 under other financial assets. In 2012 a review of this recognition revealed that the recognition criteria of an asset were not present in 2011. Thus, our full year 2011 figures were restated in our consolidated financial statements of 2012.

The EUR92m are now fully recognized as other operating expenses for 2011. The adjusted EBIT 2011 remains unchanged and also unchanged remains our legal position. There are no changes to our evaluation of the situation. Having said that, let me shortly and briefly explain you how we transferred it. We have reported EBIT of EUR2,199m. There are one-time charges in 2012 of EUR12m and a restructuring level of EUR124m, fully in line with our guidance which we updated you in the Q3 2012. And with that we reached, as I pointed it out before, a level of adjusted EBIT of EUR2,335m.

Let me now move to another highlight, and Kasper has already explained to that in short, our net working capital we could reduce again by 200 basis points now to a level of 5.2%. All our three businesses, as you can see from the chart, are contributing to this favorable development, Laundry & Home Care with minus 3.6%, our Beauty Care business with 2.1%, and our Adhesive Technology business 11.9%. With these figures, all our three divisions reached an all-time low level within the history, and by that we have really made another step forward in terms of generating cash within our Company. And we are also looking forward over the next years to continuously improve that.

The good operational development, but also our ability to improve our net working capital has also helped us in further reducing our net debt development. Over the last four years we could reduce our net debt by EUR3.7b now to a level of EUR85m, and also compared to the previous year another improvement of EUR1.3b now to a level of EUR85m in total.

With that I would like to move to another highlight within our full year 2012, which is our cash flow generation. Our cash flow from operating activities came in with EUR2.634b, being up EUR1,072m compared to the year 2011. And, as already indicated for the Q4, our free cash flow is also a record level for the full year, reaching now first time in history a number above EUR2b, being precise EUR2,023m, and by that more or less doubling the number compared to the year 2011.

Lastly, I would like to take a glance at the historic development of our dividend and also the proposal for 2012. As you can see, we have managed always to raise or at least to keep the level of the previous year when it comes to our dividend. For the year 2012 we would like to propose a dividend of EUR0.95 per preferred share to our shareholders at our AGM 2013. And with that we would increase the dividend by EUR0.15 or, respectively, plus 19%.

With that I would like to come to my summary. We achieved all financial targets or even over-delivered on that. We showed a solid organic net sales growth of 3.8% in 2012. We delivered an all-time high in terms of our adjusted EBIT margin with 14.1%. Our net working capital contributed by all businesses reached an all-time low with 5.2%. Our net debt has been significantly reduced to a level of EUR85m and our free cash flow, as already indicated, doubled the number compared to 2011. So for Henkel the most successful year, characterized by a high quality of our earnings, a very strong balance sheet and a great cash generation.

And with this I would like to conclude and give back to Kasper.

Kasper Rorsted: Thank you Carsten. Before we go to the outlook let me just spend a couple of minutes on the '08 to '12. Going back and looking upon the guidance, we guided between 3% and 5% for the period; we came in at 3.3%. We guided 14% for the period; we came in at 14.1%. And we guided an EPS growth average of 10% and we came in at 14%. So over the last four years we achieved all the financial targets that we set ourselves. One target that we didn't achieve was the share of our emerging markets business that was targeted at 45%; we came in at 43%.

What we did do, and I'll spend just a couple of minutes on this, we did a number of structural changes to the company. But I think most importantly we have taken an enormous step forward in changing the culture and becoming a much more performance-oriented company. At the same time I also want to leave in this room that we are not at the end of the road where we want to take the company, neither structurally nor culturally.

On the financial performance side, we've taken our profitability up by 380 basis points over the period from 10.3% to 14.1%, which leads to the EPS CAGR of 14%. We've taken our net working capital from 11.7% to 5.2%, so more than halved it, taken down by 650 basis points. And we've taken, as Carsten illustrated, our debt down by EUR3.7b. So not only on the P&L have we made progress, also on the balance sheet.

On the structures, we have set up four strong shared service centers in Manila, Bratislava, Mexico and in India. We have, as we speak, 1,500 people in shared services. We have concrete plans to take that to 2,000. Our target for 2016 is 3,000 and we're confident that we will get there.

On the process standardization we've made substantial progress not only to make us much leaner and faster but also to make us more cost-efficient. We're taking initially our business processes from approximately 20,000 to 2,200. And also, as we have presented, we believe that we can take the 2,200 standard business processes down to approximately 800. That is a project that we set out for the next three years and which we'll execute.

We have also moved our manufacturing footprint to the emerging markets. We have a net reduction of plants of more than 60, but we have today fewer plants, larger plants and, most importantly, the plants where the future demand will be.

When it comes to brand and innovation, the dramatic increase in quality of innovation has helped us drive bottom line and top line. This we'll continue to focus on. On the brand consolidation we've taken our brands and reduced them from 1,000 to less than 400. We'll continue that reduction. And our top 10 brands now account for 44% of our business. Carsten just spoke about our increase in media spend, but we are also allowing that now to take place as because we have fewer brands, we're over-proportionally spending on the stronger brands and spending less on the weaker brands. So while we're increasing our media spend with mid single digits, we are doing more so, we're spending more on our top brands.

We've also continued to optimize our portfolio. We invested more than EUR4b in our portfolio over the last four years and we divested more than EUR2b over that period of time.

On sustainability, we had a sustainability target set for 2012. We hit those targets in '10. We have defined a new sustainability strategy built around what we call Factor 3. On our customer focus, we have a much more intimate customer relationship today. We know personally all our large customers. And we have a very close collaboration with a number of partners, particularly industry partners, where our global presence is a significant competitive advantage for us. And on the consumer side, we've done a very large global shopper study that allows us to much better understand consumer behavior and thus making certain that our sales position is becoming better than it was in the past.

When it comes to values, performance and diversity, we introduced a very clear vision and values set in 2010. We're much more streamlined when it comes whom we want to be and how we want to operate. So our corporate culture is today very clearly defined.

We have a very explicit performance culture which comes out and is being very clear in the way we evaluate our people with our forced distribution and also how to promote and pay our people. Today we do pay our people very, very competitively when performance is delivered. Reversely, when performance is not delivered over time we take equal steps to change the management structures. Carsten gave you an example of that of our business in Latin America where when we don't perform over a period of time we will take the necessary steps.

On diversity, not only have we increased the share of women in our management structure from 27% to 31%, we now have more than 90 nationalities in our management worldwide and have what I would characterize as a true global management structure.

All these measures have had a fundamental impact on our market cap. When we introduced the triangle on November 6 in 2008 our market cap was EUR8.7b. As of last night it was EUR27b. So those of you who have been with us throughout the entire ride have had an increase in your earnings or your value of 209%. So tremendous increase, EUR19b in our market cap, over the last four years. Dividend per share has increased sequentially by 79% during that period of time. So the steps we've taken on the P&L and the balance sheet and on our strategic priorities you could see in our market cap.

That brings me to our financial targets and outlook for 2013. From 2008 to 2012 we greatly improved the structures and the culture of our company. Now we're aiming at executing our vision to become a global leader in brands and technology and today we have a clear strategy where we're going to outperform our competition as a globalized company with simplified operations and a highly-inspired team.

That translates into targets for 2016 of 20, 10, 10 and let me just go over this in a second because we've discussed it with many of you many times. If you do the gorilla maths that would give us a margin of approximately 16% in 2016, depending on how high the top line goes. It might spring up a bit or down a bit depending on where we end on the plus or the minus side of the EUR20b.

From an operational improvement this equates to exactly the same operational improvements as we had between '08 and '12. The only delta is the National Starch acquisition. So what we're saying here very clearly to the market, we aim on continuing to improve our operations with the same level of speed and vision as we did between '08 and '12. Should we do a large, quote/unquote, National Starch acquisition, we will do adjustment to the targets, but I'm just giving a very clear target here. Our aim is to continue operational improvement with the same speed as we done the last four years.

Which brings me to the guidance for 2013, organic sales growth of 3% to 5%. Adjusted EBIT margin of 14.5% and the most important measure for us is our adjusted EPS growth of 10%, which is what we're guiding also for the next four years. Let me also be very clear on the following point. We will continue to adapt our structures to the market. We do not believe we are at the end of the story. We have done so in the last four years. We'll continue to do so also in the next four years to ensure that we'll pursue the, not only the four-year targets but also the annual targets with the same vigilance.

What are the upcoming events? We have AGM on April 15. We have -- May 8, we'll have our Q1 numbers. June 18, we'll have Investor Day. And I can only encourage you to come to Duesseldorf. The topic of the day will be our Adhesive business. August 8, our third quarter. And November 12, Q3 and then our year is almost over.

With this I'd like to thank you for dialing in today and now Carsten and I will be happy to take your questions for the year and for the quarter. Thank you.

Q & A Session

Operator: Thank you, Mr Rorsted. The first question comes from the line of Martin Roediger from Cheuvreux. Please go ahead.

Martin Roediger: Thanks for taking my two questions. First on the cash use in future. After you have a net debt EUR85m and probably net cash next year -- or this year, 2013, what are you going to plan with the cash use? Do you plan major acquisitions or increase in payout ratio?

Second question is could you remind us about the war chest that you have for acquisitions and your financial criteria when it comes to acquisitions? Thanks.

Carsten Knobel: Okay. You're right with the EUR85m. We are near to coming net debt free. This is also a plan for 2013. And we have shown it during our strategy going forward, what our priorities are. Our priorities are growing our business and growing our business twofold. On the one side, for sure, our organic development, but also secondly, as we pointed it out, acquisitions are an integral part of our strategy. And depending on that we will use our cash in these two dimensions. As I said, priority is growing in terms of organic and M&A. And, as you have seen just recently in Poland with PZ Cussons, we could acquire their Laundry & Home Care business. And this is one of the first steps and we will continue to update you whenever these things occur.

Martin Roediger: And the question on war chest and financial criteria?

Carsten Knobel: Yes, the answer is, as I pointed it also out slightly on this strategy meeting in November, we have financial headroom above EUR3b at this point of time, which is based for sure on our cash generation ability which we have shown over the last year and in the quarters for sure growing. And by that also this room will grow.

Martin Roediger: Thank you.

Operator: The next question comes from the line of Gael Colcombet from MainFirst. Please go ahead.

Gael Colcombet: Yes, good morning gentlemen. Well done on the successful conclusion upon your 2012 targets. My first question would be on Beauty. It's been a couple of quarters now that we see an ongoing development which is a bit below market. And I was just wondering how you see the future development of this business and what needs to be done to bring this division to its former very successful organic growth development?

Secondly, on Adhesives, I was just wondering, you mentioned there had been a 100 basis points negative impact on organic growth of Adhesives in Q3. Was that the same impact in Q4?

And lastly, actually my question was partially answered on M&A. I know you have quite a significant list of potential targets and I was just curious to hear from you how you go about it in your screening and if you could update us on that as well? Thank you.

Kasper Rorsted: Let me start with the question on Adhesives --- no, on our Beauty Care business. We've got 28 quarters of profitable growth in our Beauty Care business. We've had last year two quarters with slightly slower growth. We believe that it is partially due to our geographical footprint. What we've seen is we've seen a slowdown particularly in the professional side, so the hairdressers' business. But, as you can see, we've consistently been able to improve top line and bottom line over the last 28 quarters in the Beauty Care business.

If you take our outlook, we're saying that we'll grow by 3% to 5% and we're saying also that each of our business groups will be in that range. So what we are indicating is that our Beauty Care business will be back in that range, 3% to 5%. I do want to say, just to be very clear though, is that while we had two quarters of slower growth in our 2012, we've continued to see very strong market share position gains in our Beauty Care business and the slowdown has predominantly been due to our professional business or our salon business, so to speak. Carsten?

Carsten Knobel: Yes. Your question regarding Adhesives, the impact of the business exits, as I pointed it out in the quarters, it's quite consistently on the same the level. It's around 100 basis points of impact which is fully related to our volume part.

Kasper Rorsted: And on the Q&A -- or the M&A, I think we've already answered it.

Operator: The next question comes from the line of Iain Simpson from Barclays. Please go ahead.

Iain Simpson: Thank you very much. Congratulations on hitting the targets. Just a few questions, if I may. Firstly, when it comes to Laundry and cosmetics, over the last few years there seems to be situation where when one of them is doing very well the other is doing less well. So at the moment obviously Laundry's doing brilliantly and Cosmetics less so, and 18 months ago that position would have been reversed. Is that just coincidence or does it reflect the fact that you're moving management teams around internally to fix whatever division is having problems at the moment?

And then just in terms of how you think about running Adhesives, could you give us an insight into how the management team in that business is incentivized and told to operate? Is it the case that in Adhesives you care more about the overall operating profit growth than the actual sales growth in that business and perhaps we shouldn't be looking at organic growth in Adhesives as closely as we would in your HPC businesses? Thank you very much.

Kasper Rorsted: Let me start with the consumer question. I would argue that the difference in performance in the last two years is coincidence more than anything else. But frankly nobody could project that we had a strong crisis in some of the countries that have a bigger footprint in our cosmetics business vis-a-vis our professional, our salon business.

What you are seeing though is that you are seeing a very consistent way of operating both businesses. So the head of our Laundry & Home Care business today came from our Cosmetics business or Beauty Care business and is running that business very similar to the way we've been running our Beauty Care business over the last two years.

So I would not over-interpret that. I think what you're seeing is you're simply seeing some coincidental market developments. So I would not over-interpret that. What you are seeing though is a very consistent way of running both businesses, which is also why we're guiding within the same range. Sometimes there might be market dynamics that might change growth rates for one or the other but, as I said, I would not over-interpret anything in those two numbers.

When it comes to the Adhesive business what we have said consistently is we are doing a very active portfolio management of that business. So what we're striving to do is to manage towards high margin businesses where the technology differentiation is higher. That means also that over time we actually forego top line growth opportunities if we don't believe the margin is appropriate. That you can see. The past development of it is that we've done that over the last three years and been very selective in which automotive-related businesses we're in. We've been able to grow that business very strongly because we have separated ourselves from a number of lower-end businesses.

So you should see over time, you should look upon the top line, but within a quarter, I would caution you to do that. Of course we strive to over time consistently grow our businesses. But we also said in London that we would divest businesses to the tune of EUR500m where most of that revenue is coming from our Adhesive business. So our target is to continue to increase top line and bottom line.

And I think that, just closing on it, we hit 15.1% EBIT margin in our Adhesive business. Four years ago it was, depending on how you looked upon it, a high or medium -- a high single-digit. That is because we do active portfolio management. We do not want to be in commodity-like businesses. We want to be in technology-driven businesses where the predominant customers have a global footprint.

Iain Simpson: Thank you very much.

Operator: The next question comes from the line of Robert Waldschmidt from Merrill Lynch. Please go ahead.

Robert Waldschmidt: Good morning gentlemen. Two questions if I may. One, back on Adhesives again. If we examine the fourth quarter margin improvement, it's materially below the level we saw through the first three quarters of the year. And in light of what you just said about looking to maximize margin over time, is this a timing issue? Have you banked some of the upside, so to speak, to deploy in supporting the next years' targets or can you shed some more light on that?

And then two, more on working capital. Just how far can we go? We've seen very good improvement here on Adhesives. In addition this year we should be seeing hopefully a slightly better raw-material environment. Any color there would be appreciated there as well. Thank you.

Kasper Rorsted: If you look upon our Adhesive business, we actually had a, what we would say, on the top line we grew 4.6% quarter over quarter and we increased our ROS to 14.1%. So we felt that we had a solid fourth quarter for our Adhesive business.

What we are somewhat dependent on, on our fourth quarter is our industrial customers, when they close down depending on how the year is. So overall fourth quarter tends to be the weakest quarter. And you can go back and look upon that in the last I don't know how many years when it comes to the Adhesive business. So we're actually quite happy with the quarter. We took the growth up to more than 4% from 1.5% in the third quarter. So it was actually on the top line a very strong quarter. So I'm not very concerned about the performance on Adhesive in the fourth quarter besides saying we're quite happy with it.

We didn't bank anything. We think we do our business in the appropriate way. But we also manage our businesses in the long term and 2008 to '12 is history now. Now it's '12 to '16 and that's how we manage the business. But we didn't bank anything one way or the other.

Carsten Knobel: Bob, regarding your net working capital question, I think I've shown that all three businesses showed best-in-class numbers for the full year 2012, also especially Adhesives with 11.9% is historical low number.

You asked for material increases in the next year. We have made a guidance on that that we see moderate increases when it comes to direct materials. And in that respect, and I also told it, we don't think we are at the end in our net working capital development. On the other hand it's getting also tougher because you know that we are moving in the direction of more presence in the emerging markets. And in general the tendency is that in emerging markets the situation regarding net working capital based on different set ups is more difficult than in the mature markets. But nevertheless we are positive and we are confident that we will also further improve that over the years coming.

Robert Waldschmidt: Thank you very much.

Operator: The next question comes from the line of Chas Manso from Societe Generale. Please go ahead.

Chas Manso: Yes, good morning. My two questions. On Adhesives, this portfolio pruning that you're doing, could you give us some color on how much potential there is there? What percentage of your Adhesive business is too commoditized for your liking?

And perhaps give us some color on how you see the Adhesive trends in terms of end demand by major industry.

And the second question is a geographic question. You talked about the weakness in Latin, also Southern Europe. Both seem to get weaker in Q4. Could you tell us what your view is on those two geographies for 2013 and what corrective actions you've taken in Brazil? Thank you.

Kasper Rorsted: If you look upon -- I will start with the first one on the Adhesives. I think we've given very specific guidance that right now we see approximately EUR500m revenue being in that quote/unquote area which we define as commodity or non-strategic. This is an ongoing evolution and I don't think that we will ever get to the end point of it, but at this stage we see approximately EUR500m with businesses that are either non-strategic or are highly dilutive. By default you will always have dilutive businesses. That's the consequence of having an average. So we'll continue to do portfolio management and at this stage the size of that is EUR500m.

Then our question is of course how dilutive are they? We don't disclose that, but we believe there is substantial continued upside of managing our portfolio with a predominant focus on technology because this give us the biggest pricing power in the marketplace.

Carsten Knobel: Regarding your geographical question, I think we pointed out Southern Europe is for sure something which is impacting our businesses. We do not see short-term change in that situation. Latin America, we have already indicated in Q3 that we saw from a market point of view in Brazil that the market is coming back. But here, I mentioned it before, that it is also mainly an internal challenge we have to face, which we, and also Kasper said that, we have already changed management on that. But for sure it will take a certain time in order to get back where we would like to be.

And for the rest of the world I think we have seen a good development in North America and we should also see that for '13 that this could continue. And the rest is unchanged compared what we have indicated already in November.

Chas Manso: Thank you.

Operator: The next question comes from the line of Markus Mayer from Kepler. Please go ahead.

Markus Mayer: Yes, good morning. A few questions from me. First of all on your Adhesives business, was there a seasonal effect of the relative warm winter in Europe and North America in this business as well? And second --

Kasper Rorsted: Can you repeat the question? I didn't understand it.

Markus Mayer: Yes. Maybe I try a different --- not have that. You hear me better now?

Kasper Rorsted: Better.

Markus Mayer: Yes, okay. So on Adhesives in the fourth quarter was there a seasonal effect on the relative warm winter in Europe and North America, so a positive effect in this sense?

Then second question on your electronic Adhesives business. You said there was still growth in 2012. When do you expect electronics end market, in particular then the market for the Adhesives business, to recover in 2013? Are there already signs of a recovery?

And then the last question on your CapEx guidance for 2013, if you could just give us some flavor on this as well?

Kasper Rorsted: First question, answer no.

Second question on Adhesives, as Carsten said, we saw a slight pick up but we still see a very, very slow electronics market and we do not see any substantial recovery in the electronics market at least in the first half of 2013. Of course there's a number of end markets that have impact on this, but overall one of the expectations or one of the tendencies is the impact of the Microsoft Windows on the pads and to which extent that will pick up. But it's had a slower pick up than we originally anticipated, which was also referred to in the paper. So right now it is similar to what Carsten said, negative development in the first half of '12; slightly positive in the second half. We expect a slight positive in the first half but no significant change in the electronics market in the next six months.

Carsten, CapEx?

Carsten Knobel: Yes, on CapEx, also here we are fully in line what we announced during our November strategy call. We told you that we would like to invest over the next years around EUR2b of CapEx and the guidance for 2013 is that this number will be around EUR500m. The number of 2012 was EUR393m so you see what we proposed in terms of increase is already happening in the first year. So a significant increase, EUR400m versus EUR500m, already for 2013.

Markus Mayer: Okay. Perfect.

Carsten Knobel: Hope that clarifies.

Markus Mayer: Yes, absolutely. Thanks.

Operator: The next question comes from the line of William Houston from Redburn.

William Houston: Hello. Good morning. Two questions from me please. The first is on Adhesives. In Q4 of 2011 you experienced an inventory reduction in China specifically, which harmed your growth in the quarter. Do you think that's benefited you in Q4 2012 please?

And the second question is on North America where you had extremely good growth in Q4 of 6.3%. I was just wondering about HPC in particular, how you feel the competition has developed in that market during Q4 and into 2013 please.

Kasper Rorsted: I can start with the first quarter, the Adhesive, on a like for like of course, when we had a slower growth in one year and a stronger growth in the next year then you have an easier like-for-like comparison. But what we did see was an overall increase of the business environment in the second half in China, but of course you had an easier comparison. But that's the name of the numbers. That's the outcome of the numbers. However, I still feel and so does the rest of the company bullish in China. We had double-digit growth in China so we are quite bullish on it despite the fourth quarter was weaker in the 2011 side.

On the North American side the market has somewhat stabilized. We continue to see a very highly competitive environment. You can see that from the numbers of P&G. Promotional activities have stabilized but not substantially changed. Our position is that with the management turnaround or business turnaround that we undertook in 2010 we continue to see improvement quarter by quarter. That is also our expectation for the future. So our expectation it is that our professional and consumer goods business will continue to improve in the future along with the improvement of our management capability in North America that has greatly improved over the last two and a half years.

William Houston: Brilliant. Thank you.

Operator: The next question comes from the line of Christian Weiz from Baader Bank. Please go ahead.

Christian Weiz: Yes, good morning gentlemen. First of all, I'd like to know what's going on in the Professional Hair Care business. This business is pretty important for you, given that it represents about 15% of your Beauty Care business overall. The first.

And second, what's going on in the current quarter in North America? We heard that Target complained about a weak environment, especially in the laundry detergents business. Walmart also stated about a week ago that business was pretty poor. Given your legacy due to the Dial acquisition, this might have an impact on you. Can you give us some flavor on the first quarter in 2013?

Kasper Rorsted: So on the second -- on the first-quarter guidance of course we cannot give you anything. That would be inappropriate. So I can't comment on it. That's just as easy or as difficult as that is. Carsten will comment in detail on the Professional market.

Carsten Knobel: Yes, regarding the Professional market I slightly also commented on that. We saw a very declining and tough market environment and this is something which is also for sure impacting our business on top. The point is that we have an over-proportional part of our sales in Southern Europe and by that for sure this is impacting also our business over-proportionally. And also on top of that is that we are also quite strong in Japan, which is also a mature market, which is also under tough conditions. And that is currently what we see as an impact. And on top, I pointed it out, the currency in Japan also plays a role in that.

So these are the major points, but has nothing to do with the structural set up of our Professional business. As you know, it is also under the umbrella of Schwarzkopf and this is one of our major cornerstones -- keystones and key brands within our portfolio.

Christian Weiz: Okay. Can you maybe just give a brief comment on the competitive environment in this business?

Carsten Knobel: I think the situation that we have here, a tough market situation, is relevant for everybody. Maybe I forgot to say within this market environment we're still increasing market shares. And you can also see from other companies who are relevant in that segment who are also commenting that they are facing a tough market situation and being impacted on that.

Christian Weiz: Okay. Thanks.

Operator: We have a follow-up question from the line of Iain Simpson from Barclays. Please go ahead.

Iain Simpson: Thank you very much for allowing me a follow up. Firstly, if you could just give us some indication as to how excited you are about innovation through 2013. We've clearly over the last couple of years seen a few really big bangs from you --- Syoss, saw Purex 3-in-1 -- that have moved the needle a little bit. Have you got anything in the pipeline for 2013 that you're that excited about?

And then just a couple of very boring housekeeping questions if I may. Just checking that 10% earnings growth for 2013, that is after the impact of IAS 19, so it would be -- so you don't have IAS 19 in '12, you do in '13 and it's still for 10% earnings growth.

And just secondly, current provisions look to have gone out by about EUR400m in the year. Is there anything interesting going on there or should we not pay any attention to it? Thank you very much.

Kasper Rorsted: I will start with the first questions and Carsten will take the last ones. On innovation we believe we have dramatically improved our capability to bring successful innovation to the marketplace. However, the issue around innovation is you don't know whether -- you do not know what is successful before you brought it to the marketplace. So while we'd like to have a second chance, we actually don't know before we've brought it into the marketplace. But, as I said, we believe we have a very strong innovation pipeline that is helping driving top and bottom line.

And frankly the only way, particularly in our fast-moving consumer goods, that we can drive pricing through is through innovation. If you look upon our innovation rates, so it means how much of our business is coming from products that have been in the market less than three years, for our fast-moving consumer goods businesses it's been 42% and 45% so you continue to see a very strong push on innovation. But end of the day the consumer decides and we'll know if innovation is successful when the consumer votes with his or her money. And we don't know that before we have products in the market. But we're quite confident and we have a good innovation pipeline. Carsten on the other one.

Carsten Knobel: Yes, to the other two questions from your side regarding IAS 19 and the EPS, I think it's clear that our 10% growth which we expect is including the IAS 19 changes so nothing to be added on that.

And regarding your provisions, it is the case that in these provisions we have included additional sales-related provisions, but also it's partly also related to our special incentives. And I think that should also answer the question.

Iain Simpson: But I thought -- sorry, just a clarification. I thought you had already more or less fully provisioned your special incentive by the end of '11 and looking through your accounts it says that there's only a EUR16m increase or have I got that wrong?

Carsten Knobel: The EUR16m is related to our people within --- it's in the level of our leading people, and on top there is the non-MC part.

Iain Simpson: Thank you very much.

Operator: Thank you ladies and gentlemen. That was the last question. I will now hand over to Mr Rorsted for closing remarks. Please go ahead.

Kasper Rorsted: So thank you very much for participating in our conference call. 2012 was a milestone year for Henkel because we hit our targets for -- that we set ourselves out in '08 to do in '12. And in a very competitive and volatile market environment we were able to deliver and achieve all the goals we set ourselves. We are now I believe a much better and a stronger Company. I can tell you we are very, very motivated to do exactly for the next, exactly the same for the next four years. As I said, we strive to continue to deliver the same operational improvements over the next four years as is in the last four years.

So we are very excited about it. We think we have a good starting point. We're very committed to deliver. We are early on in the cycle. And everything from '08 to '12 is now history. We are completely focused on the next four years. And we assume that we'll take the right decisions. And we'll of course also make the right corrections should we not do so the next four years. But I tell you we have a management team that is very, very committed to its 20, 10, 10. And of course the first step is to deliver a good and solid 2013, and I believe a guidance of 10% EPS in a very difficult market environment is a challenging, ambitious, but also what we believe is a realistic target.

With this I'd like to thank you for being here today. I wish you all the best and look forward to speaking to you at our first-quarter conference call on May 8, 2013. And again I'd like to remind you to save the date for our Adhesives Technologies Investor and Analyst Day which will take place on June 18, 2013 in Duesseldorf. Thank you very much and good bye.

Operator: Thank you for joining today's conference call. You may now replace your handsets.