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 over to Mr. Kasper Rorsted. Please go ahead, sir.

Kasper Rorsted: Good morning, ladies and gentlemen, and welcome to our Q2 conference call. First I'd like focus on the highlights of the second quarter of 2012 and then Carsten Knobel, our new CFO, will provide you with the financials in greater detail. After that, I'll comment on the outlook for 2012, and finally, we'll take your questions.

I'd like to begin by reminding everyone that the presentation which contains the usual form of its claim of the forward-looking statements within the meaning of relevant US legislation can be accessed via our website at henkel.com\IR. The presentation discussions are conducted subject to the disclaimer. We will not read the disclaimer proposed. We take it as iterating to the records and for the purpose of this conference call.

Now let me get on. I will start with the key developments in the second quarter of 2012. Overall, we're well on track to hit our target for the full year. Following organic growth of 4.7% in the first quarter, we came in at 4.0% in the second, making first half at 4.3% at the upper range of our guidance of 3% to 5%. Following adjusted EBIT of 13.7%, we came in very strongly at 14.5% on the margin side on the second, making our year-to-date performance in 2012 at 14.1%. For the first time we're now running above the target that we set ourselves for 2012. And we remain our guidance on the margin side for 2012 at 14%.

After strong performance on the EPS, we've taken the EPS guidance up from 10% to approximately 15% for the year. So overall a very good quarter that puts us right at track -- or right in the middle of our targets.
What we believed went well. We saw a significant increased in our gross margin. The adjusted EBIT margin came in very strongly at 14.5%. The emerging markets continues to be strong, Eastern Europe with reinforced growth momentum, and we're also seeing a strong Middle East. However, I just do want to reiterate that while we see double-digit growth in the Middle East, it was slightly impacted in the second quarter last year due to the political unrest, but still very strong performance.

We'll continue to make progress on our net working capital driving free cash into the Company and we continued optimization of our portfolio, which I'll speak a bit about later in my presentation.

What did not go quite to our satisfaction? We saw further intensified headwind in Southern Europe making the overall euro number flat but negative in Southern Europe. Our electronics business continued to be negative but with very strong margin performance. And growth in Latin America is slowing, which Carsten will be addressing in his presentation.

How did it go from the business growth? We saw strong organic sales growth in our laundry and homecare business. And our adjusted EBIT margin strongly increased. Just to be clear on this, it was the best ever top line and the best ever bottom line quarter for our Laundry and Homecare business.

We saw double-digit growth in the emerging markets, supported by solid mature markets. We continue despite or because of increase in margins to see market share gains, and the driver for growth and for profitability is our innovation portfolio. So overall, strong sales and earnings performance from our laundry and homecare business.

Moving on to our cosmetics business, we saw solid organic growth and adjusted margin was further improved. Again similar to our Detergents business, best ever top line and best ever bottom line for our Cosmetics and Toiletries business in this quarter.

The emerging markets were very strong, mature markets were flat. We saw further market share gains and again as is with our Detergents business, our key innovations helped drive the improvements on the top line and the bottom line, we continued our strong profitable growth.

Coming to our Adhesives division; we saw solid organic sales growth and adjusted EBIT margin strongly increased, I'm having to be able to repeat for the third time today best ever top line, best ever bottom line. And what I do want to reiterate around this is with a revenue growth slightly lower than the first quarter we hit a 15.7% margin. It does show the quality of earnings we now have in our Adhesive business, we are much more focused on value versus volume. We saw strong growth in our emerging markets supported by continuous good performance of our North American business.

Our Electronic Adhesives business on a growth side is negative, on the bottom line, very positive. Again further market share gains, and I'm repeating myself, for the first two, our focus on innovation is helping driving improvements on both top and bottom line. So overall solid sales growth and strong increase in profitability.

I believe, and that's why we're reiterating it, our increased focus on innovation over the last number of years and with our high innovation rates, it does help us push pricing through in a
market that is increasingly difficult. So that's why it is very important for us that we continue to bring consumer-relevant innovation into the market every quarter to ensure that the appropriate pricing takes place and at the same time we can defend and expand our market share positions.

On our portfolio, we will have and will continue in the future to optimize our portfolio and clean it up for non-strategic or highly dilutive businesses. We have exited a number of selected businesses in our Adhesive business. Among those are emulsion business and our PVC business. We've divested seven non-core brands in our Cosmetics and Toiletries business in the US. Some of these have impact on our organic growth which Carsten will continue -- will comment on.

And as we announced earlier in the second quarter, the acquisition of the high performance pressure-sensitive adhesives from Cytec was agreed in the second quarter and was closed last night. That deal is now formalized and will be in our numbers for the third quarter. So we are focusing ongoing on the quality of our portfolio to drive up the quality of our earnings. It might have over time also top line indications, but we believe that we need to get the right balance between top and bottom line, and that's why you're seeing the tremendous progress we are now seeing in the profitability of our Company.

What does the numbers look like? We came out at EUR4.206 billion versus EUR3.953 billion in the same quarter last year, reported growth of 6.4%, organic [so cleaned] for or adjusted for acquisition, divestments, and currency came in at 4% growth. Our adjusted margin went from 46.1% to 47.6%, up 150 basis points. Very strong margin improvement due to a number of points that Carsten also will be addressing.

Our adjusted EBIT went up 18.6%, from EUR514 million to EUR609 million, adjusted EBIT margin from 13.0% to 14.5%, up another 150 basis points. Our adjusted EPS, the performance per share, went up almost 23%, and our net working capital went from 8.4% to 7.5%, down 90 basis points.

So we're well on track for reaching our fiscal year 2012 guidance with a strong performance in the second quarter. I'll now handover to Carsten to comment more on the quarter in detail.

**Carsten Knobel:** Thank you very much, Kasper. I will take over from here and guide you now through the financials for Q2 2012.

Let's start with an overview of our sales growth figures on the second quarter of this year, and first looking at Henkel's. We have seen a total organic growth of 4.0%, mainly driven by price of 3.7%. But also volumes were up by 0.3%. Please keep in mind that we have changed our definition concerning innovation effects, which from Q1 2012 accounted as a price effect as to volume effect before. To give you a snapshot on our three divisions, Laundry and Home Care came in with a strong organic growth of 5.1%, Cosmetics and Toiletries with a solid performance of 2.8%, and Adhesive Technologies once again with a solid performance of 3.6%.

Let's go a little bit more into the details of the divisions, and looking first at our Laundry and Home Care business. 5.1% is the organic sales growth, with a healthy split of 3.9% up in price and 1.2% in rising volumes. All regions were contributing to this strong performance. The emerging markets here again, after Q1, contributing with a double-digit growth. And
Western Europe, despite the ongoing weaknesses, especially in Southern Europe, as well as North America has been positive. If we look on the two segments, Laundry came in with a solid growth, and Home Care even stronger with strong development.

Moving now to Cosmetics and Toiletries, we witnessed another solid sales performance with an organic growth of 2.8%, and especially if you keep in mind that we had high comparables in the Q2 of last year with more than 5%. It was mainly driven by price with an effect of 2.5%, but also volumes were positive with 0.3%.

Also in Cosmetics, all regions contributed to the solid performance. Our emerging markets showed the strongest performance. And here especially our business in China came up with a high organic growth rate.

In our mature markets, as in Laundry and Home Care, Western Europe and North America showed a positive development throughout the last quarter. In terms of the segments, Retail showed a solid growth where the Hair Salon business was flat.

Adhesive Technologies delivered a solid organic growth of 3.6% which is composed of 4.1% regarding pricing, and the slightly negative effect regarding volume of 0.5%. Here it is important to note, and Kasper already did mention it before, and we also communicated it in our Q1 call, that we continue to optimize our portfolio mix by expanding high margin segments versus high volume.

And following this path, we conducted selected exits in certain businesses in Asia. For example, we mentioned emulsion business in China, to strengthen our profitability. Excluding these strategic moves, our organic sales growth would be higher and therefore also our volume figures would have been positive.

To be a little more precise, this accounts for around 100 basis points in terms of growth. Overall, from a regional perspective, we have seen strong sales performance in our emerging markets, mainly driven by double-digit growths in Middle East and Africa and also in Eastern Europe. Concerning our mature markets, North America contributed with a strong growth.

If we have a look on the segments, transport and metal with the strongest growth, also all other segments with a positive growth. However, as Kasper said, Electronic Adhesives were below the prior year.

So looking back at Henkel, we have seen a total reported sales growth of 6.4%. This development has been positively influenced by FX effect here in all three divisions. And the main contributors to that are the US dollar, the Chinese renminbi and the Japanese yen. And with that, we delivered a 2.9% growth without FX effects. Adjusted for A&D effects which are amounting of 110 basis points, our organic sales growth came in, as alluded before, with 4.0%.

Once again, to this organic sales performance, all businesses contributed, mainly driven by our emerging markets with a very strong growth. And despite ongoing market challenges, this growth has been supported also by our mature markets in the positive sense.

Let me now move to our development in terms of sales growth by region. We have seen that all regions, besides Western Europe, contributed to that growth. Western Europe with a share
of around one-third of our total sales showed a flat development, despite the increasing weakness in Southern Europe. To be a little bit more specific, the headwind in Southern Europe intensified throughout the last quarter affecting our industrial businesses stronger than our HPC businesses.

Again, Eastern Europe showed a strong sales performance with 7.9% organic growth whereas Africa, Middle East with 14.1% came in even stronger with a double-digit growth. Our North American business was contributing with a solid growth within a sluggish consumer climate. And finally, let me comment on Asia, 4.5% solid sales performance with a double-digit contribution from our Cosmetics and Toiletry business as mentioned before.

So with that we have in total our emerging markets where we have a satisfied -- very satisfied development with 8.1% organic growth and leading to 43% as a share of total sales. All in all, we recognized very strong growth in our emerging markets and particularly Laundry and Home Care came in with a double-digit growth.

Let me now come back to Latin America in this respect, which did not meet our expectations. We have a very heterogeneous picture. On one side Mexico with a very strong sales performance and here supported in all three business divisions. Negatively, Cosmetics and Toiletries because impacted negatively by political instability in Venezuela; to be more specific, we have here restrictions in order to increase our prices.

And the other point where we are not satisfied is our adhesive business in Brazil where we are below the previous year due to two reasons. On the one side, slowing industrial demand, and on the other side we are also not happy with our development in our consumer business within Brazil.

In Eastern Europe, we saw again a strong sales performance momentum compared to Q1. And here particularly to be mentioned Russia, a double digit growth supported in this quarter by all business divisions. And to close, in Asia emerging markets business, especially China, showed a strong growth compared to the previous quarter.

Next, I would like to move to our adjusted EBIT by business sector. And here first of all the return on sales, adjusted return on sales of our Laundry and homecare business increased significantly by 150 basis points now to a level of 14.5%. Our Cosmetics and Toiletry business once again further improved their margins by 30 basis points, now reaching 14.4% in Q2, and also the Adhesives business as the Laundry and Home Care business had been able to increase the adjusted EBIT margin by 150 basis points reaching now an all time high of 15.7% in terms of adjusted EBIT margin.

This leads for total Henkel the strong improvement of our adjusted return on sales, up by 150 basis points and now being at 14.5% to the quarter.

We counterattacked higher input costs by pricing, and as Kasper alluded to that, especially by ongoing innovation initiatives. Another impact has been the shift in our portfolio, especially to be mentioned, Adhesives business and also the divestment of our non-core brands in the US towards margin segments and to higher margins in total.

Furthermore, ongoing measures to avoid and to reduce costs and enhancing efficiency contributed to this performance of 14.5% for Henkel in the quarter.
Let's have a look now on the income statement adjustment, and here, sales to gross profit.

In particular, (inaudible) was our continued improvement in gross margins by 150 basis points, now to a level of 47.6%. This is also up compared to Q1 of this year where we had 47.1%, so up by 50 basis points.

Going a little bit into the details. This was achieved despite a negative impact of incoming costs of around approximately 200 basis points whereas in the previous-year quarter -- maybe I will remind you in Q1 we faced 400 basis points increased, now with 200 basis points. All in all we have seen by that a deceleration concerning the input cost inflation compared to '11 and also to the Q1 of 2012.

The implementation of strong countermeasures and the disciplined execution allowed us to overachieve and support the margin increase in Q2.

As the speed of rising direct material has decelerated, as I pointed out, in Q2 over the peak that we had faced in Q3 of last year, we now foresee an increase in the low single digits for the whole year. With this -- while we also updated our guidance of the direct materials from mid-single digits which we had until now. But on the other side we continue to remain vigilant on the development of direct material prices.

Let's have a look now to sales to adjusted EBIT. Here I would like -- well, we have several improvements here but I would like to highlight and point out two. One is marketing, selling, and distribution expenses and the other is the administrative expenses.

Let's have a first look on marketing, selling, and distribution expenses. Here we saw a slight decrease in relative terms by 20 basis points. To be marked is that the marketing investment increased compared to the previous-year quarter but also compared to Q1 2012 in absolute terms as well as in relative terms. With that, we keep on investing strongly in our brands and as well as our launches of innovations to secure on the one side our sustainable top-line growth but also on the other hand to expand our market positions.

In parallel, our selling and distribution costs went down in relative terms and thereby we see a slight decrease as I pointed out before of the 20 basis points in total for marketing, selling, and distribution expenses.

Moving now to the administrative expenses, here we saw a further went down of 30 basis points. Main contributor to that is our development in our shared services, the expansion of that, and by that also having a high cost discipline throughout the whole Company.

Moving now to our reported to adjusted EBIT development. We saw a very satisfying reported EBIT of EUR583 million in total, being up by 8.5% compared to the previous-year quarter. Our adjusted EBIT was even up further with an improvement of 18.6%, now reaching EUR609 million compared to the EUR514 million which we reached in Q2 2011.

In total, as you see, there is not a significant number of adjustments that we have experienced this quarter. The restructuring volume of EUR26 million which is mentioned here is below the previous-year quarter of EUR34 million. It's in line with our expectation for the full year. After the half year we have EUR39 million, and we expect as guided before, around
EUR100 million for the full year. And the main part of this EUR26 million is our --- or the biggest portion of that are investments to facilitate our shared services development.

So all in all we are continuously pursuing the strategy to adapt our structure to the market and as we further optimize our manufacturing footprints to be close to our customers but also to increase our share of -- of our share in emerging markets.

By that I would like to turn to our development of net working capital. Kasper alluded to that, it is another highlight in this quarter as we reached 7.5%. But as you can see from the chart, I think it’s very important for us also to look into the individual divisions due to the fact that we have also slightly different business models, and if you look at that performance we are very satisfied with the development in all three businesses who are contributing to the performance of our quarter, and all the three divisions are best-in-class compared to their peers.

Laundry and Home Care in that respect showed another very good performance, reaching minus 1.5%. Cosmetics and Toiletries further improved their net working capital now to a level of 3.5%, and also Adhesives lowered the figures and came in with 14.5%.

Moving now to our net debt development, it is our capability here to generate cash, and this is also shown in the net debt development. And before giving you the figures, please keep in mind that we adjusted our net debt definition as alluded in Q1, also now including marketable securities and time deposits besides cash and cash equivalents.

With this pretext, we saw that compared to the previous year we had been able to reduce our net debt by EUR690 million, now to a level of EUR1269 million. It is a slight increase compared to Q1, as you can see from the chart, but as you know, we have made a dividend payment in Q2 of EUR342 million impacting (inaudible) development.

Next, as you can see the main driver to lower our net debt is our cash flow generation. And I would like to highlight again that we are very focused on our cash generation, which you can see from the table. We improved the cash flow from operating activities significantly, now to a level of EUR444 million, up by EUR171 million compared to the Q2 of 2011. But also our development in free cash flow now more than doubling to EUR330 million shows our ability to generate cash. And this is something where we will also focus on the future.

With that, I'm at the end of the details of the financials of Q2 2012. And thereby I would like to hand over again to Kasper.

**Kasper Rorsted**: Thank you Carsten. Let me just summarize in the second quarter, maybe just spend a couple of minutes on the trading environment, because I know the questions will come up. Overall, we continued a very positive development despite the current macroeconomic challenges. And the challenges that we're seeing were and will remain at this stage within the Euro zone. You can see that in our numbers.

So we had a flat business in our West European business with a negative business in Southern Europe for industrial business. Similar to what we've seeing in previous crisis years, and we do not expect that situation to substantially improve for the second half of the year. That is not part of our assumption.
Besides that, we see solid performance and solid business environment across the board. North America remained unchanged, strong. South America, Carsten alluded to, with the restrictions we have in Venezuela. But Brazil looks partially market-driven and partially performance-driven. And as in the previous past, we're very open about where we're not happy, we are not content with our performance in our Adhesives business, more particularly in the consumer part of our Adhesives business in Brazil.

Eastern Europe remained strong, Middle East strong, Asia also strong with very slight decline in China, a marginal decline, but still very strong business environment, in China and in Indonesia and Vietnam, et cetera. However, we do not expect that the market environment will improve in the second half. We expect it will further deteriorate.

It is under those conditions we've also changed the outlook "upwards." We continue to see a successful performance driven by our American markets both on top and bottom lines and supported by our mature markets, particularly North America in this context. All our financial KPIs are on track to reach our FY guidance. And our adjusted EBIT margin at 14.5% came in despite the market environment and not because of the market environment. We believe that the market environment deteriorated further in the second quarter versus the first quarter. And so it was despite that.

For Henkel, as a total we are running now at 14.1% for the first half, right at the guidance we've given for the full year. We'll continue the active portfolio management to ensure that we improve the quality not only of the business and the earnings. That was very clear to see on our adhesives business with a growth rate of 3.6% and a margin of 15.7%. Had we looked upon this three to four years ago, it would have been substantially more exposed than the bottom line with a lower growth rate.

Now, we were able to substantially improve our bottom line with 150 basis points. We will, as Carsten said, continue to adapt the structures to the market. We've done that in the past number of years, and we're going to look upon one of the numbers that we looked very carefully at, is our overall population within the Group. And that is almost 1,000 people less in the second quarter of 2012 compared to the second quarter of 2011.

That is the primary driver for cost and we managed that line very, very diligently. We believe we can continue to scale the business with a very tight focus on our cost.

We're fully committed to reach our 2012 targets, which gets into the guidance, top line 3%-5% unchanged, adjusted margins at 14%, unchanged, adjusted EPS, up from or above 10% to approximately 15% at this stage. So we're confirming our guidance for financial targets. However, we're taking our EPS guidance up from 10% growth to 15% growth. We believe we're well prepared for delivering a successful 2012 and beyond. We continue to shift our business to the emerging markets that contribute to 43% of our business.

We have strong mature markets. We're making substantial progress in shared services. You see that in our P&L lines and you'll see that we report also something that will accompany us for the next few years.

We continue to optimize or manufacturing footprint. By the end of the year, we'll be opening the largest manufacturing plant for adhesives in China. And we're just in the process of significantly expanding our manufacturing capacity for our Detergents business in the Middle
East. We continue to strengthen our top brands, and reduce our brands. Strengthening our top brands drives our capability to drive pricing to the market place and defend our market positions, and the reduction of our brand allows us to spend more per brand, because each brand gets a higher absolute and relative spend. And you saw that in our cosmetics business where we will continue to reduce the number of brands and sell off brands that are either non-strategic or significantly not accretive to our business.

Talent management plays a big role within Henkel. Carsten sitting the first time at the table, we now changed our management team completely since 2008 with the exception of Hans who runs our cosmetics business and myself. We have a vision and value set that we define in 2010 that we're very focused on. We have a new sustainability strategy put in place, that in the last year that ensures that we will maintain and defend our leadership position we have in sustainability.

And while executing very diligently in 2012, we're spending the appropriate time putting the right strategy in place for the Company beyond 2012; which brings me to the upcoming events.

We'll have the Investor Day for our Laundry and Home Care business on September 4th, here in Dusseldorf. And along with the communication of our third-quarter results, we will also, as you know, reveal our strategy and targets beyond 2012. That will take place on November 16th. And similar to our disclosure of our strategy in 2008, that will take place in London, similar to that. I hope many of you will not only join us here in Dusseldorf for our Investor Day for Laundry and Home Care but also for our Strategy Day in London, November 16th, accompanied with third-quarter numbers.

With this, we'll come to the end, and Carsten and I will be happy to take the details of your questions. Thank you.

Q & A Session

**Operator:** Thank you, Mr. Rorsted. Ladies and gentlemen, the question-and-answer session will be conducted electronically. (Operator Instructions)

**Celine Pannuti:** My first question is on pricing. We've seen a slight deceleration in Q2 versus Q1, and you started to raise your pricing in the third quarter of last year. Now you're -- show in your presentation that you are lowering your input cost guidance from mid-single digit to low-single digit. So I am expecting that probably your input cost is becoming a tailwind in the second half and my question is therefore, should we expect pricing to further slowdown in the next quarter, potentially becoming negative?

Second question is on China. Could you please tell us what was the like-for-like in China in Q1 and in Q2? I understood these are slightly negative and it wasn't unsure whether that included your slight disposal there, and how do you feel the market growth is in China and do you feel --- is this appropriate versus the plant that you will be opening later this year? You said it's the biggest plant you have in the Group. Thank you.

**Kasper Rorsted:** On pricing, while we expect a slight tail in the second half, we're not expecting pricing to be negative in the short term.
On China, what are we seeing, we continue to see growth in China. My point was more that we're seeing a slight deterioration -- de-acceleration on the GDP side. So we continue to see substantial growth in China. It is down -- the growth rates are down, let me put this straight, to be clear, we still continue to see very strong growth rates. We are opening the largest manufacturing plant, as I said, in China by the end of the year, that will predominantly 80% to 90% serve the Chinese market, and we've already approved the second phase investment. That will take another year to put in place, so you can see our confidence in China remains and is still very high. Depending on different sources, GDP growth goes between 7.5% to 8.5%; it is down from previous year but we remain quite confident on our position in China.

Celine Pannuti: Is it possible to ask you like-for-like in China because I saw that your Asia-Pac went from more than 8% in Q1 to 4.5% in Q2, and I was wondering whether that was China-driven?

Kasper Rorsted: No, it's not possible to get like-for-like.

Celine Pannuti: Thank you.

Operator: Harold Thompson, Deutsche Bank.

Harold Thompson: Just got two questions. The first one is also on Adhesives. You basically stated that you're exiting kind of lower margin businesses there and that has hurt your organic growth in the Adhesives business by about a 100 basis points. I guess that's all a volume impact. How long have you been doing that and therefore kind of keeping the growth rate of that division slightly lower than we would have thought, and should we expect that trend to continue, and I guess therefore for volumes to remain impacted by that strategy?

My second question is on the Cosmetics business. Well, it has slowed quite a bit. I know you're right to point out that the comp was quite high but it was no different really to the first quarter and I can't quite see which area or region has slowed. From your text, it appears it's Eastern Europe, but just want to know what's really driving the slower growth there. Thank you.

Carsten Knobel: Regarding Adhesives, the 100 basis points which I mentioned are as you're indicating 100% related to volume. And we started with the portfolio topics which I mentioned in Q1 2012, and this will for sure continue through the whole year of 2012.

Regarding Cosmetics and the slowdown, once again with the 2.8% solid growth, and it's also impacted by reducing growth in the markets, but in terms of, as we pointed, where we are not 100% satisfied is on the one side the Latin America topic, which I alluded regarding Venezuela, and also our professional hair salon business which I pointed out is flat. It's not in line what our expectations are and these are the main drivers why our business is not in the magnitude in terms of growth as you have seen it before.

Harold Thompson: Okay, excellent. Thank you.

Kasper Rorsted: Just an expansion on the Adhesives side, it's correct -- our Adhesives, it's correct what Carsten is saying but what you will be looking upon the one year, that Carsten alluded to is correct, or the business as we reported here, we will continue to do an ongoing
"adjustment" on our portfolio and you should continue -- you should expect that to see in an ongoing basis.

It is very important for us because part of our strategy is managing for value and not necessarily volume. We want to make certain that we continue to deliver sustainable improvement not only in absolute EBIT but also relative EBIT.

So we'll do that in a balanced way, but we'll continue to separate ourselves from businesses that over time have no strategic fit or have substantial dilution to our profitability.

We will disclose that as it comes here. We will guide for what is the impact. We believe it's the right thing to do, and I think you can see that in the quality of the earnings with 15.7% margin on a 3.6% growth rate, and that is where we'll continue to focus on.

Harold Thompson: Okay, Kasper -- ?

Kasper Rorsted: …by way in the Cosmetic side where we got rid of seven brands in the US.

Harold Thompson: Okay. Just on your Adhesives, just because I didn't quite understand your answer to Celine. I seem to think that you're basically saying that input cost will be easier in the second half clearly than in the first half. But do I correctly interpret that you expect pricing in Adhesives to stay high?

Kasper Rorsted: No, what I said I did not expect it to become negative.

Harold Thompson: Okay. So it will slow but it will just not go negative?

Kasper Rorsted: At this stage.

Harold Thompson: Okay. Thank you.

Kasper Rorsted: But of course we don't live in isolated world. But electronics business, it will not go negative.

Harold Thompson: Okay. Thank you.

Operator: Martin Roediger, Cheuvreux.

Martin Roediger: First is on the impressive improvement on the gross margin by 150 basis points. Can you quantify how much of that came from cost savings, how much from efficiency improvement, how much from higher sales price increase versus raw material cost inflation and how much from mix effects on the back of innovations?

And the second question is on currency impact. Obviously according to your report, the impact on the EBIT was, also similar to the impact on sales, was 3.5%. Did your rule of thumb for the US dollar impact change because obviously besides dollar also --- there were also renminbi and yen are the reasons for the positive impact on the EBIT. And have you any currency hedgings in place, which implies that the bigger impacts from currencies on the EBIT level is to come on later when these hedgings are running out?
Kasper Rorsted: So Martin, I'll take the first question and Carsten will try to clarify to the extent that we can on the second question. We don't specify and break down the improvement that we had in our margin improvement, neither [the EBIT or on the Gross Profit side], but basically what you could look upon, it's a mix of many. We've had increased raw material pricing as we indicated but pricing is going up. So pricing is clearly one driver. Manufacturing footprint is the second driver. Third, overall cost structure, the 1,000 people I alluded to is the third driver. So it is a mix of the many. And then of course innovation. Well, we continue to innovate and strive more value versus volume. And that's why we started looking upon particularly on the adhesives side where it is much more attractive for us to sell ton of non-standardized products with a very, very high price instead of 10 tons of some other products with a very low price. So it's a mix of the many. We don't break them down, and we continue to manage of course the different elements, and each of the elements have their position. Right now, of course, raw materials does play one, but it's a mix of the many.

Carsten Knobel: Okay, regarding your second question, regarding currencies. First of all, of our transaction risk is relatively low and therefore we have no major currency hedges which we execute, and regarding the mix effect which I pointed out, the main deviations are as I said USA, that means dollar, Chinese renminbi, Japanese yen, but also in a negative way Venezuela, the peso, Brazil real, and the Polish zloty.

Martin Roediger: So your rule of thumb for the dollar impact is unchanged?

Carsten Knobel: Yes. Correct.

Martin Roediger: Okay. Thanks.

Operator: Iain Simpson, Barclays.

Iain Simpson: Just firstly on Adhesives, it would be helpful if you could give some color over the performance of Adhesives in Asia Pacific in the second quarter and how the compares to the first quarter and the trend that you're expecting in the second half.

Second question, if I may, which was that you've talked about how you're not happy with your performance in various sub-segments of your Latin American business, it would be interesting to hear about any actions that you either have taken or expect to be taking in the near future to try and improve performance there. And just lastly, if I may, instead of cosmetics personal care, obviously innovation has been a helpful driver recently, to just some comments over your innovation pipeline, on what shape that's in for the second half relative to the first half. Thanks very much.

Kasper Rorsted: I'll take the two last questions and Carsten will take the other questions. Starting with the very last question, as Carsten indicated, we believed with our Cosmetics business. The primary drivers for slowdown has been our professional business, which is particularly very impacted when you have volatile economic environments. And our professional business at this stage practically don't expect any really difference in that business in the second quarter now and moving forward because it's very closely related to a consumer climate.
Venezuela, I believe you've seen other companies seeing the same with that -- with that scenario. So we actually don't believe our growth rate at this stage is very much related to the portfolio that we have, or the innovation rate, it is -- it is related to (inaudible) our innovation rate is related to professional and to Venezuela.

When it comes to Brazil, we are -- and Iain, you do participate in these calls, we try to be very transparent about when we believe market is the reason and when we believe we are the reason. We will signal to other areas to take appropriate management action, and we have to report back in our next call, but rest assured that we will take similar actions in the markets that don't perform as we've done in the past, in order to fix it.

Iain Simpson: Thank you very much.

Carsten Knobel: Okay, regarding your question, regarding Adhesives in Asia Pacific. As I pointed out, the portfolio packs which we had are for sure -- especially the margin business impacting Asia and therefore also impacting our growth because as I pointed out it's an accident and therefore it's a part of our organic development. We are -- independent of that, we are satisfied, and the Q2 results are only moderately slower than or slowing down compared to Q1, but in over and all satisfying development.

Iain Simpson: Thank you very much, and the trend for second half based on what you see?

Carsten Knobel: Unchanged in that respect.

Iain Simpson: Brilliant. Thank you very much.

Operator: Peter Testa, One-Investment.

Peter Testa: I just wanted to clarify something on the Adhesives business, please. You're explaining that the pricing effect will be less positive in the second half and you also have the ongoing impact of the disposal on volume. Yet you stepped up your guidance to mid-single digit organic sales growth, and I was just wondering if you could just help us understand what's accelerating in this current environment. Thank you.

Kasper Rorsted: All we are saying is that we continue to manage our costs very, very tight; we're getting a bit leeway on our raw materials, as Carsten indicated. And if you just do the share calculation we're coming out, early on with a stronger P&L, that's why we think that we'll get the EPS upside.

Peter Testa: Sorry, excuse me. I was asking about organic sales growth, please.

Kasper Rorsted: We didn't change the guidance.

Peter Testa: Okay.

Kasper Rorsted: We said we will remain 3%-5%.

Peter Testa: I was looking of the Adhesives business -- at the Adhesives business --

Kasper Rorsted: We didn't change the guidance.
Peter Testa: Okay. Alright.

Kasper Rorsted: No change to the guidance.

Peter Testa: Thank you.

Operator: Robert Waldschmidt, Bank of America ML.

Robert Waldschmidt: Two questions if I may. In terms of the price volume, the definitonal switch, can you just clarify whether you've also restated the base, and if there is anything we should be aware of there? And then within the volumes, I know you've said that you're halfway through the year. You've had only two quarters now of exit impact from these low margin high volume Adhesives contracts. Can you quantify the impact we can expect for the full year? Is it circa 100 basis points in that regard?

And then second question. The margin is running around 14.1% at the first half stage, target 14% for the year. Is there anything in the second half other than the aforementioned economic situation that will lead us to believe that it should be anything lower than 14.1%? Thank you.

Kasper Rorsted: It should be 14.0% because that's the guidance at this stage. Right now we work very hard on what we are today. I think that if you look upon the current economic climate, it is so volatile and so difficult to predict and you have changes not only the Eurozone but also in the Middle East. We're focusing very, very serious on the 14.0%. If 14.1% comes out, 14.1% comes out, but right now it's a 14.0% that we're focusing on. And that is under the current market trading conditions. And significantly deteriorated over the last four-six quarters and despite of that.

So, right now we're not focusing on the upside. We are focusing on the unpredictable in the market place and delivering 3%-5% growth -- 14% margin. Maybe just before Carsten goes to the price, I want just to be very clear on the volume part of the adhesives business. The adhesives business is almost misleading when you start looking upon the volume because we compare things that we ship in tons and we compare things we ship in drops.

And the more volume you get, the more volume intensive you get, the more commodity-like you get. We are very, very deliberately for the last couple of years focusing more and more on products that have a technology differentiation; and technology differentiation means in almost all aspects, less volume. So what you will see or what you should expect to see that in the market segments we're operating in, we will grow market share, we are aiming a growing top line but a growing bottom line.

On the price volume, which is the misleading indicator in our Adhesive business, you can't expect over time to see negative volume because frankly, strategically, we are focusing on all these segments that are driving higher margins. That's why you look upon when we exit businesses like we've done, as Carsten indicated, and as we did last year, it is almost all of the time volume-focused businesses.

So that's why next year we will probably most likely stop delivering a price-volume split for adhesives because it is a misleading indicator. It is a misleading indicator when we focus more and more on market share, on top line growth and bottom line growth. And as long as
we grow the top line fast and the market, we're growing market share in all the segments we're participating in, and we believe that it is becoming a misleading indicator with our increased focus on our quality of the business.

**Carsten Knobel:** And again to the price-volume concept, as we said, we changed that with Q1. And to remind you, the new concept is in the term that we --- in determining the price effect, we do account for the positive structural effect arising from launches of new products within pricing which was before done in volume. And to be more specific, as we said it, we are doing it for our HPC businesses and not for our Adhesives business. And lastly, yes, we've recalculated the 2011 figures.

**Robert Waldschmidt:** Thank you very much.

**Operator:** Pedro Gil, Santander.

**Pedro Gil:** Couple of questions if I could. The first one is on the Cosmetics and Toiletries business. My question is regarding the closure of the Schlecker stores in Germany, whether you have seen or you expect to see any kind of impact there.

And the second question is on the adhesives business. If you could even just directionally quantify to some extent the impact of the line exits that you mentioned before.

**Carsten Knobel - Henkel AG & Co KGaA - CFO**
Regarding your first question, regarding the relevance of Schlecker, the impact of Schlecker is not significant for other than Henkel in total and also not for Cosmetics and Toiletries. The sales we are generating with Schlecker are relatively small, and with that effect the majority of the short falls we will receive there will be compensated by the increased revenues we generate with other customers.

**Kasper Rorsted:** On the adhesives side, the impact of divestment, if I understand your question correct, as upon heard from Carsten 100 basis point of growth throughout the range of this year, and when we do the ongoing optimization of portfolio, we will guide on the quarterly calls where the impact of this is, but at this stage, with the current decisions we're taking in, executed to approximately 100 basis points.

**Pedro Gil:** Okay, great. Thank you very much.

**Operator:** Thank you.

**Kasper Rorsted:** With this I'd like to thank you for participating in today's conference call and we believe despite the challenging market environment we had a solid second quarter. We will maintain our rigorous approach to cost management and further adapt our structures to the change in market environments. And we're very confident to achieve our 2012 targets. I wish you all the best and I look forward to speaking to you at our analyst meeting on November 16th, 2012, in London. And I'd also like to remind you of our Laundry and Home Care investor and analyst day here in Dusseldorf on September 4th, 2012.

With this, now I'd like to thank you for participating in today's call and look forward to talk to you all within the next couple of months. Bye now.