Commented Slides / Earnings Conference Call Q1 2016
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Participants – Active in Q&A session
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Christian Faitz; Kepler Cheuvreux; Analyst
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Good morning and welcome to the Henkel conference call. With us today are Hans Van Bylen, 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 Van Bylen. Please go ahead, sir.

**Hans Van Bylen:**
Dear investors and analysts, good morning from Dusseldorf and welcome to our Q1 earnings call. I'm very happy to welcome you today in my new role as the CEO of Henkel.

Before starting with the presentation, please allow me briefly to say a few words about myself. I have been with Henkel for more than 30 years and have been responsible for various business units, countries, regions and markets. In the past 11 years, I was serving as member of the Management Board responsible for the Beauty Care business unit.

Earlier this month I took over from Kasper, whom I would like to thank for his contribution to the company. Today, Henkel is very well positioned. We have strong brands and technologies, a high level of innovation and we are the leader in many markets worldwide.

Our company has a clear long-term strategy. We are now in the process of defining the strategic priorities and objectives for the next four-year cycle starting 2017, and we will share this with you on November 17th. Together with my fellow Board members, we are determined to lead Henkel successfully into the future.

I had already the occasion of meeting with some of you in the past. Today, it is a pleasure and a privilege for me to engage with you for the first time in our earnings call, together with Carsten.
Now, let's get started. As you are used to, I will begin my presentation with the key developments of the Q1 2016. Then Carsten will provide you with the detailed financials. After that, I will close my presentation with a brief summary and outlook. And finally, we will be happy to take your questions.

I would like to begin by reminding everyone that the presentation, which contains the usual formal disclaimer to 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 read into the records for the purpose of this conference call.
Let’s start with the key developments in Q1 2016.
Henkel had a good performance with all business units contributing in an ongoing challenging & volatile environment.

We further increased sales, achieving organic sales growth of 2.9%. Adjusted return on sales rose significantly by 80 basis points to 16.8%. This brings us to an adjusted EPS growth of 7.6%.

With an organic sales growth of 6.3%, we once again delivered a strong performance in our emerging markets. Net working capital improved and came in at 5.4%. Our net financial position was, following the close of the first quarter, 452 million euros.

Overall a good start into the fiscal year 2016.
All three business contributed to the good performance with a solid organic sales growth. The increase was mainly volume driven.

Emerging markets again were the growth driver for Henkel with a strong performance. Mature markets also showed a positive development.

All three business units contributed to the very strong improvement in adjusted EBIT margin which led to a high-single digit EPS growth of 7.6%.
The environment remains challenging and uncertain. We continue to see severe geopolitical and social instability and macro-economic volatility in some countries, particularly in the Middle East.

Global economic growth remained moderate.

We faced significant FX headwinds, especially from currencies in key emerging markets.

In China, lower economic growth continues to impact demand. In this challenging environment, the organic growth in Adhesive Technologies China slightly negative in Q1.
Let's have a closer look at the business units now.

We continue to be very satisfied with our Laundry & Home Care business. Once again a strong quarter with solid organic sales growth in both business areas, Laundry Care and Home Care.

The business unit achieved growth across all regions. Mature markets were positive and emerging markets were very strong.

The increase in adjusted EBIT margin was excellent. Return on capital employed was above the prior-year quarter driven by the strong operating result.
Several initiatives drove the excellent performance of Laundry & Home Care. Let me give you three highlights:

In the US, we continued the national roll-out of Persil ProClean and started the launch in Canada at the end of Q1. Our placement of a TV commercial at the Super Bowl in 2016, the largest televised sporting event in the US, proved to be highly effective with regards to sales and market shares.

In Europe, we are leveraging the laundry additives business that we acquired as part of the Spotless deal. In Germany we have started the roll-out of Dylon, an internationally leading brand for fabric dyes. In Eastern Europe we launched the Color Catcher laundry sheets.

In Russia, Persil became the number 1 in the heavy duty detergents market. Market share expansion was driven by our strong performance in the liquid segment and a further success driver is the launch of a new lavender variant.
Also Beauty Care continued its profitable growth path.

The business unit delivered a solid organic sales growth, driven by both the Retail and the Hair Salon business.

We achieved positive organic growth in the mature markets. In emerging markets we delivered very strong growth.

The adjusted EBIT margin achieved a strong increase over the previous year. Driven by the EBIT increase, ROCE was above the level of the prior-year-quarter.
Also for Beauty Care, I would like to share some highlights.

In the US, the launch of Schwarzkopf in the retail business continued to deliver a strong performance. It received the award for “No°1 Beauty Launch 2015” in the USA by IRI. While we started exclusively with Walmart, we are now expanding our distribution across the US and launched the brand in Canada.

In the Coloration segment, we launched with Syoss Gloss Sensation a powerful color innovation that offers a gentle coloring alternative for glossy shine. It was introduced to 24 countries in Europe and Middle East Africa.

In China, very strong growth was driven by innovations such as Schwarzkopf Extra Care Purify Protect as well as by our strategic partnerships with our trade partners. This further boosted our exceptional e-commerce success.
Now let's move to Adhesives Technologies.

In Q1 we delivered solid organic sales growth. This was driven by strong organic growth in Transport & Metal. Packaging achieved solid growth, General Industry and Consumer Adhesives were positive. Electronics was slightly negative.

From a regional perspective, in the mature markets we had a positive development, organic sales growth the emerging markets was solid. In a still uncertain macro-economic environment, China was slightly negative in the quarter.

The adjusted EBIT margin recorded an excellent increase. This resulted in ROCE being above the level of prior year.
Moving on to the Highlights of Adhesive Technologies:

In the Automotive Industry, we achieved strong growth and continued to gain market shares. Within our Loctite brand, we offer innovations for high-performance engineering to our automotive customers. For example, our impregnation service centers for metal parts and electronic components allow our customers to enhance processes, save costs and improve their ecological footprint.

In Food Packaging, we continued to outperform markets and peers, extending our global market leader position. Under the brands Loctite and Technomelt, we offer solutions for the flexible packaging industry ensuring process optimization and the highest food safety standards.

In the Construction Industry, we generated very strong organic sales growth, driven by the energy saving applications offered under the Ceresit and Macroflex brands in Eastern Europe.

Let me now handover to Carsten, who will take you through the financials.
Carsten Knobel: Thank you very much, Hans. And good morning also from my side. Let us now have a closer look at the financials of the first quarter 2016.
And let me start, as always, with our key KPIs, starting with our sales development. In the first quarter 2016, our sales came in with EUR4,456m. This is an increase of 0.6% in nominal terms and related to that we see an organic net sales growth of 2.9% solid.

However, moving now to the gross margin adjusted, somewhat counterintuitively, the current oil price development, our adjusted gross margin declined slightly to 48.8%. This is 30 basis points below the prior year. And with this margin decline, this is mainly due to, not surprisingly, transactional FX effects. Nevertheless, I will come back to that a little bit later during the presentation.

Moving now to our adjusted EBIT margin, we see a strong increase of 80 basis points now to a level of 16.8%, and with that a very strong result when it comes to profitability.

Let me close in the key KPIs, moving to the EPS for the preferred shares adjusted. Here we see a high single-digit improvement of 7.6% increase now to a level of EUR1.27. So, overall a good performance in the context of the present FX environment and a good start into the fiscal year of 2016.
With that, let me move to our cash KPIs. The first quarter 2016 is characterized by a strong cash generation. First, looking at net working capital in percent of sales, we recorded a number of 5.4%. This is an improvement of 80 basis points, supported by our businesses and driven by operating improvements but also some currency effects.

The free cash flow came in at EUR290m, slightly above the prior-year level of Q1 2015. And with this we are delivering consistently a very strong cash flow.

Finally, our net financial position rose to EUR452m. This is an improvement of EUR442m compared to the comparable quarter of Q1 2015. But also here I will provide you with some more detail later during the presentation.
With that, coming back to our sales development on our Group level and taking a closer look on that. As already pointed out before, we have an organic net sales growth of 2.9%. And this is composed of a volume part of 270 basis points and a price component which contributed by 20 basis points. The net effect of our acquisitions had a positive impact of 110 basis points. And now, combining the organic plus the inorganic growth, this amounts to 400-basis-points increase compared to the comparable quarter of Q1 2015.

As already indicated also by Hans, we have a quite severe headwind when it comes to FX; to be precise, minus 340 basis points. From a country perspective, this is largely driven by key emerging market countries, like Russia, Mexico, Turkey and also Brazil. On the other side we have also seen a tailwind related to the US dollar in perspective to the euro.

So summing up, we closed the Q1 of 2016 with EUR4,456m, which is a nominal increase, as pointed out before, of 0.6%.
Looking now to the emerging markets and the mature markets. With EUR1,837m, the emerging markets came in with a nominal decline of minus 1.8%. This is, as already mentioned, due to the FX headwinds in the key currencies in the emerging markets. Organically, again, like in the quarters before, we see a very strong growth in the emerging markets with 6.3%. Acquisitions supported on top of that by 0.4%.

If we now relate the emerging market sales to the total Group sales, this this amounts to 41%, as pointed out again already before, negatively impacted by FX headwinds, and by that slightly below the prior-year level.

The mature market sales showed a nominal growth of 2.4%, reaching an absolute number of EUR2,589m. An organic growth is related to that of 0.5%. Acquisitions contributed to that growth of 1.6%.
Moving now more to our regional setup, you see and you will see a broad-based growth across the regions. But let me give you some more details also on these developments. Starting with Western Europe, the sales in Western Europe remained with minus 0.5% organically, slightly below the level of the prior-year period. The slightly negative development, for example, in Germany and Benelux could not be compensated by a positive development in the countries of Southern Europe, but also France.

Moving to Eastern Europe, also here, like in the quarters before, we see very strong development, even a double-digit organic growth development of 10.9%. This is driven, to a large extent, by the development in Russia and the Ukraine, but also countries like Poland and Turkey contributed to this very positive development.

Combining both Eastern and Western Europe, to have a glance on how we develop in Europe in total, this is attributed with an organic net sales growth of 2.8%.

Moving now to Africa/Middle East, here we see a solid organic sales development of 3.5% despite a difficult environment and double-digit comparisons in the comparable quarter of Q1 2015.
Moving to North America, also here a solid sales development, 2.4% organically. This is now a continuation what you have also seen in 2015. Now we have five quarters in a row with solid organic net sales development contributing by all businesses in this region.

Latin America recorded a very strong sales growth, with a number of 8.3%. The strongest contributor also seen also over the last couple of quarters is Mexico, with a double-digit performance, but also Brazil in quarter one contributed with a solid organic net sales growth development.

Moving finally to Asia Pacific, here we have seen a solid organic net sales development, with 2.2%. While China was positive in the first quarter, was very strong in the Beauty Care area and still slightly negative in Adhesives, but on the other hand we have also seen in other key countries good development. We have a seen a double-digit performance increase in organic net sales terms in India. And South Korea was showing a very strong organic net sales development.
With that, I would like to move now to our performance in the three business divisions, and I will start with our Laundry & Home Care performance.

The Laundry & Home Care sales came in nominally by plus 2.7%. Organically we have seen a development of 4.7%. This was driven by a volume effect of 520-basis-points increase and a slight decrease in the price component of 0.5%. Acquisitions contributed with 180 basis points improvement. And, as already seen on the Henkel level, we have seen a negative currency effect for the division of minus 3.8%. Both businesses, Laundry & Home Care, contributed with a solid organic net sales development.

Looking here into the markets, emerging and mature, the emerging market provided again a particular momentum when it comes to our organic sales, with a very strong growth rate. We have Eastern Europe and Asia contributing here with a double-digit development, Africa/Middle East with a strong growth, and also a solid development in Latin America.

Looking into the mature markets, here we see a positive development compared to the prior-year quarter. The main drivers here behind this, a positive development and performance in Western Europe. And also North America showed a positive growth versus the quarter one of 2015.

Moving now to the bottom line, an excellent development, an increase of 110 basis points from a level of 17.1% in Q1 2015 now to a level of 18.2%. Also from a cash perspective, looking at net working capital in percent of sales, we have seen an improvement again compared to the already very low number in Q1 2015. We recorded a minus 4.3% net working capital in percent of net sales for the first quarter in 2016, and by that being 40 basis points better than last year.
With that, moving to our Beauty Care business. Also here we have seen another profitable growth quarter as you have seen also in the last years. The Beauty Care sales came in with a nominal growth of 1.1%. Organically we have seen a development of 2.6%, exclusively or completely driven by a volume effect of 250 basis points. Price more or less flat, 0.1%.

Acquisitions recorded with a positive impact of plus 1.1%. Also here, like in Laundry & Home Care, we see negative currency effects, amounting to 2.6% negative impact for Q1.

Both businesses, the Retail and the Hair Salon business, showed solid growth patterns in terms of organic net sales growth in Q1 2016. Looking also here into the emerging and mature market, starting with the emerging market, a very strong development in organic terms, with double-digit contributions from Eastern Europe. China contributed to grow very strongly. Also Mexico showed a double-digit growth. So overall in the emerging market a very strong performance.

Mature markets also with a positive growth. We had especially, based on competitive intensity and pricing pressure, in Western Europe an organic net sales growth which was negative. North America recorded a very strong organic net sales growth, driven by both the Retail and the Hair Salon business in that setup.

Moving also here now to the bottom line, also here a very strong increase in adjusted EBIT margin. We have recorded plus 60 basis points improvement from 15.9% in 2015 at the end of Q1, now to 16.5%.

Looking at net working capital in percent of sales, we reached again a very low level, more or less on the level of the year before, with 3.2% in relation to our net sales.
With that, let me come to our third division, which is the Adhesive Technologies business. And we have seen here a solid organic net sales growth of 2.1%, which is driven by volume contribution of 140 basis points and the price component of 70 basis points. Acquisitions also contributed to this performance with 70 basis points. We have seen here a negative impact of currencies of 360 basis points negative.

Moving to the business sectors within Adhesives, we have seen a strong development from an OSG point in the part of Transport and Metal. Packaging contributed with a solid performance, while General Industry and Consumer Adhesives came in with a positive organic net sales growth. In Electronics, we fell slightly behind the numbers of the prior-year quarter.

From a regional perspective, also starting here with the development in the emerging markets, we have seen a solid performance in terms of organic net sales growth. Latin America contributed with a double-digit performance, here especially driven by Mexico. Eastern Europe posted very strong organic sales growth, with a double-digit contribution from Turkey and a very strong growth in Russia.
Emerging Asia part showed a positive organic net sales growth. Let me also here comment a little bit on China. The sales in China were only slightly below the prior-year quarter. Transport and Metal improved versus previous quarters and showed a solid performance, compensating for other business areas which were not yet back to growth. Nevertheless, we therefore prefer to remain vigilant on the performance in China, which, while not sequentially deteriorating Q4 and Q3, where we actually improve a little bit in Q1, we still see and we characterize the country and the market by uncertainty and the volatility.

Mature markets have seen an overall positive development. North America contributed with a positive development. And we had a slightly negative development in mature Asia and Western Europe.

Also moving now to the bottom line of our Adhesives business, also here you see excellent improvement when it comes to our development of our margin, 110-basis-point improvement from 16.4% at Q1 2015, now to 17.5%. And also when you look at the cash side, an improvement of 100 basis points in net working capital related to our sales, moving that from 14% now to a level of 13.0% and quite a strong development.
With that, I come back to the Henkel Group and in particular to our adjusted income statement. And I'm starting for the part from our sales to our gross margin development.

As stated before, we have increased our sales nominally by 0.6% now to a level of EUR4,456m. We have recorded a gross profit in absolute terms of EUR2,173m, which is minus 0.3% below the year of Q1 2015 in relative terms. This relates then to a gross margin, as pointed out before, of 48.8%. And this is 30 basis points lower than the comparable quarter of the previous year.

Let me give some light on that development. So we have seen lower prices for total direct materials as well as savings from cost reduction measures and improvement in the production and the supply chain efficiencies. But they had been compensated by the negative effect of transactional FX effect, but also of higher price and promotional pressure in our consumer businesses.

That's the majority of the development. As I said before, significant positive impact from these lower prices, but also significant negative impact from transactional effects. We have some minor effects which I would still mention. On the one side we have a negative impact of roughly 20 basis points from acquisitions what we did and a 10-basis-point impact, negative impact from regional mix effects.
With that, I would like to move further in our income statement adjustment now from gross profit to EBIT. Our Marketing, selling and distribution expenses decreased by 130 basis points now to a level of 24.4%.

The adaptation of our structures and efficiency gains which we realized in selling and distribution expenses drove our relative improvement. If you adjust for FX, our advertising expenses came in almost on the level of the prior-year quarter.

Moving now to the R&D expenses, with 2.6%, they remained on the level of 2015.

Our admin expenses came in at 4.7%, and this is a reduction of 30 basis points. And here the decrease reflects our strong cost discipline, on the one side, but also our efficiency focus. And in absolute terms this is or equals a reduction of 6.6%.

At minus EUR15m, the balance of our other operating income and charges remained at the very low level. Overall with that, as pointed out before, we have seen an adjusted EBIT now of EUR751m for Q1 2016, which translates, as I pointed out before, in an increase of 80 basis points related to the adjusted EBIT margin now to a level of 16.8%.
As you are used to, I will also give you a glance of the bridge from the reported EBIT to the adjusted EBIT. Our reported EBIT came in with EUR717m. We had no one-time gains in this quarter. We recorded minor one-time charges in an amount of EUR7m, which are related to our ONE GSC [One Global Supply Chain – note by IR] project.

Moving to restructuring charges, we accounted EUR27m in the Q1 2016. And this reflects our continuous efforts to adapt to the market conditions. With that, overall our adjusted EBIT came in with EUR751m, a 6.2% increase compared to the year before.
With that, let me move now to my last chart, which is related to the development of our net financial position. As already said before by Hans and by myself, Q1 2016 came in with EUR452m, which is an improvement of EUR117m compared to the end of 2015.

In the first quarter of this year, the strong free cash flow, driven by our operating performance, contributed to this positive financial position, which has developed very well over the last year. Our constant generation of cash puts us in the position to invest in our businesses and take action when strategic targets become available.

One example is the acquisition of a range of leading Hair Care brands, Pert shampoo, Shamtu and Blendax, with focus on Africa/Middle East and Eastern Europe regions, which we signed in March.

With this, I thank you for your attention and hand back to Hans.
Hans Van Bylen:
Thank you very much Carsten. Let me now summarize before we look at our guidance for the full year and then move on to the Q&A.
Overall, the first quarter was a good start in 2016, especially considering the challenging environment. All business units contributed to this performance thanks to the excellent execution by all our teams.

We continue to deliver a solid profitable growth, strengthening our market positions.

Both the emerging and the mature markets contributed to this growth. Again, in our emerging markets we delivered a strong performance.

Our Adjusted EBIT margin increased by 80 basis points, reaching 16.8%. Our most important KPI, adjusted EPS, grew by 7.6% in the first quarter.
When we look upon 2016, we expect that the environment will remain challenging.

Geopolitical tensions and macroeconomic volatility persist.

GDP forecasts indicate a moderate growth, with heterogeneous developments within regions. Currencies and crude oil prices continue to remain volatile.

In this environment, our priorities remain unchanged. We will keep on investing in a focused and balanced way to foster organic and inorganic growth. We will continue to leverage our innovation capabilities in order to deliver a strong pipeline of new products and solutions to our customers. And we will continue to be disciplined when it comes to cost and will keep on adapting our structures to the changing market conditions.

In conclusion, we focus on the successful execution of our strategy.
Based on this, we are confirming our full-year 2016 guidance given in February. We expect the Henkel Group to generate organic sales growth of 2% to 4% with all business units within this range. We expect to see a slight increase in the sales share of our emerging markets.

For the adjusted EBIT margin we anticipate an increase of approximately 16.5% with all three business units on or above previous year level. We expect an increase in adjusted EPS of between 8% and 11%. Regarding the financial targets of the strategy cycle 2013-2016, we remain committed to deliver an adjusted EPS CAGR of 10%.
I would like to come to the close and the upcoming events.

At our next event, Carsten Knobel & Jan-Dirk Auris will be pleased to meet you at the Investor & Analyst Day for Adhesive Technologies in Heidelberg on June 6th and 7th. Contact Investor Relations in case you have not registered yet.

I am looking forward to the next Earnings calls for Q2 and Q3 and our Strategy Update in November.

But before all that, let's now open the Q&A.
Q&A Session

Operator: Hermine de Bentzmann, Raymond James

Hermine de Bentzmann: Hi, good morning to both of you. My first question is on your full-year guidance. It seems challenging right now to reach the 8% at least 10% EPS growth in 2016. I was wondering how do you expect to reach that level. Do you have M&A on the card or a reduction in tax rate? Or maybe can you precise how you expect to reach this guidance especially as if you look at the Consensus, it's expecting 6% rise today, so please can you explain how do you expect to reach that level.

And my second question is on Marketing and selling. We note a significant decrease this quarter. You explained the ForEx impact. But I was wondering what can we expect for the full year on this line as a percentage of sales. Thank you very much.

Hans Van Bylen: Thank you for your question. I will take your first question and then Carsten will answer your question on Marketing and sales. Concerning guidance we indeed do see the guidance as ambitious. And like always there are some variables and unknowns especially in this case for example FX. On the other hand, we had a good start in the year, and this gives also the confidence that we confirm our guidance and that we give the guidance, especially on EPS, in a range between 8% and 11%.

Carsten Knobel: Good morning, Hermine. To your question regarding Marketing, selling and distribution expenses, I alluded already a little bit to that. As pointed out we have seen a decrease of 130 basis points to this level of 24.4% in the year. The relative improvement, as I pointed out, is especially driven by efficiency gains which are related to adaptation of the structures to the market.

Moreover, we also see here a continuous shift which we have also reported in the last year from advertising to promotion. But that was also the reason that I pointed out that on an FX-adjusted absolute level our marketing or marketing advertising spending are more or less on the same level of the year before. Please understand that we don't guide on Marketing and selling and distribution expenses on a year level.

Hermine de Bentzmann: Okay, thank you. Just to follow up on tax rate, can you give us a guidance that you have for the year?

Carsten Knobel: Say it again, I didn't -- the tax rate.

Hermine de Bentzmann: For the tax rate.

Carsten Knobel: For the tax rate? Yes, we have no guidance for the tax rate. But when we started into the strategy cycle from 2013 to 2016 we said the tax rate is around 25%. And if you looked in the years 2013-2014 and also 2015 we have been always around this 25% either on 25% or 24%. And you should not expect anything different also for the year 2016.

Hermine de Bentzmann: Okay, thank you very much.
Operator: Christian Faitz, Kepler Cheuvreux

Christian Faitz: Yes, good morning. Thanks for taking my two questions. First of all, can you please give us an indication about the progress of Persil ProClean sales in North America in terms of growth and potentially also sales levels, absolute sales levels that is?

Second of all, can you give us a feeling how much of the Adhesives growth in organic terms was attributable to an early spring season in terms of construction building activities in both North America as well as in Europe? And can you also tell us in Adhesives whether you had some feedstock cost relief which you so far didn't pass onto your customers? Thank you.

Hans Van Bylen: Thank you for your two questions. First question I will answer, and question on Adhesives Carsten will take.

I’m happy to report on the progress we are making in the US with our launches of Persil ProClean. As has been presented to you in earlier calls, you know that we started the launch exclusively with Walmart and with satisfying results in a way that we started going national, which now we are doing, so we are now in national distribution rollout. And on top also we launched now in Canada.

As I mentioned shortly in my presentation, we have been putting some extra advertising behind and especially also the Super Bowl gave us even more confidence that we are on a good way, because the Super Bowl has been also seen by observers as one of the most effective one and we also did see some off-take clearly in market share.

This being said, as always indicated we always say that for a launch in a new country we can’t put it as a success or a non-success. This will take some more time. But we are very confident we are on a very good way. And same, by the way, Schwarzkopf launch also US, same pattern, first Walmart now going national. And as I indicated also some good success rate on which we are happy to continue building upon.

Now I suggest to Carsten you take the Adhesive question.

Carsten Knobel: Yes. First of all, all SBUs, as mentioned before, contributed to this solid organic net sales development in Q1 2016, Transport and Metal strong Packaging solid. There is one exception which I mentioned that was the Electronics business which was slightly negative.

Yes, we have seen when it comes to feedstock strong material price decreases in the Adhesive sector and for sure you can imagine there is a price pressure to bring that from our customers to get also part of that. Nevertheless, we had a positive price effect in 2016 in the Adhesive sector.
And the other question from your part was related more to the Construction business, here a little bit more glance. Also as pointed out by Hans in the highlights of the divisions and hereby Adhesives we have seen a strong growth in the Eastern European region, here predominantly driven by Russia. And in North America we have seen a solid development.

Christian Faitz: Okay, thank you.

Carsten Knobel: Welcome.

Operator: Iain Simpson, Societe Generale

Iain Simpson: Good morning, everyone. And welcome to the new role, Hans. A couple of questions from me if I may. Firstly on China Adhesives, you mention that this is now only slightly negative. Now does that include an element of destocking still? So would you say that end demand for China Adhesives is probably now back in positive territory?

And secondly, just to revisit it again, but you talked about selling and distribution expenses being down as you adapt your structures. Just to confirm are these the headcount reductions in Adhesives that you talked about back in August last year as you adjusted your cost base for the slightly slower end markets in a few countries? Thanks very much.

Hans Van Bylen: Thank you, Iain. Also thanks for your welcome words. I suggest I will comment on your question on the China Adhesives and then Carsten will elaborate on your question on selling and distribution expenses.

Concerning China, I think Carsten also in his comments also put the Q1 into another perspective following the Q3/Q4 development, and as we indicated Q1 is slightly negative, which shows that we see an improving situation. But this being said concerning future we still see the market as extremely volatile. Our feel is that indeed distribution inventory levels remain very high and that destocking is still going on.

Carsten Knobel: Iain, good morning. To your selling and admin question I think I don’t need to repeat what I have said in the answer to Hermine, but your special question in terms of FTE [Full Time Equivalent employees – note by IR] development. First of all, overall to the initiative we have announced in Adhesives which we have announced in August this is on track, and we will finalize as already pointed out before until mid of this year this initiative.

For sure the impact on the P&L is gradual. That means the benefits of the adaptations are visible and are also therefore visible in Q1 of the result. And to give you some more glance on that if you look on our FTE development we are down compared to the comparable quarter of Q1 2015 by 750 people. That's now Henkel not Adhesives. And if you compare it also related to the full-year 2015 that means related to the December 31, 2015 we have an improvement or a reduction of roughly 400 people.
So you see that what we are doing is impacting continuously positively in terms of our P&L.

Iain Simpson: Thank you.

Operator: James Targett, Berenberg

James Targett: Good morning, everyone. A couple of questions from me. Just firstly on the US business, clearly ProClean and Schwarzkopf rollouts seem to be going well. I just wondered if there was any impact on pricing from promotional during that rollout, just trying to get an idea of if there's any sort of phasing in pricing due to that.

And then secondly, with North America due to initial success of ProClean and Schwarzkopf have you changed your thinking in terms of opportunities for the introduction of other global Henkel brands in the US market in HPC?

And then actually maybe if I could quickly just follow up on the Adhesive margin question just so we are understanding, you said that Q1 did see some benefits from the overhead, the personnel-based overhead saved. But when should we see the full benefit of that hitting the P&L? Is that still expected from the end of the second quarter or has that time changed? Thank you.

Hans Van Bylen: Thank you, James. So it looks like a pattern, but I will take the first question on US, and as the second one is on the margin Carsten will be happy to take over, but this is not the standard pattern.

Let me now come to your US question. Because indeed the Pro Clean and Schwarzkopf launches give us confidence. And concerning pricing there is one important note to make here. Both launches we positioned as premium price. Persil ProClean is positioned in the premium segment. And Schwarzkopf launch both in color Hair Care and styling, the whole assortment is also put on the premium segment, which means by doing so we deliberately wanted to avoid to get into a pricing promotional battle there. And on top of course these launches are also meant, as they are more premium priced, to generate also a growth margin which then enables us to continue investing in them.

Concerning your question whether this gives us confidence for further rollout of global brands, we still have a lot of work to do in the coming time to establish those two brands. As I said this is a start. It would be by far too early to say that this is done. So we focus all our efforts on making this a continuing success.

And, of course, what we do is that if we have innovations, which we globally develop, that it happens that we fill them in, in brands which we have in the US which means same innovation on different brands, of course that's something where we take our global innovation power has an opportunity.

On the Adhesive margin, Carsten?
Carsten Knobel: Yes. James, good morning. Thank you for your question because we don't want to have any confusion. So therefore, the first statement is, and I think we have never said that, that we will see full P&L effects until Q2 of 2016. What we have said is that the initiatives what we are having in mind will be completed by mid of the year. And for sure the benefit which you will see then in the P&L depends for sure also on a country base.

We cannot say when -- I can say but I will not disclose that, when all the effects will be done. And, therefore, I think the statement what I made before that we will see a gradual impact on the P&L is correct but as I said the benefit will not be seen not before the end of Q2 2016. I hope that clarifies.

James Targett: Yes, it does. Thanks very much.

Operator: Harold Thompson, Deutsche Bank

Harold Thompson: Yes, good morning, everyone. Firstly, I just wanted to congratulate Hans for your appointment to CEO. You've been a fantastic leader of the Beauty [Care] business since 2004. If I look at it you've delivered 4% organic growth rate for 11 years, improved margins from 2012 to 2016. And frankly with a brand and a geographical footprint which Henkel had in the Beauty business which wasn't the easiest to start with, so fantastic results.

I've got two questions though. The first one is I think it was the first question posed on the call today I think a few of us just don't get the guidance on EPS. Clearly you say that you've had a good start to the year up 7.6% EPS growth but your guidance is 8% to 11%. None of the companies we follow include unannounced M&A in guidance or assumptions in a way about FX. I just don't get it. So maybe you could re-explain how you get to your guidance.

My second question is you clearly come from the consumer side of Henkel. Henkel has a growing cash pile. You are very explicit that you want to do M&A. When you think about M&A do you think the portfolio bit is more important than the financial criteria i.e. is there a direction Henkel wants to move more towards? Is it Consumer or is Adhesives or are you completely indifferent and it's just down to financial criteria? Thank you.

Hans Van Bylen: Many thanks, Harold, for both your questions, but even more thanks for your short introduction, I really have to say that, so thanks for that.

Concerning our guidance, our guidance indeed says that we confirm our growth assumption. I think on that one not much I think questions the range 2% to 4%. But I can imagine your question is much more on the correlation between margin and EPS.

Harold Thompson: Yes.
Hans Van Bylen: So EPS, in EPS we confirm our guidance 8% to 11% which after Q1 we have good confidence but we also are convinced it will be still a lot of hard work to get there. And the margin somewhere is a variable in this, and of course there are a lot of variables which are unknown. A big one is, for example, FX.

And that’s why indeed as you say you don’t get it indeed in a way that the math don’t match up because of course the variable FX is an unknown one. But be sure that for us the guidance is focusing on both getting the growth done and then the EPS linked to that that is indeed 8% to 11%.

Harold Thompson: So, you’re basically saying that the EPS guidance is based on an FX assumption and clearly your hard work but it does not include unannounced M&A?

Hans Van Bylen: First, one correction, we don’t put an FX assumption in so there is not a fixed FX assumption in.

Harold Thompson: Okay.

Hans Van Bylen: FX, as we always have been we have a strategy cycle on top which we are now closing and within that cycle it’s our commitment to make it happen that we have our guidance, our EPS performance in this range 8% to 11%. But we do not have an FX parameter fixed in this.

Harold Thompson: So given your response where you say there is clearly a variable which is the margin, could therefore one interpret that if you’re going to beat on one of the parameters growth or margins to get to the EPS it appears at this point in time at least that margin looks like fair assumption.

Hans Van Bylen: Again difficult, the margin is guided at around 16.5% so it is in this range.

Harold Thompson: Okay.

Hans Van Bylen: Then coming to your second question on acquisitions, of course, I feel very fortunate to start as the CEO with a healthy balance sheet. That’s -- next to the fact I have a fantastic team around me this gives me a very good feel. But, of course, looking forward, M&A is on our agenda. And, of course, you know that we will not comment any detail on neither direction neither specific assets.

But your question whether we are indifferent using that word versus what business it is of course is not the case, because the first topic is strategic fit. And of course strategic fit is a dominant factor. Whereas the other two as you know for us are as important, which is the price has to be within what we think is the right price. And of course the third one is the availability. And this mix makes that -- we are working hard on this and it is part of our strategy going forward.
**Harold Thompson:** Okay, excellent. Anyway, congratulations again and thank you very much for the answers.

**Hans Van Bylen:** Thank you, Harold.

**Operator:** *Philipp Frey, Warburg Research*

**Philipp Frey:** Hello, gentlemen. Well, probably first of all you mentioned among the smaller things impacting your gross margin negatively your acquisitions and, well, particularly you also had some in Beauty Care. And would it be fair to assume that part of your hard work is to really substantially reduce the dilutive effect of your acquisitions and that this can really also bring up your organic growth profile a bit. Seems a bit like Beauty Care has found a solid bottom in 2% and is moving up, some comments on that one.

And then one of the variables certainly remains the raw material prices. And could you comment a bit on that part? Would it be fair to say that you have not yet seen the full extent of the bottom of the raw material prices in your Q1 margins and that there might be something still to come in the next quarters?

**Hans Van Bylen:** I suggest both questions go to Carsten, the first because you talked about dilutive M&A so it was one element, so I suggest, Carsten, that you comment on that.

**Carsten Knobel:** Very happy. Philipp, good morning. So to be very clear on M&A what we did over the last two and half years is not dilutive at all not to have the wrong connotation in that.

What I said is that we have a very small impact in our gross margin of 20 basis points which is related to the point that the businesses overall we acquired have a somewhat smaller GP1 margin [Gross Margin – note by IR] than the rest of the respective businesses. But this has nothing to do with the dilution in terms of when it comes to the margin or the bottom line of these projects, so that is the point.

And as I pointed out before the significant effects were on the one side, and that relates a little bit to the other question what you have, for sure we have seen lower material prices which are impacting significantly positively at this point the gross margin. But on the other side, based on the currency effects especially in the emerging markets, we see significant negative transactional effects.

These are the predominant or major effects which are impacting in these days our gross margin. And for sure how we see the current situation we expect that this positive raw material impact, so lower material costs, will continue during the year.

**Philipp Frey:** Okay, thanks. In terms of dilution I primarily meant things like SexyHair, would you say that SexyHair for example in the US or this professional Hair Care is also not margin dilutive?
Hans Van Bylen: Especially those businesses they are professional Hair businesses by definition mean professional hair business have quite an attractive margin, especially also the gross margin. So which means also for our professional business this is acquisition has been accretive and supporting our profitability profile.

Philipp Frey: Okay, thanks again.

Hans Van Bylen: Thank you.

Operator: Celine Pannuti, JPMorgan

Celine Pannuti: Yes, good morning. My first question is on [Laundry &] Home Care margin. Given that pricing has gone from around 2% to 4% last year to negative in Q1 am I right in believing that gross margin was as well under pressure in this division? And if that's true then what drove the -- what in SG&A drove the uptick 210 basis points?

My second question to Hans specifically, since we have the proximity to have you for the first time on the call as CEO, you mentioned that M&A remains part of the strategy. And I'm presuming that you're working towards the 2020 target. But I would like to have your first thoughts on balancing top line growth versus margins. If I look over the past couple of years certainly Henkel has been successful in raising quite substantially its margin. Top line however has been below peers. How do you look at that balance between top line and margin please? Thank you.

Hans Van Bylen: Celine, many thanks for your question. And you give me the opportunity that Carsten will answer the first one and then I take the second one.

Carsten Knobel: Celine, regarding your question of the gross margin, yes the gross margin in Laundry & Home Care but this is also valid for Beauty Care has been under pressure especially related to the higher competition and the lower positive price effect.

The point behind it that we have also lower direct material impacts compared to the Adhesive sector in that area of gross margin. And as I said before the main point is that high price and the promotional pressure in that sector.

On the other side we see when you come to the admin expenses a significant positive impact also in these businesses and this is related to the point I mentioned before, efficiency focus and also change of FTE, what I pointed out before, compared to prior year and compared to end of the year significant reduction of FTEs.

Hans Van Bylen: Your second question, Celine, you mentioned shortly M&A. Of course, as I also answered in a previous question it will be an increasing element of our strategy going forward.

But your question was more focused on my view on how I see the balance between top line and margin development. One reaction on your question as you mentioned that our growth would be below peers.
I think if you looked at the past years depending on businesses I think we have been showing competitive growth while increasing our margins.

And my view of course is that both KPIs are as important. And also within our organization my steering is also based on that for the organization we will have to deliver and we will continue to deliver on both realizing a competitive top-line performance and further working on the margin improvements. And this I think will be also going forward our commitment that both KPIs will be steered and will be also in our ambition going forward will be to central KPIs.

With this I think I can close. So first of all, many thanks for joining also thanks for all your questions. Let me close also by saying that we are very happy to report a good start into the year, and also to confirm our guidance for the full-year 2016. I look forward, together with Carsten, to our next call the Q2 Earnings call on August 11. Thank you for listening, and goodbye.

Operator: Thank you for joining today's conference call. You may now replace your handsets.
Additional Guidance FY 2016 for selected KPIs

- Prices for Total Direct Materials: Approx. at the level of the prior year
- Restructuring Charges: €150 – 200m
- CapEx: €650 – 700m

[Additional information chart not shown during conference call]