Commented Slides / Earnings Conference Call Q2 2016
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Participants – Henkel representatives
Hans Van Bylen; Henkel; CEO
Carsten Knobel; Henkel; CFO
& Investor Relations Team

Participants – Active in Q&A session
Philipp Frey; Warburg Research; Analyst
Christian Faitz; Kepler Cheuvreux; Analyst
Christian Weiz; Baader Bank; Analyst
Operator:
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. (Operator Instructions).
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 Düsseldorf and welcome to our earnings call for the second quarter of 2016.

First I will go through the key developments of the second quarter and I will comment on the Sun acquisition. Carsten then will comment on the detailed quarterly financials.

After that, I will close my presentation with a brief summary and the outlook. And finally, Carsten and I, we will take your questions.

I would like to begin by reminding everyone that the presentation, which contains the usual form of disclaimers to forward-looking statements within the meaning of the 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 figures of the quarter.
In the second quarter of 2016, Henkel delivered a strong performance in an increasingly challenging and volatile environment.

We delivered an organic sales growth of 3.2%. We achieved an excellent increase in adjusted EBIT margin, which rose by 120 basis points to 17.6%, an all-time high for the Henkel Group. Adjusted EPS grew by 8.5% to EUR1.40, also an all-time high.

In our emerging markets, we once again delivered a strong performance, recording an organic growth of 6.1% and also mature markets were positive.

Net working capital further improved and came in at 5.3%.

Our net financial position turned slightly negative by EUR118 million at the end of the second quarter, driven by the dividend payout taking place in April and payments for acquisitions.
Our profitable growth in the quarter was driven by the strong performance of all three business units. Our solid organic growth was mainly driven by volume. Pricing was positive for the three business units.

Emerging markets achieved a strong organic sales growth performance but also mature markets showed a positive development. The excellent improvement in adjusted EBIT margin was driven by all business units. Adjusted EPS increased by 8.5%.

Lastly, we are very proud about the acquisition of The Sun Products Corporation, which represents a step change for our Laundry & Home Care business in North America.
These results were strong, especially when we put them in perspective of the increasingly challenging and uncertain environment we operate in. The severe geopolitical and social instability and the macroeconomic volatility in some countries persist.

Global GDP growth remains moderate, with slowing growth dynamics since the beginning of the year.

FX headwinds intensified in the course of the second quarter, especially with key currencies becoming more volatile.

And finally, in line with our expectations, persisting lower economic growth continued to impact demand for Adhesive Technologies in China.
Let's have a closer look at our business units now.

In our Laundry & Home Care business, we delivered a set of excellent results.

The business unit achieved a strong organic sales performance, which was driven by strong growth in Laundry Care and solid growth in Home Care.

All regions contributed to the strong growth, with solid growth in mature markets and very strong growth in emerging markets.

Laundry & Home Care delivered an excellent increase in adjusted EBIT margin. ROCE was above the prior-year quarter, driven by the strong operating results.
Several initiatives drove the excellent performance of Laundry & Home Care. Let me give you three examples. In Mexico, we achieved an outstanding growth in Q2, which was driven by the excellent performance of our liquid detergents. Our local as well as our international brands, such as Persil, and our local champion, MAS, contributed to these very good results.

With Somat Phosphate-free, we have launched the first automatic dishwashing product free of phosphates, keeping 100% performance. Its new patented formula is based on citric acids. The sustainable innovation was launched in 30 countries in Western and Eastern Europe and significantly contributes to Somat's double-digit growth path.

The success of our biggest brand, Persil, was further driven by various innovations worldwide. In Western and Eastern Europe, we further rolled out Power-Mix Caps. In the MEA region, we launched a new Persil formula with thermostable enzymes. And in North America, we were able to strongly grow thanks to further national distribution expansion of Persil ProClean.
Beauty Care achieved a solid organic sales performance and an excellent increase in profitability.

This was driven by a solid organic growth in the Retail business and a positive performance in Hair Salon.

While organic sales growth in the emerging markets was very strong, the mature markets came in slightly negative. Western Europe was below the level of prior-year quarter. North America showed solid growth.

Beauty Care posted a very strong increase in the adjusted EBIT margin over the previous year. ROCE was on the level of the prior-year quarter.
Also from Beauty Care, I would like to give you some color on our initiatives.

We are further enhancing the leading position of our EUR 2 billion megabrand, Schwarzkopf, with very strong innovations across categories such as Gliss Kur Magnificent Strength or Taft Fullness.

North America continues its growth momentum thanks to the successful expansion of Schwarzkopf in Hair Retail and market share gains in Body Care. The success of our Body Care business is driven by strong innovations, such as Dial Soothing Care.

Also the Hair Salon business continues its positive development, showing growth now for five consecutive quarters. This is driven by Schwarzkopf innovations and our successfully integrated US brands.
Adhesive Technologies achieved a solid organic sales growth and an excellent increase in profitability.

Similar to the first quarter 2016, organic sales growth was strongly driven by Transport & Metal. Electronics was negative. Consumer and Craftsman Adhesives and Packaging Adhesives achieved a solid growth. General Industry posted a positive organic sales growth.

The business unit recorded a positive development in mature markets and delivered a solid organic sales growth in emerging markets. In an environment of lower macroeconomic growth, China, was negative in the second quarter.

Adhesive Technologies delivered an excellent increase in the adjusted EBIT margin. As a result of this operating performance, ROCE was above the level of prior year.
Moving on to the highlights of the Adhesive Technologies.

In the area of surface treatments for the automotive industry, we achieved double-digit growth and continued to gain market share. Within our Bonderite brand, we offer superior innovations for the surface treatment of light metals to our customers. For example, our new product for the pretreatment of aluminum alloy wheels enhances processes, saves costs and provides improved sustainability.

The success of our Packaging and Consumer Goods business area was driven by strong growth in the emerging markets. Innovations for structural building components, furniture and flexible packaging contributed under the Technomelt and Loctite brands to this success.

In the construction industry, we generate strong organic sales growth, driven by product innovations in Eastern Europe, such as our new tile adhesives under the Ceresit brand.
Before now handing over to Carsten, of course I’m very proud to talk about the acquisition of The Sun Product Corporation, which we signed in the second quarter. This is a step change for our Laundry & Home Care business in North America, one of the most important regions for Henkel worldwide.

The transaction value is around EUR3.2 billion and will add about EUR1.4 billion of sales to our North America Laundry & Home Care business.

We are looking forward to further strengthening our business with the attractive portfolio of Sun Products and to working together with a strong and talented team.

Together we will form the number-two player in the US, the largest laundry care market in the world. This compelling acquisition offers us potential for offensive as well as defensive synergies.
The US is a very attractive laundry care market. I would like to give you some more insights into the acquired businesses.

Some products hold leading positions in attractive core categories, specifically the number-three position in the laundry detergents and the number-two position in fabric conditioners, with strong brands such as all, Sun and Snuggle.

90% of the business is focused on laundry care, while it is also present in home care. Besides the branded business, The Sun Products Corporation also develops and manufactures laundry brands for leading retailers in North America.

Summing up, a strong portfolio of brands, an enlarged local footprint and the strength of a combined team in North America is a step change for our Laundry & Home Care business.
Apart from the sizeable Sun Products acquisition, we have also done three small- to medium-sized bolt-on acquisitions in Iran, Nigeria and Colombia, strengthening our Laundry & Home Care and Adhesives Technologies businesses. Carsten will give you some more details later on.

With that, I would like to hand over to Carsten.
Carsten Knobel:
Thank you very much, Hans. Good morning to everyone. Let us have now a look at our financials in more detail.
Starting, as always, with our key KPIs, and here with our net sales development in the second quarter of 2016, sales amounted to EUR4,654 million, representing an organic net sales growth of 3.2% for the quarter.

In nominal terms, as you can see from the chart, we have a decrease of 0.9% from EUR4.695 billion to the just mentioned EUR4,654 million. This is mainly related to very strong negative FX effect of minus 5.3%.

Moving to the gross margin adjusted, here you see a number of 49.1%, a strong increase of 90 basis points compared to the prior year. And I will give you more details on that later in the presentation.

Coming to the adjusted EBIT margin, also here a strong increase, an excellent development, 17.6% or 120 basis points' increase. This is not only an excellent result; this is also an all-time high for the Henkel Group related to our margin.

And finally, the adjusted EPS for the preferred shares came in at EUR1.40 or an increase of 8.5%.

So overall, a high-quality P&L, high quality of earnings, and especially in the context of the present FX and macroeconomic situation.
With that, moving to our key KPIs related to our cash situation, starting with the net working capital. Net working capital came in at 5.3%, an improvement by 130 basis points to be mentioned. This is driven by operative improvements by all three business divisions.

Also the free cash flow showed a very strong development in the Q2. We have a free cash flow of EUR476 million. This is an improvement compared to Q2 of last year of EUR450 million.

The net financial position, also here I will provide you more details later, but you have already heard it from Hans, it came in at minus EUR118 million.
With that, moving more into the details, and having, first of all, a closer look to our sales development, and here the sales bridge at the Group level.

As already pointed out, organic development was 3.2% for the quarter, and this is composed of a volume contribution of 250 basis points’ improvement and the price contribution of 70 basis points, more balanced than what we have seen in Q1 2016.

The net effect of our acquisitions and divestments had a positive impact of our sales development of 120 basis points. So over all, organic plus inorganic growth sum up to an increase of 440 basis points.

As already mentioned, in the second quarter we faced intensified FX headwinds, negatively impacting our sales by minus 5.3%, sequentially higher than what we have first seen in the Q1 of 2016, where we had a negative impact of minus 3.4%. These headwinds are mainly attributable to the emerging market currencies, like the Russian ruble, the Mexican peso or the Chinese yuan, which are impacted here, but also for Q2 we see an unfavorable impact related to the US dollar.

Summing up, we closed the quarter with EUR4,654 million, as mentioned a nominal decrease of 0.9% over the same quarter of last year.
Looking now into the markets, emerging markets and mature markets, starting with the emerging markets.

We have seen here a strong organic net sales growth of 6.1%. An acquisition effect is attributable to the emerging markets of 80 basis points. In nominal terms, we have seen a decrease of 4% and this is, as before mentioned, related to the FX headwinds. Roughly 90% of our currency headwinds are attributable to the emerging markets. With that, the emerging markets accounted for 42% of our total Group sales, slightly below the same period of last year.

Mature markets, and I think here also worth to mention, a positive contribution. Organic net sales growth of plus 1.0%. Also here acquisitions have contributed with 1.4%.

With that, let me move now to the regions. And what you will see in the next chart is that all regions within our setup are growing, starting now with Europe or, more precise, with Western Europe.
Western Europe was positive, with 1.1% above the level of the prior-year period. The development within the region remains uneven so we had slightly negative development in France and Benelux, while Southern Europe and UK were overcompensating this effect.

Eastern Europe, a very strong organic net sales development, close to double-digit, to be precise, 9.7% organic increase, especially supported by the developments in Russia, Turkey and Poland.

So summing up, if you add the Western and the Eastern European part to total Europe, we see an organic net sales growth of 3.8% for Q2.

Africa/Middle East came in with a solid development of plus 4.4% despite an ongoing difficult environment.

North America organic net sales growth showed a solid development, plus 1.8%. Both consumer businesses showed a solid development in North America and we had the adhesives business slightly negative in Q2.

Coming now to Latin America, like in quarters before, a double-digit organic net sales growth, plus 11%. Main contributor here is our development in Mexico, with a double-digit performance.

Finally, Asia-Pacific. You see a positive development of 0.4%. Here China was overall negative in the second quarter. On the one side a good performance of our Beauty Care business, but we were still or are still negative in Adhesives. To be mentioned, India grew double-digit and also South Korea with a very strong performance related to organic net sales growth.
With that, moving to the performance of our three divisions and here starting with our Laundry & Home Care business.

Overall, a very strong quarter again for our Laundry & Home Care business. Organic sales came in with a strong development of 5.3%. We have a composition of 430 basis points volume, 100 basis points increase in price. In addition, we had a 2.3% effect of acquisitions. The negative currency effect is roughly on the level of our total Group with minus 5.2%. And that leads to a nominal growth also here of 2.4% to an absolute level of EUR1,354 million.

Looking at the two divisions within that setup, the Laundry Care business came in with a strong development, a solid development in Home Care.

Looking also here into the markets, emerging and mature, emerging market again also here a very strong growth rate in the quarter. We had particular good developments, with double-digit rates in Asia. Latin America, Eastern Europe and Africa reported very strong growth rates.

Mature markets, also here a solid development, a positive solid development in the quarter, driven by North America with a very strong performance, Western Europe with a positive development.

Moving now to the margin. And what you see from the margin development is an excellent development, 100 basis points' improvement to 18.1% in terms of margin.

And as I mentioned before, net working capital supporting the Company by all three divisions. Also here you see a great development in the net working capital setup of Laundry & Home Care. Improvement of 80 basis points now to a level of minus 3.9% for Q2 2016.
With that, let me come to our Beauty Care business. Also here another quarter of profitable growth.

Organically we reached an impact of plus 2.1%, driven by 1.3% of volume and 0.8% in price. Acquisitions contributed by 1.5%. Also here currency effects negative, again also roughly on the level of Henkel with minus 5.4%. So in nominal terms we have here a situation that we see a decrease of minus 1.8%.

The growth in our Retail Business was solid, positive in the Hair Salon business. With that, we are also very satisfied we have now five quarters in a row in salon with a positive organic net sales growth.

Looking also here into the markets of emerging and mature, like in Laundry, the emerging markets showed a very strong growth, supported by a double-digit growth in Eastern Europe, here driven by Russia, Latin America, also here driven by especially Mexico. And also China showed, for the Beauty Care business, a very strong development in terms of organic net sales growth in Q2.

Mature markets slightly negative. To be here differentiated, while North America showed a solid organic net sales growth, Western Europe was negative due to the ongoing high competitive intensity and the pricing pressure.

Moving also here now to the profitability development, looking at the adjusted EBIT margin, like in Laundry & Home Care, an excellent development. Also here an all-time high, 90 basis points' improvement to 17.4% at the end of quarter two.

And similar situation also in net working capital, great contribution with 80 basis points to a level of 3.1% for the Beauty Care business in comparison to the quarter two of last year.
With that, moving to our third division, to our Adhesive Technologies business, we have seen here a solid organic net sales development of 2.6%, mainly driven by volume, 2.2% impact, and the price component had an impact of 0.4%.

Acquisitions contributed by 0.4%. And you see also here, in the Adhesives division, a negative currency effect similar to the Group level of minus 5.3%. With that, we have seen a nominal decrease of minus 2.3% to a level of EUR2,290 million.

Looking at the individual business within Adhesives Technologies, we have seen a strong growth in our Transport & Metals business, a very good development in Consumer and Craftsmen. Packaging contributed with a solid development. General Industry was positive. The only business part which was negative was the Electronics division, with an organic growth below the prior-year quarter.

From a regional perspective, emerging market with a solid development. We have here double-digit contribution from Latin America, especially driven by Mexico. Eastern Europe posted also a double-digit development here by the support of Russia, Poland and Turkey. And the China topic, emerging market Asia was slightly negative here. I already mentioned that China was below the prior-year quarter, affected by the overall lower economic growth, mainly impacting General Industries and our Electronics business.

With that, moving to the mature markets, the mature markets overall performance in terms of sales was positive. We recorded a slightly negative development in North America, as already pointed out, especially due to our situation in the packaging business, and Western Europe with a solid development.

Also here, having a look on the adjusted EBIT margin, here you see an even stronger performance than what we have seen in Laundry and in Beauty. 160 basis points' improvement to an all-time high adjusted EBIT margin to 18.6%.

And also here, very positive to point out, when it comes to net working capital, we see 160 basis points' improvement also here to a level now of 11.9%. 
With that, coming back to Henkel overall and looking into our income statement adjusted and here now to our gross margin development, so from sales to gross margin.

The sales development I already pointed out, EUR4,654 million, with a nominal effect of minus 0.9%. The gross profit came in with EUR2,287 million. That’s an improvement of plus 1.0%. And as a consequence, our gross margin came in, as earlier pointed out, at 49.1%. Strong improvement, excellent development of 90 basis points higher than the comparable quarter of the previous year.

We have been able to overcompensate the negative impact of transactional FX effects, thanks to ongoing measures to reduce our cost, enhance our production and supply chain efficiency. Also a better balance of price/volume, as I pointed out, compared to the start of the year and lower prices for total direct materials.

And for sure also our efforts in order to set up our one global supply chain activities plays here a positive role, impacting production efficiency, supply chain efficiency, and also reducing our cost in that setup. So overall, a very good development in our gross margin.
With that, further moving in our income statement adjustment, and now from gross profit to EBIT.

Let me first start looking at our marketing, selling and distribution expenses. They decreased by 20 basis points to a level of 24.8% compared to the prior year. That means EUR22 million or 1.9% below the prior year.

Important to mention, adjusted for FX, our marketing expenses increased compared to the level of prior year. So the relative improvement was driven by adaptation of our structures and efficiency gains in the selling and distribution expenses.

Moving to R&D expenses, with EUR170 million, roughly 2.5% of sales, we made close to the level of Q2 2015.

We continuously working also on our administration expenses. We reduced it by 20 basis points to a level of 4.5%. The absolute figures decreased by 5.8%, and here especially due to our strong and strict cost discipline and efficiency focus.

The balance of other operating income and expenses remained at a very low level, with a plus of plus EUR11 million.

Overall with that, our adjusted EBIT came in at EUR819 million, translating into an excellent increase of our adjusted EBIT margin with 120 basis points to 17.6%, as already mentioned, an all-time high for our Group.
As always and as you are used to, we also give you the bridge from reported to adjusted EBIT.

The reported EBIT came in with EUR757 million. We had one-time gains of EUR1 million, one-time charges of EUR22 million, especially related here or mainly related to our one global supply chain project and the acquisitions, which we consolidated and executed.

Moving to our restructuring charges, you see here EUR41 million which we report for Q2 2016. Here this is reflecting the adaptation of our structures to the market situation. With that, adjusted EBIT amounted to EUR819 million, as already pointed out, or an increase of 6.6%.
Coming now to our net financial position, as already pointed out, it came in with minus EUR118 million. Comparing that to the end of the first quarter, this is a reduction of EUR570 million. We have a cash flow generation in the second quarter which was very strong, as mentioned already before, with plus EUR476 million.

And here the impact, what we see is that we, as you know, paid in April our dividends amounting to roughly EUR650 million and we spent for acquisitions roughly a cash out of EUR430 million. So with that, more than EUR1 billion of spending. And this related then to the strong cash flow development. This is the bridge how you came to that reduction.

As mentioned already last time, our strong cash flow generation puts us in the position to invest behind our businesses. Hans has already talked about the acquisition of the Sun Products. I will give you some more details on that, but also mention on some of additional smaller- and mid-sized bolt-on acquisitions we recorded in Q2.
Starting with The Sun Products Corporation, the acquisition of 100% of capital of The Sun Products Corporation from a fund of Vestar capital is a sizable deal which we have signed on June 24.

In the meantime we have secured the financing of the EUR3.2 billion. The acquisition will be financed by a combination of term loan and capital market instruments.

Coming back to the Sun Corporation, as such, approximately 2,000 people, which are working for the company, having two production sites and one R&D center in the US.

We expect that the deal to be accretive to adjusted EPS one year after closing. At this stage, as you can imagine, we cannot give you an estimate on when the closing will be, but we will communicate this as soon as it happens.
As you already know, with this sizable acquisition we will strengthen the share of our Laundry & Home Care business within the Henkel Group. On a pro-forma basis what you can see from this chart based on 2015, we have recalculated our figures.

That would mean we would have recorded sales of EUR19.5 billion in terms of turnover, taking the EUR1.4 billion of top-line, which Hans has mentioned, for Sun into account.

As a result of that the share of our Laundry & Home Care business would increase by 5 percentage points to 33% in terms of weight. And looking at our regional exposure, we increased the share of our North American business from 20% to 26%, putting more focus on one of the most important regions for the Henkel Group worldwide.
Finally, let me give you a brief overview on three bolt-on acquisition we have done in the second quarter.

First, we have acquired 100% of Behdad Chemical Company, with annual sales of around EUR70 million to strengthen our leading position in laundry care in Iran. The deal valued at around EUR158 million and has been signed in Q2.

Secondly, we acquired a majority stake of 57.5% of Expand Global Industries UK Ltd, valued at EUR112 million, adding roughly EUR60 million to our top line in Nigeria. The deal has been signed and closed in Q2.

And finally, in Adhesive Technology we have both signed and closed in Q2 the acquisition of 100% of the tile adhesives division of Alfragres SA, a small acquisition of EUR17 million, adding roughly EUR10 million of sales.

With this, I thank you for the 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 we move onto the Q&A.
Overall, the strong performance in the second quarter was driven by all business units, thanks to the excellent execution by all our teams in the emerging and mature markets.

When it comes to profitability, we managed to increase our adjusted EBIT margin by 120 basis points to 17.6%, which is an all-time high for Henkel. Adjusted EPS grew by 8.5% in the second quarter to EUR1.4, which is also an all-time high.

And finally, we signed the step-change acquisition of The Sun Products Corporation next to three smaller bolt-on acquisitions.
Before moving to the guidance, let me also briefly summarize our strong performance in the first six months.

We achieved sales of EUR9.1 billion with a solid organic growth of 3.1%. Acquisitions contributed 1.1% to growth. But due to FX headwinds of 4.4%, nominal growth was at minus 0.2% for the first six months in 2016.

Our top line was driven by strong organic growth of 6.2% in the emerging markets, while mature markets also grew by 0.8%. Due to the FX headwinds, our emerging market share of total sales was 42%, slightly below the level of previous year of 43%.

We generated EUR1.6 billion of adjusted EBIT, 6.4% above prior year, and we delivered an excellent increase in adjusted EBIT margin by 100 basis points to 17.2%.

Lastly, in the first half, we achieved an adjusted EPS growth of 8.1%.
When we look upon 2016, we expect that the environment will continue to be challenging.

Geopolitical tensions and macroeconomic volatility have increased, as we have just seen with the developments in Turkey and the "Leave" result in the UK referendum.

GDP forecasts indicate a moderate growth, with slower growth dynamics since the beginning of the year. Currencies 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 growth. This we will do thanks to a strong pipeline of new products and solutions for our customers. We will remain disciplined when it comes to cost and will keep on adapting our structures to the changing market conditions.

In conclusion, we continue to focus on the execution of our strategy.
Let us now come to our guidance.

We confirm our full-year 2016 guidance with two slight adaptations.

Firstly we confirm our expectation for the Henkel Group to generate organic sales growth of 2% to 4%, with all business units within this range.

And we confirm our adjusted EPS guidance for an increase of between 8% and 11%.

Secondly, we slightly adapt the following:

Due to the FX developments we expect that emerging market sales share on total Group sales will slightly decrease instead of increase.

We now anticipate an adjusted EBIT margin above 16.5% instead of around 16.5%.

And we expect all three business units above previous-year level instead of on or above previous-year level.
I would like now to come to the close and shortly the upcoming events.

The Q3 earnings conference call will be on November 8, 2016, closely followed by our Henkel Strategic Priorities & Targets on November 17, 2016.

And I suggest that we now open the Q&A.

Q&A Session (p.1/4)

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

**Philipp Frey:** Hello, gentlemen. First of all, you mentioned this step change or with the Sun Products acquisitions. And well, you’re a bit, as always, shy with financial details.

Can you a bit give some flavor on the longer-term margin expectations for that business? Will it be fair to assume that upon full integration into the Group the Sun business should be on the same EBIT margin level that you currently achieve in your Laundry business? That's the first one.

And secondly, what's your outlook in general on the price/volume composition of your business? You had a nice improvement now in Q2. What's your outlook on that one?

**Hans Van Bylen:** Many thanks for both questions. Concerning Sun, I count on your understanding that at the moment we have been signing the deal and now we are in process of closing it, which is not fully in our control. So with this, of course we cannot comment on more details.

Concerning price/volume, Carsten, can you give some details on that?
Carsten Knobel: Yes. Thank you for the question. But as you know, on the one side we are not guiding for price/volume. On the other side, you have already pointed it out, pricing sequentially improved in Q2, and this was driven especially by the HPC sector. The price growth was mainly driven by the emerging markets, where you also have some inflation price driven. However, mature markets, where you see the deflation, were positive too.

So overall, due to our footprint, we are more exposed to a deflationary environment. Therefore we expect that growth will be more volume than price-driven. But as I said, this is not a guidance because we are not guiding on that. Hopefully you understand that.

Philipp Frey: Yes, understood. Would you allow me one follow-up question on adhesives, because I think we had a slight improvement, at least in global industrial production, and also China did not develop so badly? Now you’ve pretty much stable or marginal improvement in Adhesives momentum. Would it be fair to say that you’ve sacrificed at least partly growth for margins? And what’s your view currently on the situation in China? Is the destocking continuing?

Hans Van Bylen: Let me comment on the development of Adhesives with regards to your question. What we see, at the moment, is since the beginning of the year that we see decreasing trends in both GDP development as industrial production. And we also do see some price pressure in some segments of this market.

What we also see is that we, at the moment, find a very good balance between growing market share and further increasing our profitability. You have seen the margin development. And we are extremely delighted and also proud that by having very good cost management we have also increased significantly our margins there in an environment which, as you also have seen, does not allow a lot of price increase components.

What we do see in the different segments, to highlight this, is that in the segments, as we have been commenting, very good growth in Transport. We also had a very good growth in Consumer & Craftsmen Adhesives. But where we see very weak economics and a very weak market is more in the Electronics segment. And that we also and you also, I’m pretty sure, have been seeing in our peer reporting.

Philipp Frey: Yes, certainly. Thanks a lot.

Hans Van Bylen: Thank you.

Operator: Christian Faitz, Kepler.

Christian Faitz: Yes. Good morning, gentlemen. Congratulations on the results. Two questions, if I may. First of all, can you elucidate a bit the Persil Pro success in both the US and Canada, sales development, etc.? That would be helpful to know.

Second of all, can you remind us of your exposure to Turkey and Great Britain, both in terms of production facilities, especially in Turkey, but also in terms of markets? Thank you.
Hans Van Bylen: Thank you for both questions. I suggest I will answer the first one and Carsten will answer on exposure to Turkey and UK.

Concerning Persil ProClean, indeed, we are very happy with the development we see. What we do see is that after having the exclusive launch in Walmart last year, that now we built up national distribution. And we are happy to see that meanwhile we more than doubled our distribution, weighted distribution rate. So this, of course, makes us feel comfortable with this launch in the US.

Carsten Knobel: Okay. Christian, to your question of Turkey and the UK, the exposure of Henkel related to these two countries is, I would say, quite limited. But to be more precise, Turkey accounts for roughly 2% for our sales. We have three production sites within that country. And looking to the UK part, also here roughly 2% of our sales, where we have one production site in the UK related to our Adhesives business.

Christian Faitz: Thanks a lot.


Christian Weiz: Yes. Good morning, everybody. First of all, in the Adhesive Technologies environment you said that the Electronics industry was very poor. Anything you could see that we may have medium-term uptick there? In the currently negative environment, any positive signs there? Number one.

And number two, with regard to your financial result, of course due to the very low debt levels that you have reached, given your strong cash generation, will you assume that the first-half financial result is a good run rate for the second half of the year?

Hans Van Bylen: Let me take the Electronics question. So if we see different forecasts out of experts in this market, we do see indeed that the outlook remains very soft, and meaning also that, of course, seeing also what you saw for our total business, of course then we will adapt accordingly also structures. So in the way, because in Electronics, next to a softer top line, we saw very good margin growth. But market outlook remains soft.

Carsten Knobel: So, Christian, to your question of financial results, the first half year was especially positive, impacted due to the point that we have, as you know, paid back the hybrid bond in quarter four of last year. And that is for sure impacting especially the first three quarters of this year because of that comparison effect.

The rest, how to see that, how it is for the second half of the year. As you know, there is a quite high volatility in the market especially, which is then related to the topics which are taking part in the financial instruments, like pension, like hedging and all these kind of things.

So summarizing, the very good situation for the first six months is related to the situation of paying back the hybrid last year. And you also should take into account, without telling you a concrete date, as we said before, we don't know when the closing of The Sun Products Corporation will take place. But you know we don't get that for free, and therefore we also have to pay something for that.
Q&A Session (p.4/4)

Christian Weiz: Can you give us an indication there?

Carsten Knobel: On what?

Christian Weiz: On the yield you have to pay on the financing. You said that you secured the financing for the Sun deal, but maybe you could give us an indication there.

Carsten Knobel: I could, but I keep that for me.

Christian Weiz: Okay. Maybe last follow-up with regards to your other expenses and other income. I see some movements in these positions. Can you maybe elaborate on your other operating expenses that increased quite significantly to EUR35 million in the second quarter?

Carsten Knobel: The balance in total is EUR11 million. And as I expressed it before, I see that as a minor part if you relate that to the total size of our Company. So the decline versus the prior year was mainly driven by lower gains on disposals of non-current assets. But I think more I don't want to comment on.

Christian Weiz: Okay. Thank you.

Hans Van Bylen: If no more questions, I think with this we can come to a close. First of all, thanks again for joining our conference call. And thank you very much also for your questions.

We are indeed happy to report a strong second quarter, also a quarter with a strong quality, also of margin, and also to confirm our guidance for the full year 2016. Together with Carsten, I look very much forwards to our next Q3 earnings call on November 8.

Thank you again for listening in and goodbye.
Additional Guidance FY 2016 for selected KPIs - unchanged

<table>
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<th>Guidance 2016</th>
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<tbody>
<tr>
<td>Prices for Total Direct Materials</td>
<td>Approx. at the level of the prior year</td>
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<tr>
<td>Restructuring Charges</td>
<td>€ 150 – 200m</td>
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<tr>
<td>CapEx</td>
<td>€ 650 – 700m</td>
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[Additional information chart not shown during conference call]
[Additional information chart not shown during conference call]
Key financials (2/2)
YTD 1-6 2016

NWC in % of Sales
-130bp
- 6.6 5.3
4-6/15 4-6/16

Free Cash Flow in m€
+€ 455m
- 311 796
1-6/15 1-6/16

Net Financial Position in m€
+€ 516m
-634 -118
4-6/15 4-6/16

[Additional information chart not shown during conference call]
[Additional information chart not shown during conference call]
Excellent increase of adj. EBIT margin
YTD 1-6 2016

[Additional information chart not shown during conference call]
[Additional information chart not shown during conference call]
Laundry & Home Care
Key figures YTD 1-6 2016

- OSG driven by 4.7% in volume and 0.3% in price

[Additional information chart not shown during conference call]
Beauty Care
Key figures YTD 1-6 2016

- OSG driven by 2.0% in volume and 0.4% in price

[Additional information chart not shown during conference call]
[Additional information chart not shown during conference call]