Henkel FY 2016

Hans Van Bylen, Carsten Knobel
Düsseldorf, February 23, 2017

Henkel

Commented Slides / Earnings Conference Call FY 2016
February 23, 2017

Participants – Henkel representatives
Hans Van Bylen; Henkel; CEO
Carsten Knobel; Henkel; CFO
& Investor Relations Team

Participants – Active in Q&A session
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Jeremy Fialko; Redburn; Analyst
Guillaume Delmas; Bank of America Merrill Lynch; Analyst
Pinar Ergun; UBS; Analyst
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Hans Van Bylen:

Dear Investors and Analysts,

good morning from Düsseldorf, and welcome to our Earnings Call for the fiscal year 2016.

Today I am going to lead you firstly through our achievements in 2016 and highlight the key developments. Carsten then will comment the detailed financials for the year and give you some more highlights on our fourth quarter developments. After that I will close my presentation with a brief summary and the guidance for fiscal year 2017. And finally, Carsten and I will take your questions.

I would like to begin by reminding everyone that the presentation, which contains the usual formal disclaimers 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.

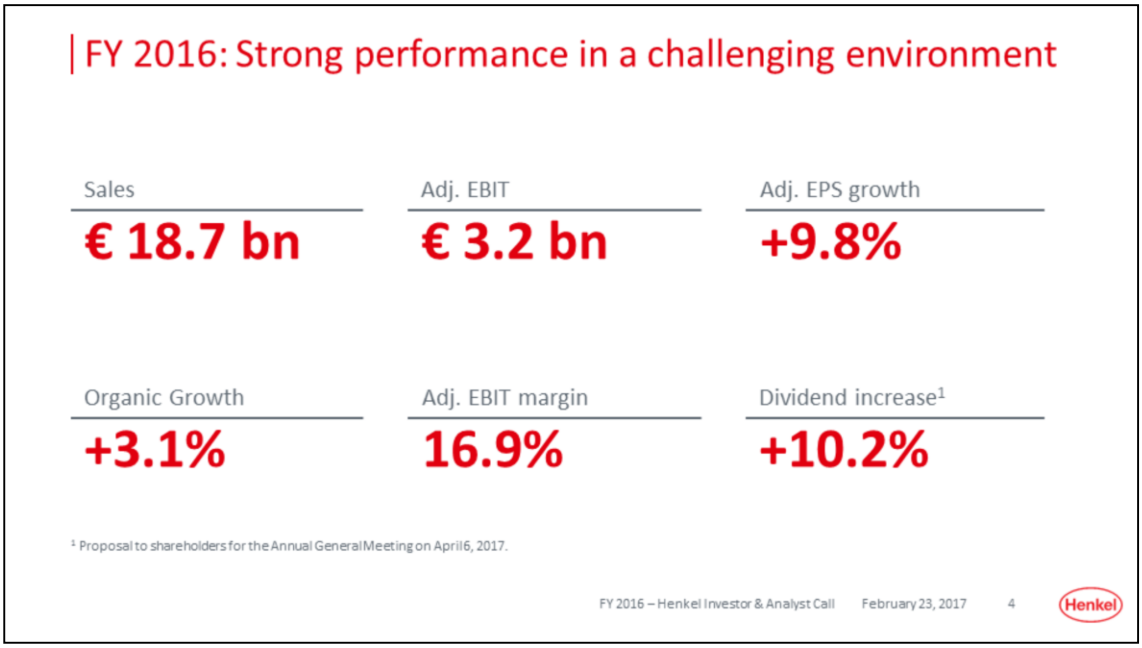
Agenda

1 | **Key developments 2016**

2 | Financials FY 2016

3 | Summary & Outlook FY 2017

Let's start with the key developments in the past fiscal year.



2016 was a very successful year for Henkel. In a challenging market environment, we delivered a strong performance and achieved again new record levels for sales and earnings.

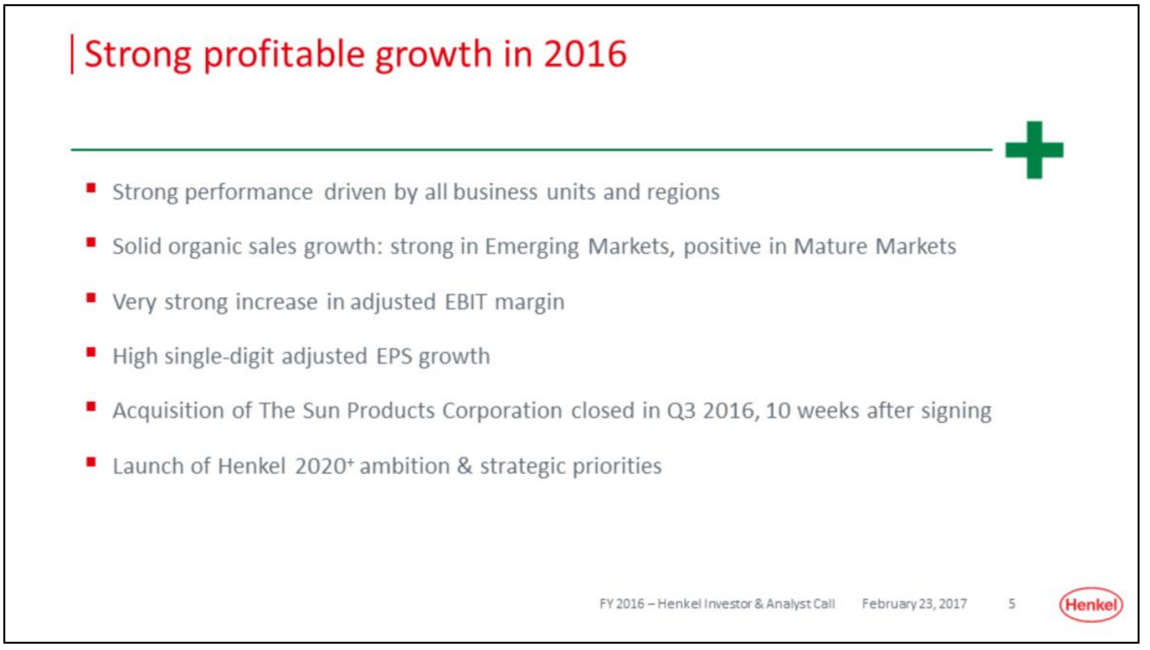
At 18.7 billion euros, sales reached a new record level. We grew nominally by 3.5% compared to prior year. Organically, Henkel delivered a solid sales growth of 3.1%.

For the first time, we reached an adjusted EBIT of more than 3 billion euros. Also, the adjusted EBIT margin showed a very strong increase of 70 basis points and reached an all-time high of 16.9%.

Adjusted earnings per preferred share grew by 9.8% from 4.88€ to 5.36€, marking a new record level. With these results, we fully achieved our fiscal year 2016 guidance, on which I will shortly comment later in more detail.

At our annual general meeting on April 6, 2017, we will propose to our shareholders a dividend increase of 10.2% to 1.62€ per preferred share, the highest dividend ever.

Let me just briefly add that 2016 marked the end of our past strategy cycle. Our of the three KPIs that were set in 2012, adjusted EPS was the most important one. With an adjusted EPS of 5.36€ in 2016, we delivered for the four year period an excellent CAGR of 9.7%.



Our strong performance in 2016 was driven by all business units and regions.

Once again, we realized strong organic sales growth in the Emerging Markets. Mature Markets showed a positive development.

We continue to further improve profitability and earnings. We delivered a very strong increase in the adjusted EBIT margin to 16.9%. All businesses contributed with an all-time high. Adjusted earnings per preferred share grew by 9.8%.

We were able to strengthen our portfolio with compelling acquisitions. In September, we closed the acquisition of The Sun Products Corporation only 10 weeks after signing.

Finally, in November we presented our ambition and strategic priorities which will shape our company to 2020 and beyond.

Continued challenging environment

- Geo-political instability and macro-economic volatility in some countries
- Global GDP growth on a moderate level
- Persistent FX headwinds in key currencies
- Volatility in feedstock markets
- Intensified promotional & pricing pressure in consumer goods businesses

Also in 2016, we continued to face a challenging environment.

The severe geopolitical and social instability and the macroeconomic volatility in some countries persisted.

Global GDP growth remained on a moderate level.

FX headwinds persisted throughout the year, mainly in key emerging market currencies.

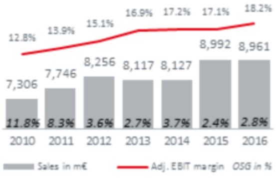
In our feedstock markets, the volatility remained high.

We observed an intensified promotion and pricing pressure, particularly in the consumer goods businesses.

Adhesive Technologies
Fostering profitable growth

Adhesive Technologies

LOCTITE
TECHNOMELT
BONDERITE



Sales

- Solid OSG
- All business areas contributing
- EM strong, MM on PY level

Return

- Adj. EBIT margin with excellent increase to all-time high
- ROCE above the level of prior year

Henkel

Let me talk about the performance of our business units, starting with Adhesive Technologies.

The business unit achieved a solid organic sales growth. Packaging Adhesives, Consumer and Craftsman, Electronics, and General Industry showed a good development. Our Transport and Metal businesses delivered strong organic growth.

In the Emerging Markets, we achieved a strong organic sales growth. Mature Markets remained on the level of prior year.

The adjusted EBIT margin of the Adhesive Technologies showed an excellent increase and reached an all-time high.

As a result of this excellent operating performance, ROCE was above the level of prior year.

Let me talk about some highlights of Adhesive Technologies in 2016.

In the Automotive Sector, we achieved very strong growth with our high impact solutions for OEMs and tier one suppliers. Within our megabrand Loctite, we offer our customers innovative and tailor made solutions addressing industry trends such as lightweight and e-mobility.

In Food Packaging, with our Technomelt and Loctite brands, we continue to strengthen our leading position globally, gaining market shares across industry segments such as flexible packaging and metal cans. Success was driven by innovative solutions, which meet the needs for higher convenience and the requirements of stricter food safety regulation.

In the Electronic Industry, our thermal management solutions, acquired with Bergquist in 2014, delivered continued growth. Superior innovations for improved performance of consumer electronic devices and automotive electronics contributed to that successful development.

Beauty Care

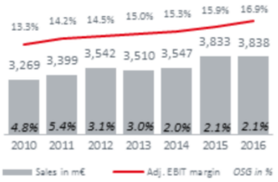
Fostering profitable growth

Beauty Care

Schwarzkopf

syoss

Dial



Sales

- Solid OSG
- Both business areas contributing
- EM very strong, MM slightly below PY

Return

- Adj. EBIT margin with excellent increase to all-time high
- ROCE below the level of prior year due to acquisitions

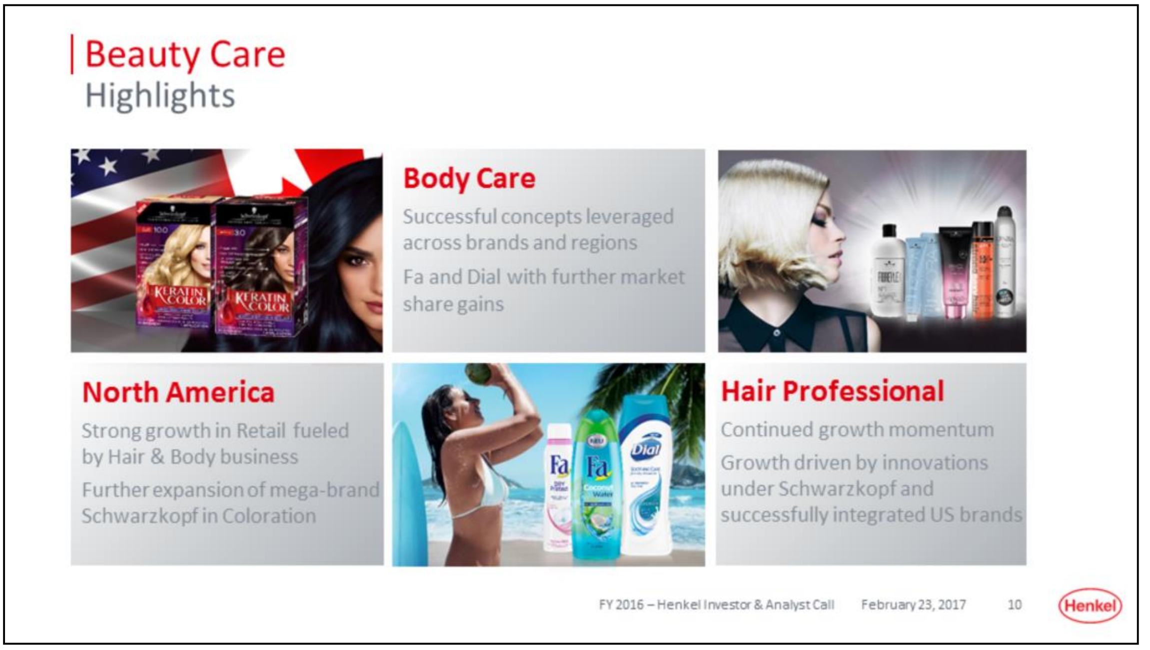
Henkel

Let's now move on to Beauty Care.

In fiscal 2016, the business unit achieved a solid organic sales performance. Both business areas contributed, with solid organic growth in the Retail business and a positive performance in Hair Salon.

In Emerging Markets, organic growth was very strong. Mature Markets came in slightly below prior year level.

The adjusted EBIT margin posted an excellent increase, reaching an all-time high. Due to impacts related to recent acquisitions, ROCE remained below prior year level.



Also for Beauty Care, I would like to give you some highlights on our initiatives.

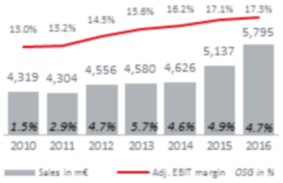
North America Retail achieved strong growth, fueled by both Hair and Body Care. We further expanded our megabrand Schwarzkopf with the successful rollout of our coloration launch.

In Body Care, we developed growth by powerful innovations that we leveraged across brands and regions. Both Fa and Dial were able to further grow market shares.

The Hair Salon business continues its positive development, showing growth now for seven consecutive quarters. This performance is driven by superior innovations across categories under Schwarzkopf and our successfully integrated US brands.

Laundry & Home Care
Fostering profitable growth

Laundry & Home Care



Sales

- Solid OSG
- Both business areas contributing
- EM very strong, MM solid

Return

- Adj. EBIT margin with solid increase to all-time high
- ROCE below the level of prior year due to acquisitions

Let me finalize the business unit overview with Laundry & Home Care.

The business unit achieved a solid organic sales performance. Both business areas contributed, Laundry Care with a strong growth, Home Care with solid performance.

Emerging Markets showed a very strong growth. Mature Markets boasted a solid increase.

Also in Laundry & Home Care, the adjusted EBIT margin reached an all-time high. Excluding the impact of acquisitions, the margin would have increased even further. Impacted by the recent acquisitions, the ROCE remained below the level of prior year.

Several initiatives drove the strong performance of Laundry & Home Care.

Let me give you three examples. North America showed continued strong momentum thanks to the excellent performance of Laundry Care. The results are driven by the further expansion of Persil ProClean.

Somat shows very strong growth, driven by the launch of Somat's phosphate-free in automatic dishwashing. The patented formula combines sustainability with 100% performance. The innovation was launched in 30 countries in Western and Eastern Europe.

Last but not least, we delivered very strong growth in Africa/Middle East. In the Hand Dishwashing category, Pril delivered double digit growth thanks to the launch of successful innovations.

Let me briefly comment on Sun, our biggest acquisition in 2016 and the second largest in our company's history.

It marks a major step for Henkel and sustainably strengthens our Laundry & Home Care business in North America. It propels Henkel to a strong number two position in North America, and adds a portfolio of well-established and successful brands.

With the combination of the two businesses, we have a very strong and motivated team in place to make the integration a success and further develop the business. The integration is very well on track.

Delivering on Guidance 2016

	Guidance FY 2016*	Actual FY 2016	
Organic Sales Growth	2 - 4% All Business Units within this range	3.1% All Business Units within or above guidance	✓
EM Sales Share	Slight decrease	Slight decrease	
Adjusted EBIT margin	>16.5% All Business Units above PY level	16.9% All Business Units above PY level	✓
Adjusted EPS growth	8 - 11%	9.8%	✓

* Updated on August 11, 2016

Before handing over to Carsten, let me comment on how we delivered on our guidance.

We guided for organic sales growth in a range of 2% to 4%, and we came in at 3.1%. Despite the strong organic growth of 6.8%, the Emerging Markets sales share decreased due to the FX environment and acquisitions.

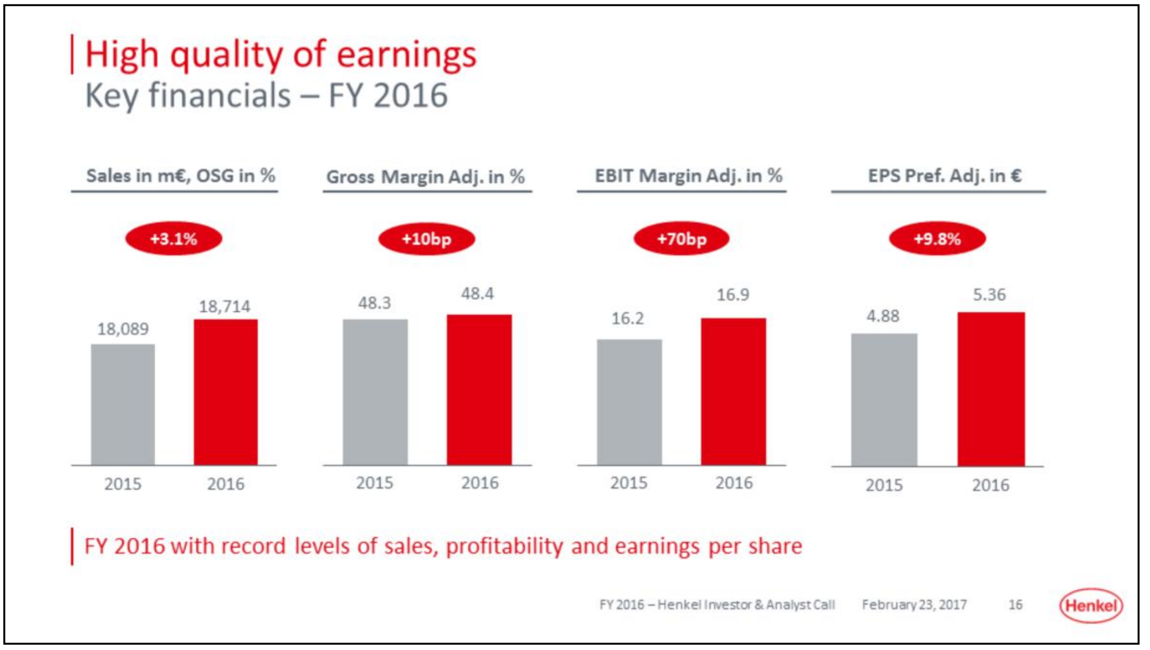
We guided for an adjusted EBIT margin of more than 16.5%. We delivered 16.9%. For adjusted earnings per preferred share, we guided in a range of 8% to 11%, and achieved an increase of 9.8%.

And with this, I now hand over to Carsten.

Carsten Knobel:

Thank you very much, Hans, and good morning to everyone.

Let's now have a look at the financials of the full year 2016 in more detail.



In 2016, our sales amounted to 18.714 billion euros. In nominal terms, this represented an increase of 3.5%. And as Hans has mentioned, this is the highest sales in Henkel's history.

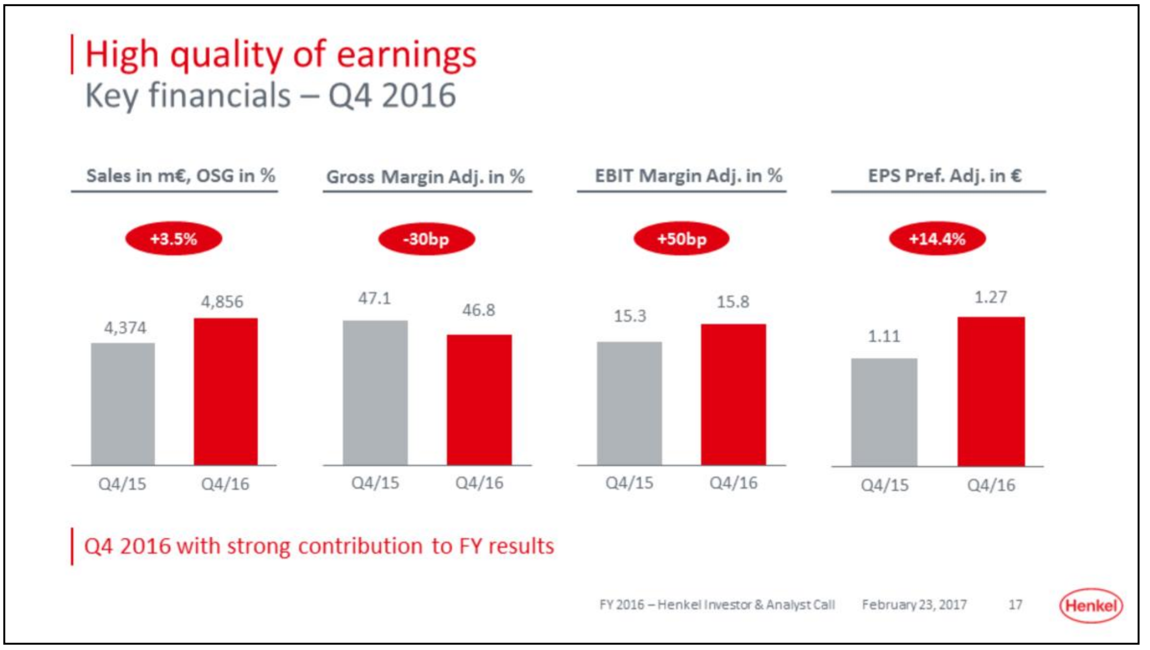
Organically, we have delivered a solid sales development of 3.1%. The Sun Products acquisition contributed with 475 million euros of additional sales within the year 2016. And we have accounted that under acquisitions and divestments, and we will continue to do so until August of 2017.

The adjusted Gross Margin reached 48.4%. This is a slight increase of 10 basis points over the prior year, and an increase of 30 basis points if we would exclude the Sun effect. And for sure I will give you some more details, as you are used to, to the gross margin development later in the presentation.

With 16.9%, the adjusted EBIT margin reached an all-time high for a full year with an increase of 70 basis points from 16.2% to 16.9% for the year. Also here, excluding the Sun impact of 20 basis points, we would have seen an increase to 17.1%, or a 90 basis point improvement.

Finally, our adjusted EPS per preferred share increased by 9.8% to an absolute amount of 5.36€, the highest EPS we ever had in a year.

So, with these results, we fully achieved our guidance 2016. We delivered a high quality P&L despite the difficult market environment and the FX headwinds.



Before I move on now with the full year, let me comment first on Q4 and some highlights on certain developments in regions and businesses.

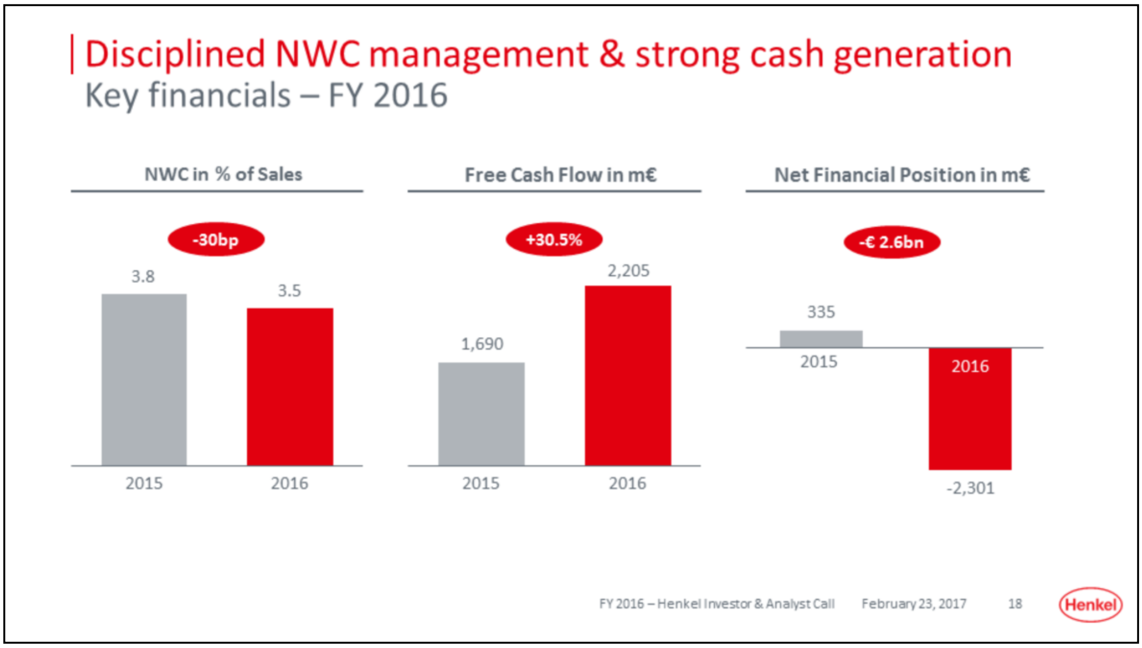
Our sales amounted to 4.856 billion euros. This is a nominal increase of 11.0%. The Sun Products acquisition within that contributed 362 million euros of additional sales.

We delivered, as you can see on the chart, organic net sales growth of 3.5%, the strongest quarter in 2016. The acceleration of the growth was driven by our Emerging Markets, especially with Latin America, Africa / Middle East, and Asia excluding Japan. Adhesive Technologies delivered an organic growth of 3.9% in the quarter, Laundry & Home Care of 4.7%. Beauty Care showed a positive growth of 1.0%.

Coming back to the P&L and looking at our adjusted Gross Margin in percent of net sales, we have seen a decrease of 30 basis points to 46.8%, but actually we increased it by 50 basis points if you would exclude the Sun impact. So, in total, a very good development for the adjusted Gross Margin.

The adjusted EBIT margin reached the level of 15.8% and, by that, improving the results by 50 basis points. Excluding the Sun impact of 30 basis points, the adjusted EBIT margin would have increased to 16.1%. Therefore, all business units contributed organically to this adjusted EBIT margin development.

Looking at the EPS for the quarter four, we increased this by 14.4% to a level of 1.27€.

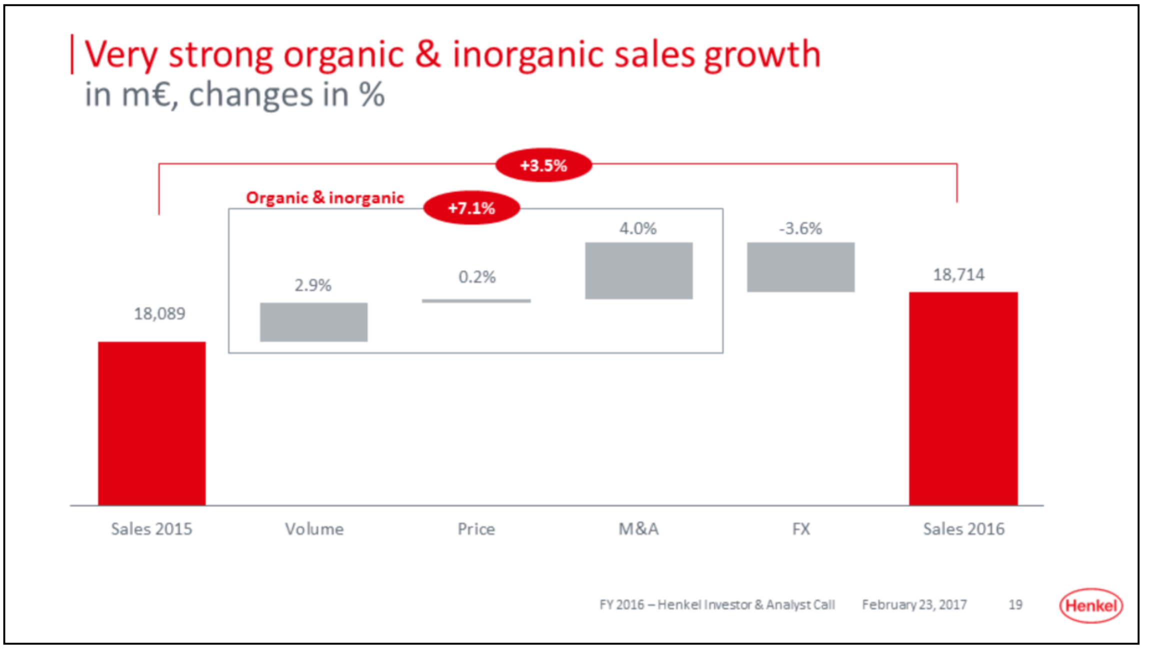


With that, I come back to the total year and back to our cash KPIs.

Once again, 2016 was a year of a very disciplined net working capital management and, by that, of a strong cash generation. The ratio of net working capital to sales improved by 30 basis points, now to a level of 3.5%. Moreover, excluding the Sun acquisition, the ratio would have been an additional 70 basis points better and would have improved to 2.8% in relation to net sales.

Following this strong net working capital improvement and contribution, our free cash flow came in at 2.205 billion euros for the year 2016. This is an increase of 30.5% or, in absolute terms, an increase of 515 million euros.

Finally, our net financial position reached a number of minus 2.3 billion euros. And this is primarily due to the payments for acquisitions, but here I will also comment later during the presentation.

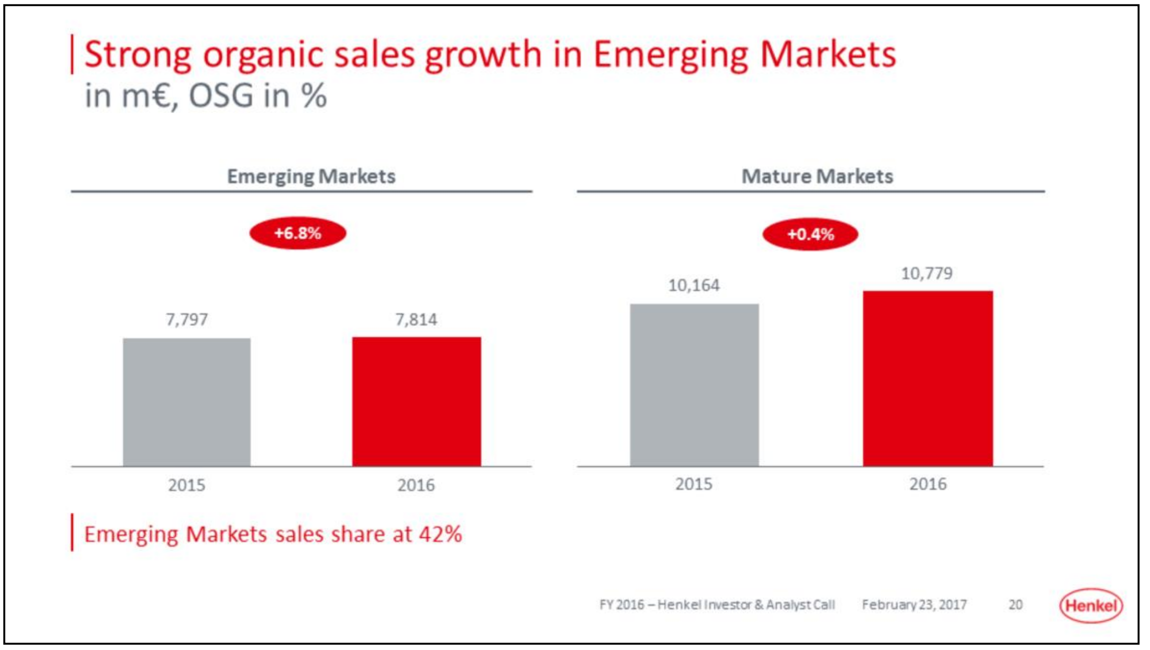


Now taking a closer look, as you are used to, to our sales bridge at the group level, as already indicated, our organic net sales growth came in at 3.1%, and is composed of 290 basis points improvement of volumes and 20 basis points of price.

Together with the effect of the acquisitions, which has an impact of 4.0%, overall we grew the combination of organic and inorganic development of plus 7.1%.

In 2016, as we have indicated that during the calls between Q1 and Q3, we faced continued FX headwinds. They were in total negatively impacting the year 2016 by minus 3.6%, or 656 million euros in absolute terms. The main contribution to the negative impact came from emerging market currencies such as the Mexican peso, the Chinese yuan, and the Russian ruble.

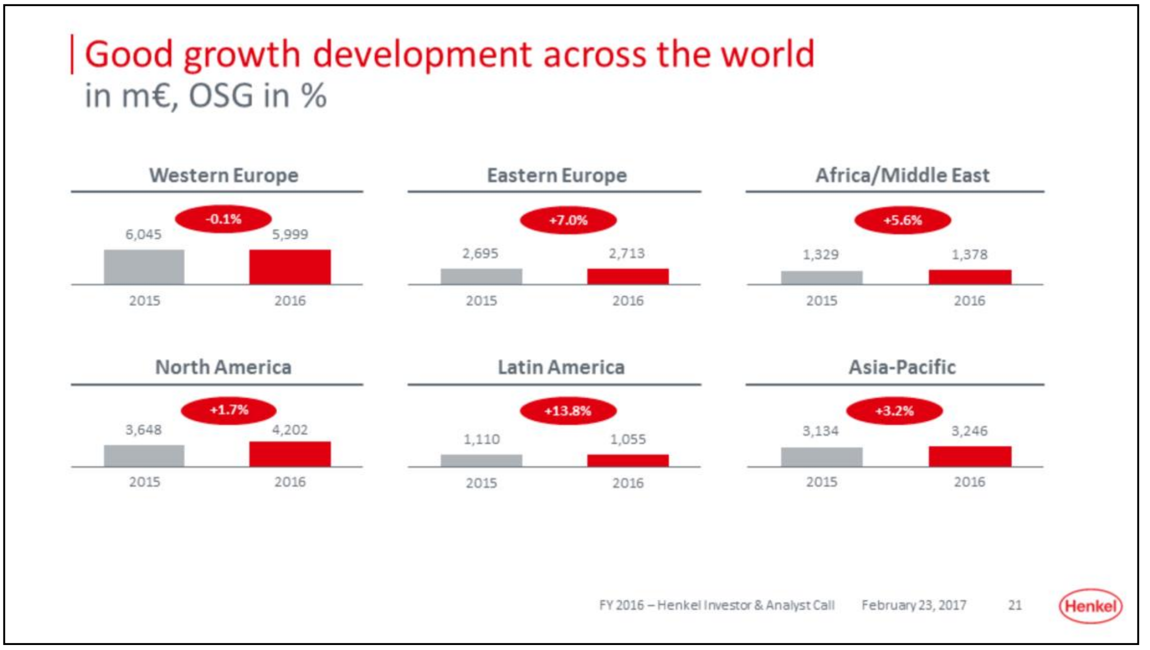
So, summing up, we closed, as already indicated by Hans and myself, a total number of 18.714 billion euros, or a nominal increase of 3.5%.



With that, moving to our regional performance and first having a look on our development in the Emerging Markets and in the Mature Markets, our sales in the Emerging Markets showed a number of 7.814 billion euros. And this is combined with an organic growth of 6.8%.

The Emerging Markets accounted for 42% of the total group sales, impacted by FX headwinds and also by acquisitions. The Mature Markets showed a number of 10.779 billion euros, organically a growth of 0.4%.

Overall, the organic growth was broad based across the regions. And this I will now show you with the next part.



As I said, we have seen a good growth development across the world.

Western Europe was flat, to be precise minus 0.1% in organic terms. France, in that respect, was negative.

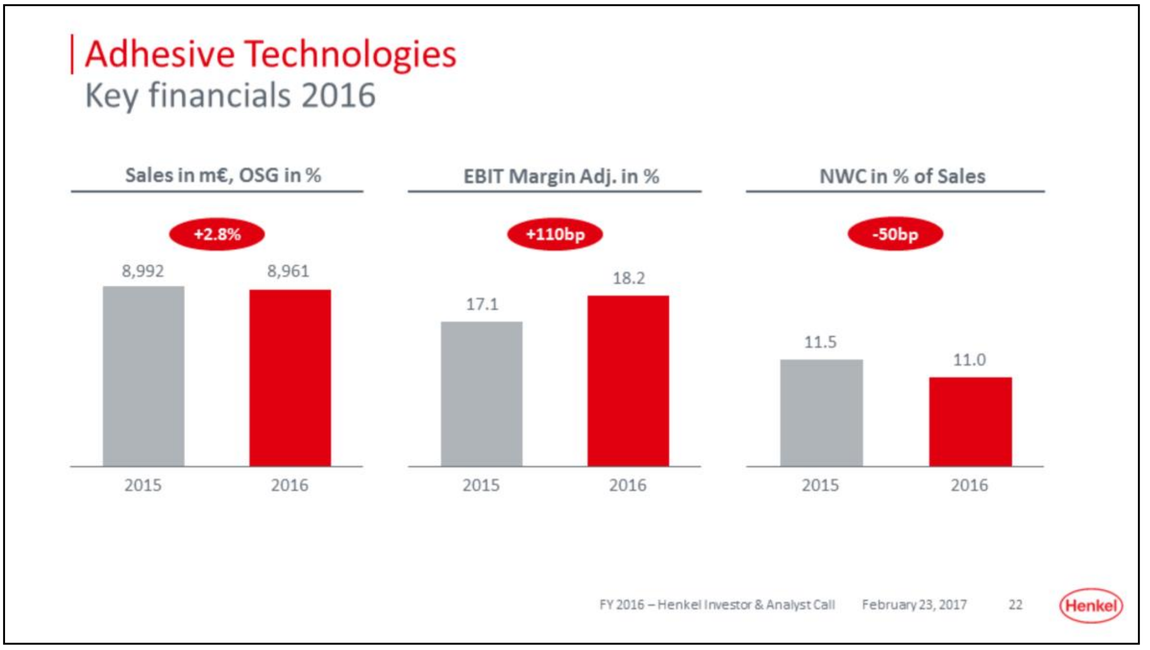
Eastern Europe showed a very strong net sales development of plus 7%, mainly driven by the performance in Russia and Turkey.

In Africa/Middle East, we have seen an organic growth of 5.6% in organic terms despite an ongoing difficult environment.

North America, a good development, plus 1.7% in organic terms. This was supported especially by a solid organic development in our consumer businesses. Adhesives showed a positive development.

A double digit development in organic terms in Latin America, plus 13.8%. Here Mexico was the strongest contributor, with a double digit performance.

And finally, Asia-Pacific showed a solid development, 3.2% in organic terms, India and South Korea with double digit performance. China contributed with a solid growth.



With that, let me now move to our three business divisions, and I'll start today with our Adhesive Technologies business. The Adhesive Technologies business posted a solid organic net sales growth of 2.8% for the year, reaching 8.961 billion euros. The 2.8% is composed of a 2.5% increase in volume and a 30 basis point increase in price.

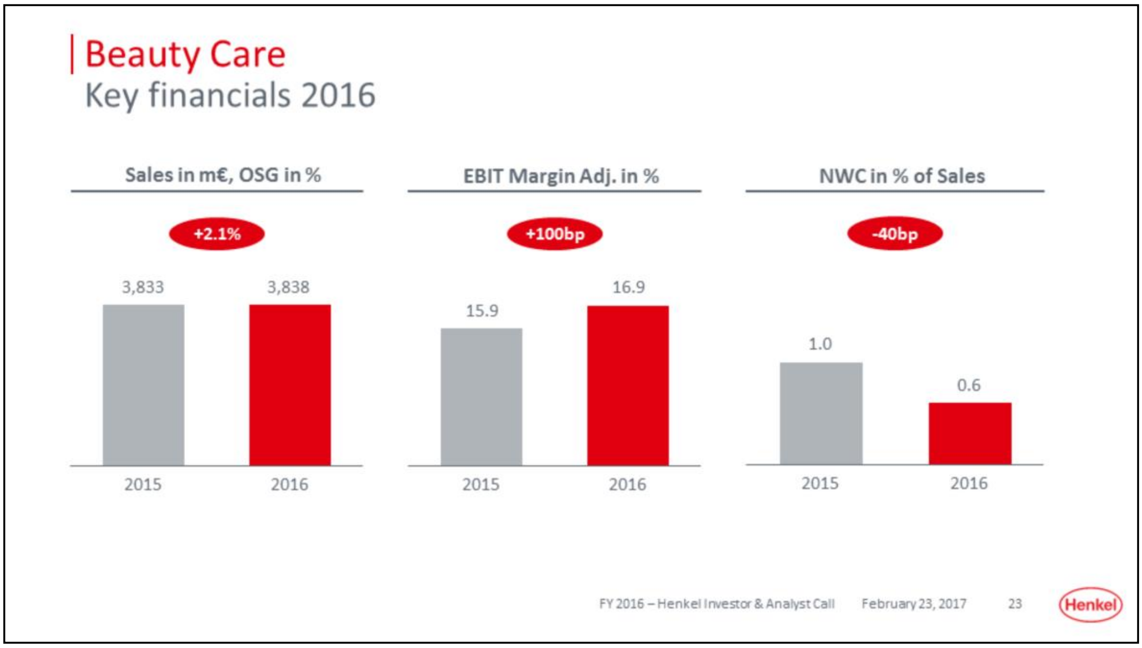
Looking at the business areas, we have seen in the Packaging Adhesives, Consumer and Craftsman, Electronics, and General Industry a good development. In Transport and Metal, in this business we delivered a strong organic net sales growth.

From a regional perspective, Emerging Markets of Adhesive Technologies recorded a strong organic net sales growth. Latin America, in that context, contributed double digit also here, driven significantly by the positive situation and development in Mexico. Eastern Europe, with strong organic net sales growth here, also supported by strong growth in Russia and Turkey. And Asia, excluding Japan, saw a solid performance driven by a double digit performance in India. China showed a solid development. This continues to be good news, but we still remain cautious also when we look into 2017.

The Mature Markets showed a sales performance organically which was on the level of prior year. We recorded a negative development in the Mature Markets of Asia-Pacific. The development in Western Europe was on prior year level. In North America, we showed a positive development.

With that, now moving to the adjusted EBIT margin of Adhesive Technologies, we recorded 18.2%, the highest adjusted EBIT margin ever in Adhesive Technologies, an excellent improvement by 110 basis points from 17.1% of last year.

The net working capital ratio, as I indicated already for the total company, also strongly supported here by the Adhesives development, an improvement by 50 basis points, now to a level of 11.0%.



With that, let me move to the second division, Beauty Care. Beauty Care delivered another year of profitable growth. Our sales came in at 3.838 billion euros, showing an organic development of 2.1%. This 2.1% is composed of 170 basis points improvement in volume and 40 basis points improvement in price.

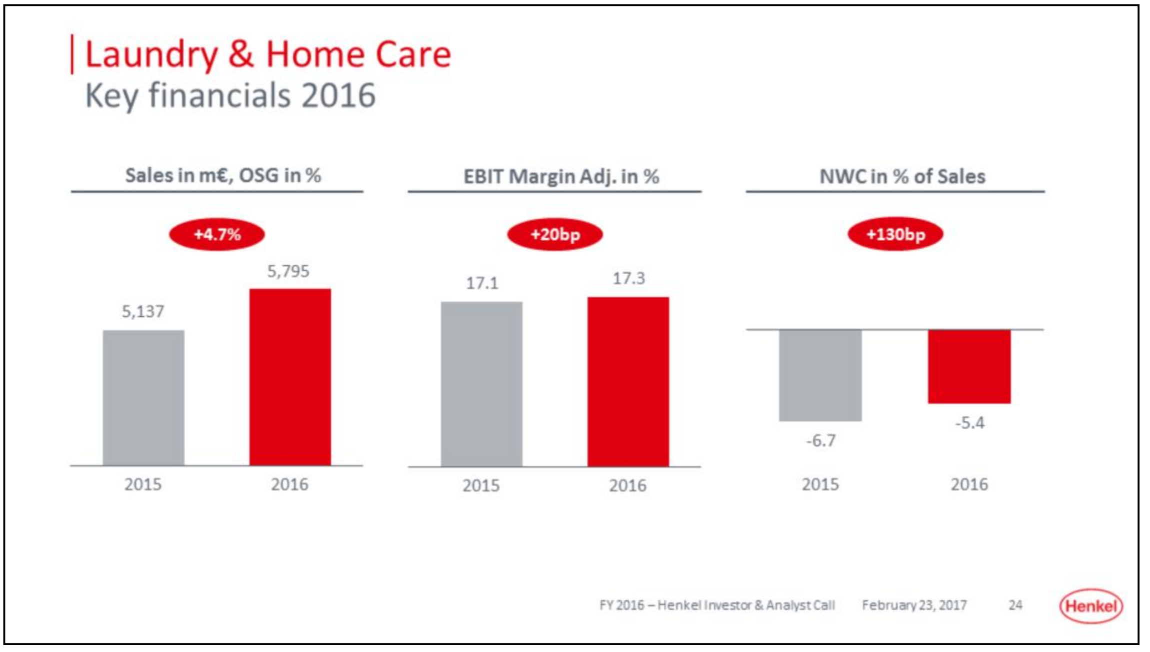
Also here, looking at the two businesses, the growth was solid in Retail and positive in our Hair Salon business. So, after some issues in Professional with negative growth two years ago, we have now continuously showed over seven quarters a positive development in this respect.

Emerging Markets posted a very strong growth, here double digit improvement of Eastern Europe driven by Russia, Latin America driven by Mexico. China was negatively impacted by the development in the offline channels, while online channels contributed double digit.

Coming now to the Mature Markets in Beauty Care, we have seen here growth slightly below prior year. However, while Western Europe was negative due to ongoing high competitive intensive and pricings, North America recorded a solid organic net sales growth.

Also now moving here to our profitability development in terms of looking at the adjusted EBIT margin, we have seen here 16.9% adjusted EBIT margin. Also here an all-time high for our Beauty Care business, also combined with an excellent growth of 100 basis points from 15.9% in 2015.

Also in net working capital, we have seen a very good development. We came in at 0.6% in percentage of sales. That's an improvement of 40 basis points compared to the year 2015.



With that, let me move to Laundry & Home Care. Laundry & Home Care came in with 5.795 billion euros. And this is reflecting an increase in organic terms of 4.7%, which was related completely to volume while pricing remained flat. The Laundry Care business achieved a strong organic growth, while Home Care reported a solid development.

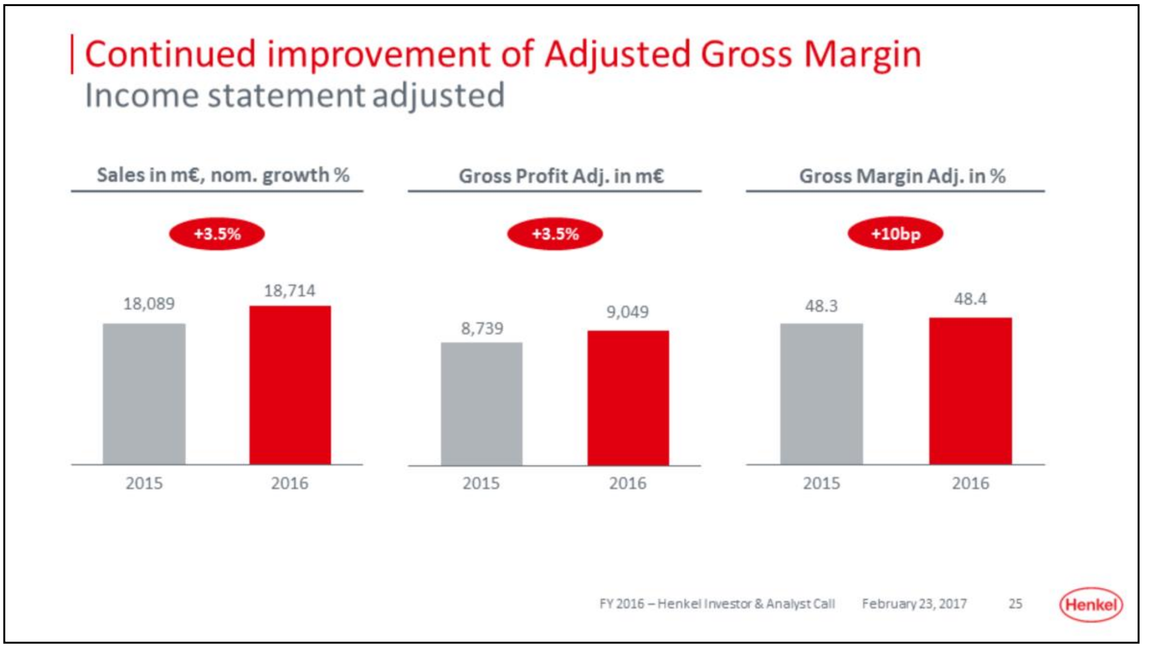
Looking now also here on the regional development, starting with the Emerging Markets, we again provided here a particular momentum to the sales growth, with a very strong growth rate. In more detail, Asia delivered a double digit performance, Africa/Middle East very strong, Latin America and Eastern Europe with a strong organic net sales development.

Looking at the Mature Markets in Laundry & Home Care, we have seen a solid organic development. The main driver was North America with a solid performance. Western Europe reported a positive growth.

Now also looking at the margin development in Laundry & Home Care, we recorded 17.3% of adjusted EBIT margin for the year, which is also here an all-time high, which is 20 basis points up compared to the 17.1% in 2015.

Excluding the impact of Sun, Laundry & Home Care progressed even more, with a strong margin increase of 70 basis points. And that would have marked then a 17.8% of EBIT margin in relation to the sales.
From a cash perspective, also here a very good situation. We reached a very low level of minus 5.4%. Also here, giving you the remark excluding the Sun development, it would have been minus 8.6% and, by that, improving the situation compared to prior year by 190 basis points.

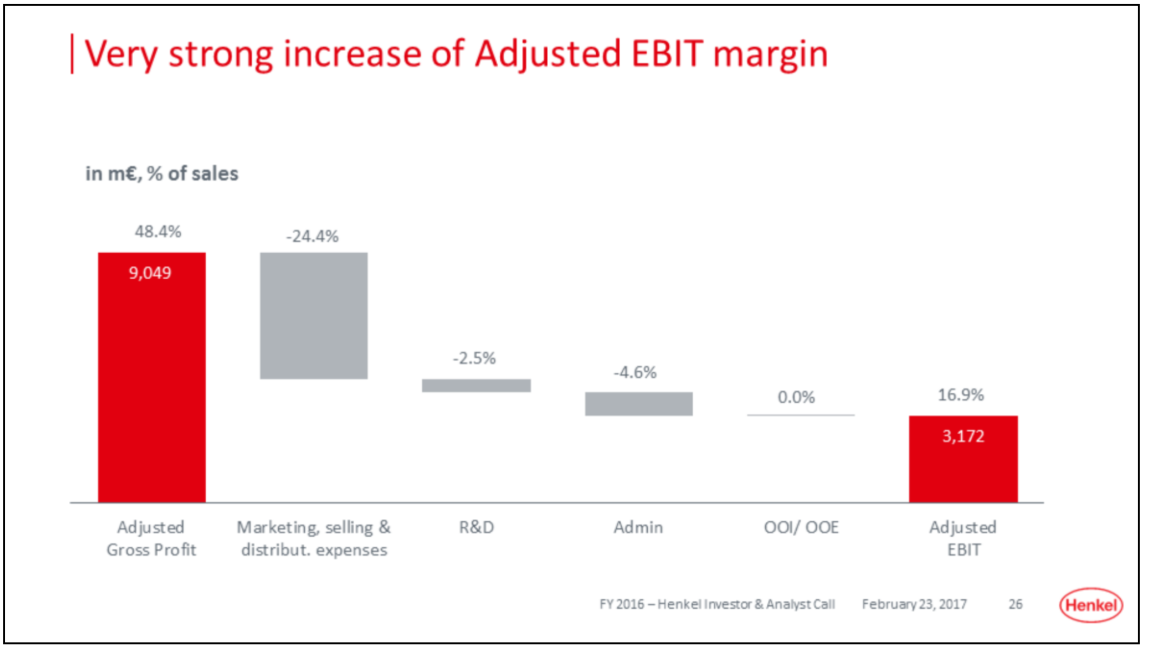
So, before moving on let me conclude on Sun. Hans has already mentioned that the integration is well on track. And I would like to remind you that we expect offensive and defensive synergies of more than 10% of the Sun sales within the first 24 months.



With that, now coming back to the Henkel Group in total and in particular now to our adjusted income statement, I already commented on the sales development with the level of 18.714 billion euros, or 3.5% in nominal terms. Our Gross Profit adjusted came in at 9.49 billion euros, also showing an improvement of 3.5% over the prior year.

And with that, as mentioned before, we could increase our adjusted gross margin by 10 basis points to 48.4%. The margin increase is mainly drivenby three factors; measures in terms of additional cost reduction topics, improvement in production and supply chain efficiencies, and our innovations launched in the year 2016.

As you know, we benefitted from slightly lower input costs. But as per our indications throughout 2016, the savings were offset by negative transactional or currency effects as well as the impact from the acquisitions, especially from Sun, what I have mentioned before.



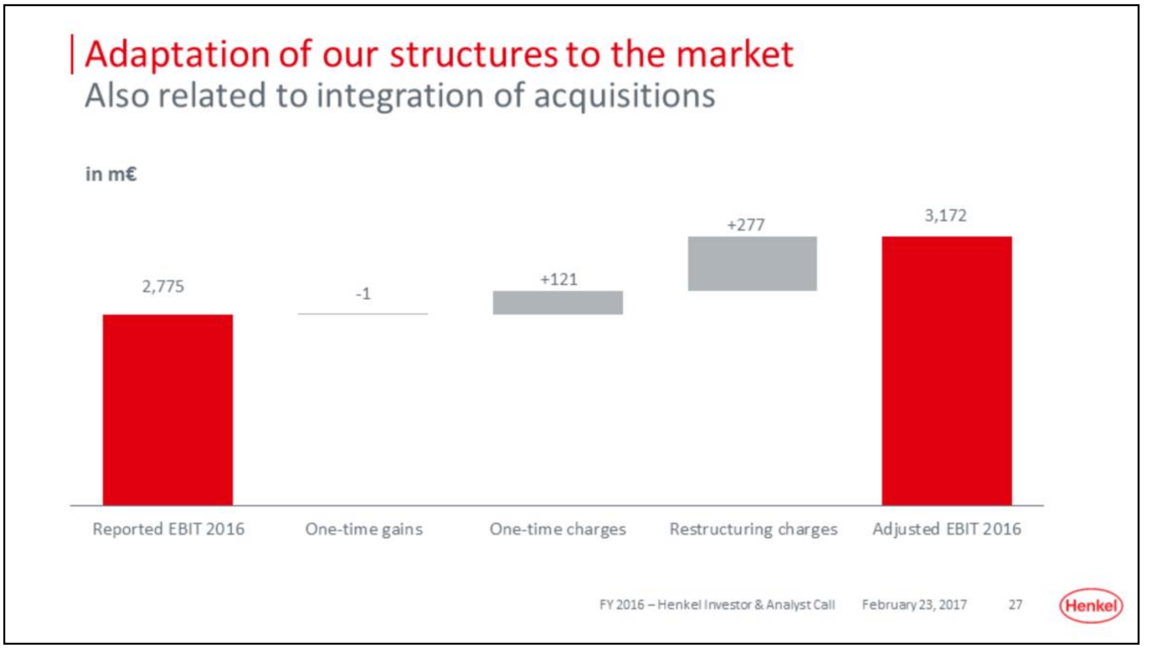
Moving on, in our income statement adjustment and now the bridge from Gross Profit to adjusted EBIT, marketing, selling, and distribution expenses decreased by 60 basis points to a level of 24.4%. Our relative improvement was driven by the adaptation of structures and efficiency gains realized in selling and distribution expenses. Looking at our marketing expenses, in absolute terms we increased them compared to the level of prior year. And in the relation to sales, they remained stable.

Looking at R&D, we spent 460 million euros, or 2.5%, of sales. And this remained close to the year of 2015.

We reduced our administration expenses in percentage of sales by 20 basis points to 4.6%. And the absolute figure remained slightly below the prior year level, despite our recent acquisitions. So, this reflects clearly our strong cost discipline and the efficiency focus we have undertaken.

At the level of minus 6 million euros, the balance between other operating income and expenses remained at a very low level.

With that, as mentioned before, we reached an adjusted EBIT of 3.172 billion euros combined with an all-time high margin of 16.9%, or an increase of 70 basis points for the year.



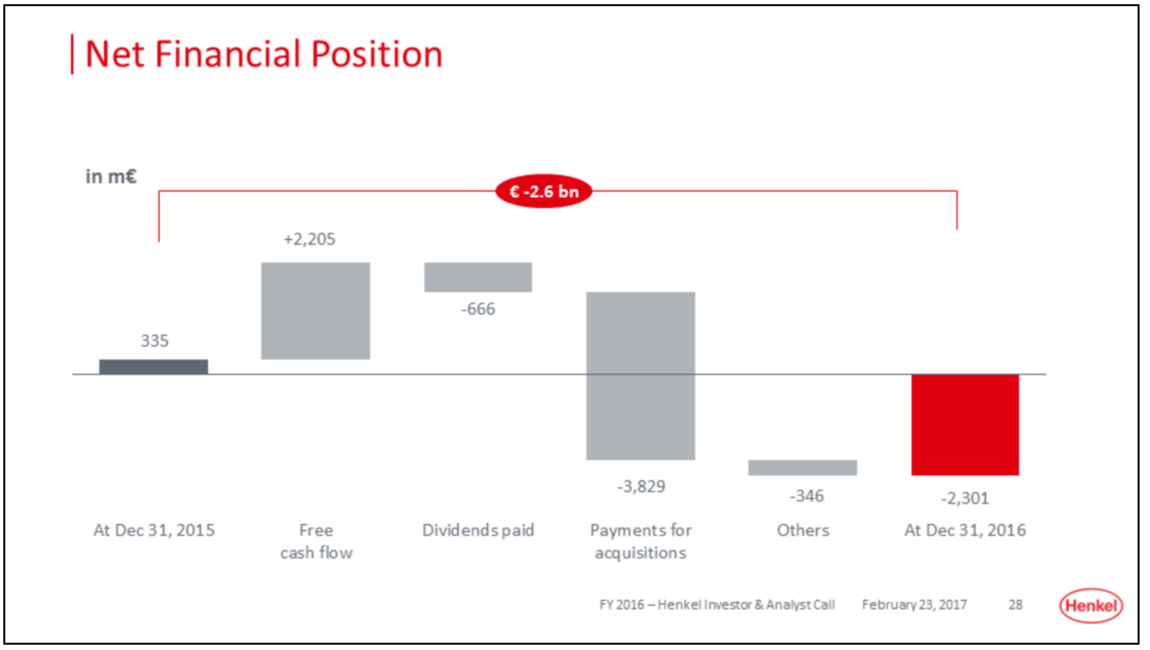
As you are used to, you also get now a bridge of the reported to the adjusted EBIT.

Our reported EBIT came in at 2.775 billion euros. We had minor one-time gains of 1 million euro. We had one-time charges of 121 million euros which relate, amongst others, to our one Global Supply Chain activities and the projects and the acquisitions we have undertaken.

We have seen restructuring charges of 277 million euros in the year 2016, within our expectations, which we updated in November, to a level of 250 to 300 million euros. And these are mostly related to the integration activities of our acquisitions, besides the adaptation of our structures to the market situation.

So overall, our adjusted EBIT amounted to 3.172 billion euros and is, with that, 8.5% above the prior year.

Before moving on, let me comment at this point on the restructuring guidance for the year 2017. We will continue with the integration of our acquisitions, and we will also continue to adapt our structures to the market environment. Therefore, our guidance for the full year 2017 is, for restructuring, 200 to 250 million euros and you will also find this information in the backup of the presentation.



With that, moving and having a closer look on the development of our net financial position, our net financial position in 2016 came in at minus 2.3 billion euros. This is 2.6 billion euros below the prior year, where we reached 335 million plus.

Looking at the components, we continued our strong free cash flow generation. And the amount, as already indicated, came in at 2.205 billion euros. This enabled us not only to increase our dividends but also to invest in our businesses.

Firstly, we paid dividends at the level of 666 million euros for the year 2015, which we reported and accounted in 2016. This is 69 million more than in 2015.

And secondly, we paid around 3.8 billion for acquisitions. And let me remind you that a large part of this has been financed by our bond issues in September, where Henkel was one of the first corporates which could issue a negative yield.

Lastly, we paid around 346 million euros for other items. 185 million euros out of that were contributions to pension funds, and the rest is mainly attributable to FX effects.

As usual for a full year, I will conclude my presentation with the way we use our cash. You are familiar with that, that we have three pillars where we are concentrating on value creation, which is investing in organic growth with CapEx, investing in our acquisitions secondly, and thirdly distributing dividends.

Let me start by focusing on how we invested in our organic growth. We are a global company, and our investment approach follows the principle in terms of manufacturing in the region for the region.

Also in 2016, we have invested in several expansion projects around the world. And you can see this on the slide here where we have marked three examples.

In total, capital expenditures amounted to 543 million euros. This is close to the guidance for 2016, which was between 550 and 600 million euros.

Two-thirds of that are related to expansion projects, innovations, and streamlining measures.

If you look at Adhesive Technologies, here the focus was on consolidating production units and expanding our footprint in Emerging Markets, for instance in China, which you see on the chart.

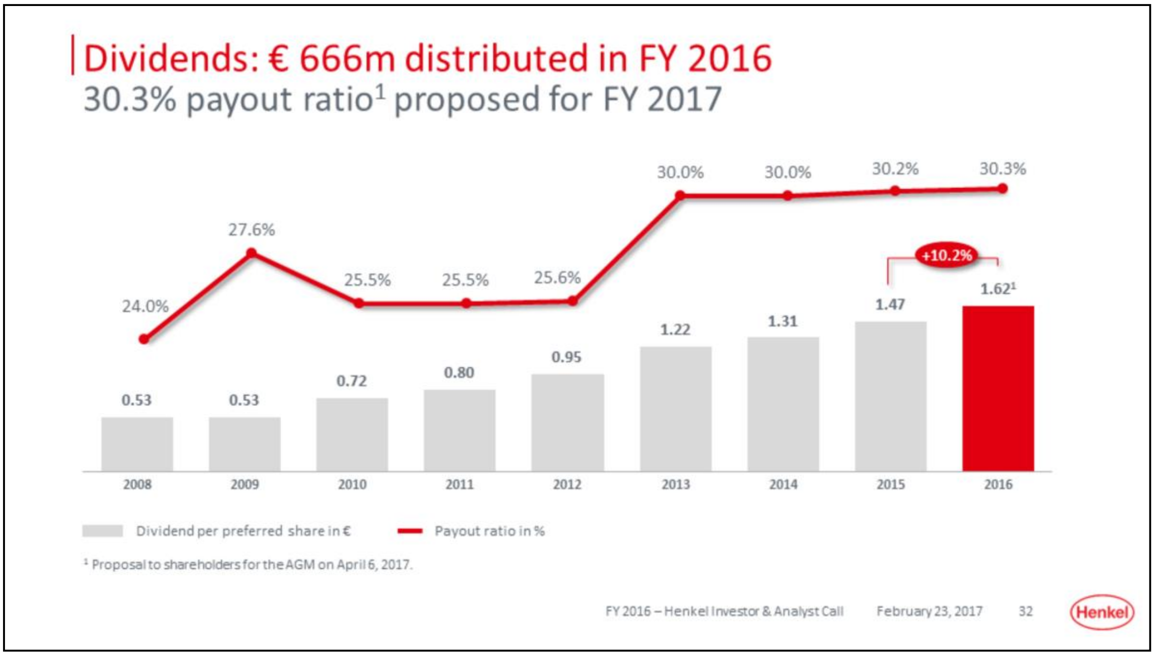
In Beauty and in Laundry, the main focus was on capacity expansion and logistics. And here you see two examples in Eastern Europe, specifically in Russia, and Western Europe in Germany.

Summing up, throughout the cycle between 2013 and 2016 our capital expenditures amounted to 2.1 billion euros. Looking ahead, we will continuously invest in our businesses. For the year 2017, we expect in terms of CapEx to spend between 750 and 850 million euros.

The second pillar of value creation, looking at excellence in terms of supporting our businesses by acquisitions.

In 2016, as we mentioned before, we supported significantly on that. And this enabled us to expand our portfolio in all three business units and both in Mature and in the Emerging Markets, thereby considerably strengthened our position in attractive segments.

Going forward, we have a strong balance sheet, which will allow us to do M&A in case attractive targets match our criteria. At the same time, we remain also committed to our A-flat rating.



Closing the presentation with the third pillar of the usage of cash, looking at the dividends, in April 2016, as I mentioned before, we distributed 666 million euros to our shareholders. As you can see, over the past years, we have continuously increased our dividend payout. And we will propose, at the AGM on April 6th, an increase of the dividends by 10.2% to 1.62 € per preferred share. This translates into a payout ratio of 30.3% of the adjusted net income after the non-controlling interest.

With this, I am at the end.

Thank you for your attention, and I hand over 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.

Strong performance driven by our global team

- Strong business performance and high quality of earnings in 2016
- Record level of sales driven by very strong organic and inorganic growth
- All-time-high adjusted EBIT, EBIT margin and Earnings per preferred share
- Double-digit increase in dividends[1]
- Step-change in North America with second-largest acquisition in Henkel's history
- Successful year for Henkel driven by our global team

Strong foundation to deliver on our Henkel 2020+ ambition

[1] Proposal to shareholders for the AGM on April 6, 2017.

Overall, this performance and the high quality of our results was driven by our strong global team.

We achieved record sales driven by very strong organic and inorganic growth.

Moreover, we reached all-time highs in the adjusted EBIT, adjusted EBIT margin, and adjusted earnings per preferred share.

As a result of this performance, we will propose a double digit increase in dividends to our shareholders at the AGM in April 2017.

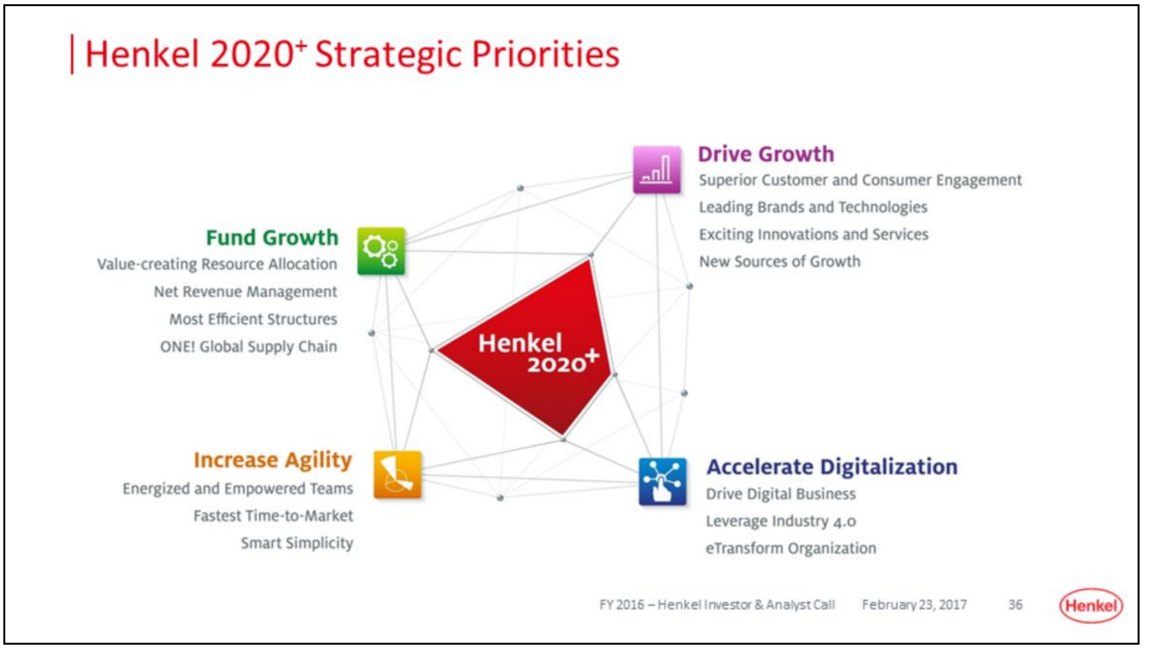
In the fiscal year concluded, we closed the acquisition of The Sun Products Corporation, which was the second largest transaction in our company's history.

Thanks to the performance of our global team, 2016 was again a successful year for Henkel. Based on our strong foundation, our excellent results in 2016 and our clear priorities for the upcoming years, we are committed to continue our successful development in the future.

As presented to you in November, we have a clear ambition to shape our future. We want to generate sustainable, profitable growth through 2020 and beyond. To achieve this, we want to become more customer focused, more innovative, more agile, and fully digitized in our internal processes and customer-facing activities.

In addition, we aim to promote sustainability in all our business activities, reinforcing our leading positions in the future. We want to continue to advance our portfolio with value adding acquisitions.

In summary, we have a very clear and exciting growth strategy going forward.



And we will bring this strategy to life with our four clear strategic priorities. We will drive growth, accelerate digitization, increase agility, and fund growth.

For each of the four priorities, we have defined a number of initiatives in order to achieve our ambitions.

Therefore, these priorities define our focus areas toward 2020.

Let me now give you an outlook and a guidance for the current fiscal year, 2017.

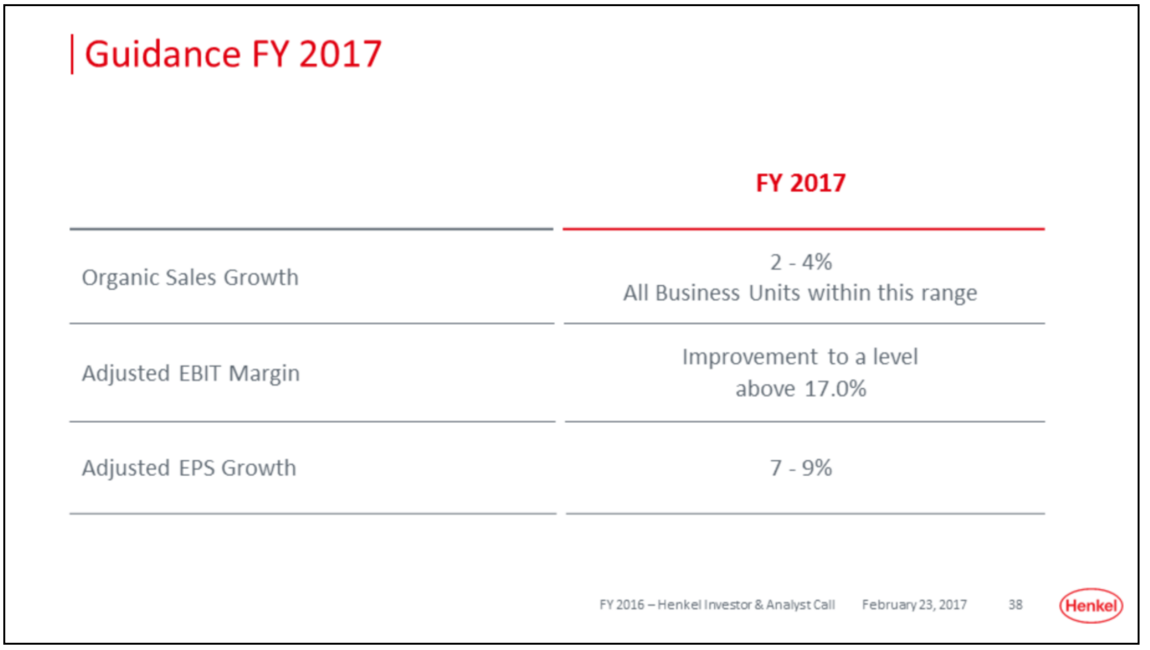
We expect the high volatility and uncertainty of the market environment to persist.

We see increasing geopolitical tensions and political uncertainties.

Forecasts for GDP as well as for industrial production indicate a moderate and heterogeneous growth across regions.

Currencies continue to remain volatile and prices for commodities tend to be increasing.

Especially in the consumer businesses, we expect a continued high level of promotional and pricing pressure.



In this volatile environment, we are well positioned for further profitable growth, thanks to our clear strategic direction, our strong global team, and our innovative brands and technologies with leading market positions.

For the full fiscal 2017, we expect the Henkel Group to generate organic sales growth of 2% to 4%, with all business units within this range.

We expect an improvement of the adjusted EBIT margin to a level above 17%.

And finally, we expect our adjusted earnings per preferred share to grow between 7% and 9%.

In the challenging environment we are in, we set ourselves ambitious targets. We are confident to make it happen thanks to the dedication of our talented and committed teams.

I would like to come to the close and upcoming events. Our annual general meeting will take place on April 6, 2017. We will release our Q1 results on May 11. Our investor and analyst day for Beauty Care will take place on June 1, and our Q2 and Q3 earning releases on August 10 and November 14 respectively.

So, now let's now open for the Q&A.

Q&A Session (p.1/6)

Operator: Thank you, Mr. Van Bylen. (Operator instructions.) Hermine de Bentzmann, Raymond James.

Hermine de Bentzmann: Good morning to all of you. I have two questions, please. The first one is on your EPS guidance for a 7% to 9% increase for 2017, which I find a little cautious regarding the integration of Sun. The consensus is expecting more than 10% growth for this year. Can you be a bit more precise on the figure you expect? Is there any element that we are missing in terms of tax rate or anything else?

My second question is regarding Q4. Can you be a bit more precise on the deceleration you had in Beauty and, on the reverse, on the acceleration you had in Adhesives last quarter? Thank you very much.

Hans Van Bylen: Hermine, thanks for your two questions. I suggest I answer the first one and Carsten will take over for your second question on Q4.

Concerning guidance, as you know on November 17 we announced our financial ambition 2020 with a CAGR of an adjusted EPS in the range of 7% to 9%, including the contribution of Sun. On that date, we also shared with you that the synergies of Sun will be built up over the period of the coming 24 months.

So, coming to our guidance of 2017, an adjusted EPS growth of 7% to 9% is very consistent with our financial ambitions. And looking at the outside world, I think there are no signs that this world got meanwhile significantly better.

Carsten Knobel: Coming to your second question related to performance in Q4 of Adhesives and Beauty, starting with Beauty, yes, the organic growth of 1% is below the full year of where we recorded 2.1%. And the main reason besides the competitive pressure, which is an ongoing topic, was a weakness in Western Europe and here especially in France.

Related to your question of Adhesives and, in your terms, the accelerated growth reaching 3.5% in the quarter, we have seen here, especially in the Emerging Markets, a very strong performance. And this was driven in particular by countries like Mexico, India, China, and Turkey.

You had also heard from me that I was also commenting on the situation of China, that we see here a good development. But nevertheless, we would like to have some more proof points in order to see that this is continuously very positive.

And from a business perspective, we have seen, as for the full year, that the Transport and Metal business showed a very strong performance in Q4. I hope this helps.

Hermine de Bentzmann: Okay, thank you. But just coming back on the guidance, there is no change in the tax rate you expect for 2017 versus 2016?

Carsten Knobel: Yes. As you know, we are not guiding specifically on tax. But as I have commented that now since a couple of years, you should not expect the tax rate differently what you have seen in the last years, so ETR around 25%.

Hermine de Bentzmann: Okay, thank you very much.

Jeremy Fialko: Hi. Good morning; a couple of questions from me. First of all, can you talk about the ruble and your gross margins? I remember a few years ago when the ruble weakened a lot, you talked about having something like EUR100 million headwind on your costs because of the currency devaluation. Now clearly the ruble has been very, very strong over the course of the last year. So, is there actually going to be some sort of potential benefit to your margins this year from the ruble strengthen?

And then secondly, if you could, just talk a little bit more in detail about Persil in the US, what sort of market share you're at, what sort of distribution you're at, and what your expectations for 2017 are. Thanks.

Hans Van Bylen: Thanks, Jeremy, for your questions. I propose Carsten will answer your ruble question and I will then take over on your Persil US question.

Carsten Knobel: Jeremy, regarding the ruble part, maybe we have a different view on that, but the ruble in 2016 was negatively impacting our results. When I was referring to FX headwinds, the development in the ruble or in Russia was one of the four currencies which impacted us quite significantly in a negative way.

For sure, you have the view that over the last couple of months the ruble was appreciating, but it is important how you see the development 2016 on average versus 2015 on average. So, there was still in 2016 versus 2015 an impact which was both on the translational side, which I commented, but also on the transactional side, which in this respect negatively impacted our gross margin again in the year 2016 compared to 2015.

For sure, if the development continues as you are currently seeing, this topic will change if you will look forward.

Hans Van Bylen: Then on the question on Persil, we had a very good year in North America, both for our Beauty business and also the Laundry business. The Laundry business indeed – and now I talk organically without Sun – was strongly supported by the continuation of the launch of Persil, on which we are quite happy.

On your question of distribution, as you know, we started exclusively with Walmart, and we were able more than double our distribution. We will now come to a weighted distribution direction of 70%. And going out further in this year, we see further wins in weighting distribution, so this looks good.

And this is also thanks to a good uptake, so also market shares are improving period by period. So, we're quite happy and now especially with our new portfolio, because this is -- well, it's very premium positions and it's very complementary now in the total portfolio. So, we are optimistic also on a very positive future of Persil in the US.

Jeremy Fialko: Okay. Thank you very much.

Guillaume Delmas: Good morning, gentlemen; three questions for me, please. I mean, the first is very much a technical question. In terms of FX for 2017, if I look at the spot rate I currently get to around a 2% tailwind for 2017. I think in your report and the outlook part of it, you are guiding for a neutral to slightly negative FX effect on your 2017 numbers. So, what kind of exchange rates are you assuming to get to neutral to slightly negative?

And then the two real questions, the first one is on the Latin American acceleration in Q4, very substantial. Just wondering whether there were some one-offs in these numbers or whether it's just reflective of some price increases in Mexico in response to the local currency depreciation.

And then the last question on Beauty Care. We've seen a decline in Mature Markets in 2017, but strong margin expansion. I mean, listening to your largest competitors in Hair, they're clearly stepping up the pace of new product launches, of brand rejuvenation, sometimes at the expense of margins. So, I'm wondering, for 2017 are you tempted to join the rat race, or it's still about protecting margins, at least in Mature Markets? Thank you very much.

Hans Van Bylen: Thank you, Guillaume, for your three questions. The first question you say is a technical question, so then I think Carsten is very well positioned to answer it. He takes that one. Also LATAM I suggest Carsten takes, and then I will answer your question on Beauty Care.

Carsten Knobel: So, I am the technical person, Guillaume. Good morning.

Guillaume Delmas: Good morning.

Q&A Session (p.4/6)

Carsten Knobel: Let's have a look, if I can manage that. So, regarding the topic of FX, first of all, we expect continued high volatility in the market, in the currency market. We anticipate a slightly stronger average US dollar rate for 2017 compared to 2016, but consequently major currencies in the Emerging Markets could weaken. And therefore, we have stated that we see the neutral impact or slightly negative impact in terms of currency.

If I look at this when we're speaking without for sure talking about 2017, I think that currently what we see in the market is confirming what we have given as an outlook for the full year. So, if needed, maybe then we need to have a more technical discussion later in the meeting.

So, coming back to your second part in terms of the acceleration of LATAM in Q4, there are no special issues, no one-offs, no special pricings or anything else. It is driven by all BUs.

But in particular, as I mentioned, I think, when we had the question before of Hermine to the topic of Adhesives in Q4, Adhesives was in particular driving this very good result in LATAM in Q4.

Hans Van Bylen: Then coming to your question on the Beauty Care Mature Markets, we can say -- to be more specific here, I think it's more Western Europe we talk about. What we do see indeed is that the market is getting to an extreme level of competitiveness, but especially also concerning pricing and promotion.

So, the market itself, especially hair market I talk about now, which was also your question, has turned to negative because of negative pricing. And within this market indeed, I mean, we are not immune for this. But on share we are doing quite okay. And looking at how we invest, because indeed Beauty shows a full point of margin improvement, but what we watch very clearly is the quality of this margin.

This increase of margin is not at the cost of marketing budget. So, it all comes out of cost efficiencies. And that's for us fundamental. That's when we talk about quality of margin. It is extremely high on our radar screen so that we continue to invest competitively in our brand.

Guillaume Delmas: Thank you very much.

Pinar Ergun: Thank you very much for taking my question. You've commented that raw materials are rising. Could you please give us some color on when you expect this to come through in your pricing, and also whether you expect to be able to pass it all through?

And my second question in on Sun. Are you planning to increase your investment behind Sun's brands over the next 12 months, or do you find the current level of investment sufficient? Thank you.

Hans Van Bylen: Thank you, Pinar, for your two questions. The raws' impacts, Carsten, you take, and then I will comment on Sun.

Carsten Knobel: So, for the raws' impacts, we see and we are guiding also on that a moderate increase for the year 2017. For sure our ambition is to pass it through.

That's something which I think we have -- especially over the last years when we were confronted with price increases, we always made a good job in bringing these price increases also to the market. And yes, I think that's the overall situation.

Q&A Session (p.5/6)

And for sure it is already starting that we see that in the market. And we always told you that it takes roughly three to six months until things are coming into our P&L. And as we have seen that already starting in the second half, or to be more precise in Q4 of last year, you can expect that we will also see that in 2017.

Hans Van Bylen: And let me give you some flavor on Sun and the way forward. As I indicated so on Sun integration, we are very well on track. I mean, we have already been announcing that we will move to one central location at the East Coast. So, teams are working, in different workflows, very strongly on the integration.

But as you saw in Q4, I mean, what we managed to do, and the team does an excellent job there, is that we combined this focus on integration by staying very focused on the markets and on having a good business development.

And of course, I mean, the combination of both our businesses gives us also not only the defensive but the so-called offensive synergies, which means growth opportunities. This will also be consisting out of innovation, which we will fuel in.

And on investment, how much we invest on which brand, I count on your understanding that we will not comment on that. But the Sun/Henkel story US is not only a defensive synergy story, it's also about offensive synergies, which of course means investing in innovation and brand.

Pinar Ergun: Thank you very much.

Philipp Frey: Hello, gentlemen. A couple of short questions, first of all in terms of M&A. How would you see your capacity to actually handle larger transactions, or could you handle something in the size of Sun in addition to what you have right now on your plate in the next 12 months, or just on that one?

Then on your guidance, do you feel in any way -- on your 17% -- at least 17% adjusted EBIT margin, do you feel less secure in this guidance than on your other KPIs that you have guided, or would you say it's a very solid target?

And lastly, in terms of the potential benefit of a US tax reform, is your -- the income that you are -- that is taxable in the US, is there any deviation from the share of sales, anything that is outstanding that we should bear in mind when we calculate your potential benefits there?

Hans Van Bylen: Thank you, Philipp, for your three questions. Concerning M&A, as I presented in November and I also commented shortly today, M&A stays on your agenda as an integral part of our strategy going forward to 2020 plus. But also here I count on your understanding that we do not comment now to disclose any more specifics on this.

Concerning guidance, we see the different components as equally challenging. And we also see the three different components as equally important.

Carsten Knobel: Philipp, your question regarding the current tax rates in the US or how we see that, the corporate tax rate in North America is 35%. Any impacts of future regulations have to be evaluated based on the concrete changes. And due to the fact that there is a quite broad range of suggestions, I hope you understand that I cannot comment at this point of time what it, in the details, means.

Q&A Session (p.6/6)

Philipp Frey: I only wanted to get a few on the status quo. So, you are paying basically statutory rates there, and have nothing specific in place right now that means that you are substantially deviating from the statutory rates there.

Carsten Knobel: Your assumption is correct.

Philipp Frey: Thanks.

Hermine de Bentzmann: Thank you for allowing a follow up question. I have two, please. The first one on -- can you give us your view on the evolution of the coloration market segment? It seems that you are -- one of your competitors is very optimistic about its market segment. I was wondering if you could share your view on this and what is the weight in Beauty sales of this segment.

And my second question is on the pricing expected for 2017, as it was very low in 2016. Thank you.

Hans Van Bylen: Thank you, Hermine, for those two last questions then. Coloration market indeed is an attractive segment to be in, I mean, purely if you see demographics wise globally. I mean, this is on itself is a growth indicator for this market.

As you know, in beauty around 70% of our business is Hair. Meanwhile, within Hair Coloration is one of our strongest segments, both in Retail but even more in Professional, where all the proportion is strong also in coloration.

Just to highlight still perhaps because we talked on Persil, also the launch and the way forward of our Schwarzkopf launch in the US, which also was very strongly in the Color segment, also there, I mean, we have been expanding our distribution and have been gaining quite strong market share. So, for us, it is also a priority category.

Carsten Knobel: I mean, regarding pricing, always difficult to give you here already details on that, what will happen. But it is right that we had a negative pricing in Q4, and that the pricing in total for the year was 0.2% contributing to the overall development of organic net sales growth. But in general, we should not and you should not see the result of a single quarter and should extrapolate that.

For sure in the current business environment it's always difficult to execute price increases. But I commented already before in one of the answers that, with the assumption that we have increases in raws and packs for the year, we will give the utmost in order to transfer also these prices to the market.

And overall, I think it's also something which we have said also in the past, that we prefer a slight inflationary environment compared to a deflationary environment. And therefore, we are positive on that, that we can also have a pricing component in 2017.

Hermine de Bentzmann: Okay, thank you.

Hans Van Bylen: Dear investors, dear analysts, I think with this we come to a close. I thank you again for joining our conference call, and I thank you very much also for your questions.

As this set of results shows, we had a very strong performance in 2016, and we are now fully focused on the execution of our ambition and our strategic priorities for 2020. We will start with making 2017 a successful year for Henkel.

Thank you for listening in and goodbye.

FY 2017: Additional input for selected KPIs

	FY 2017
Prices for Total Direct Materials	Moderate increase vs. the level of the prior year
Restructuring Charges	€ 200 - 250m
CapEx	€ 750 - 850m

Additional Information Financials Q4/2016

Düsseldorf, February 23, 2017

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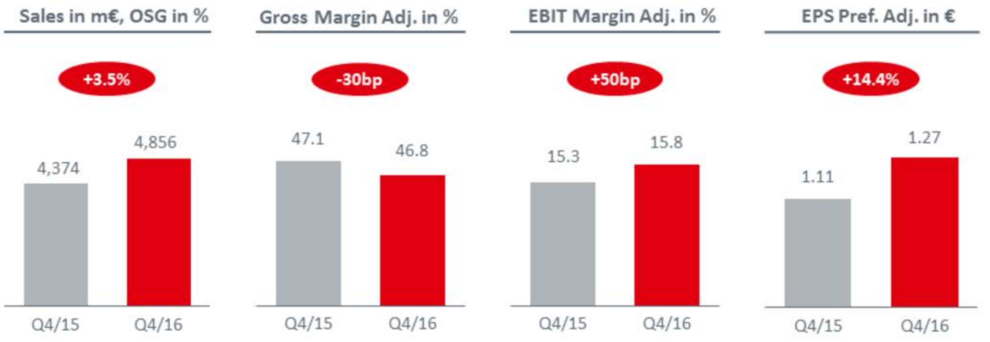
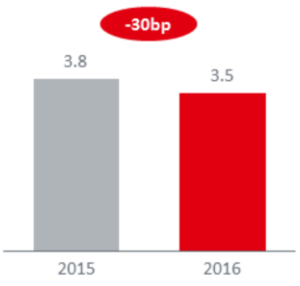
High quality of earnings
Key financials – Q4 2016

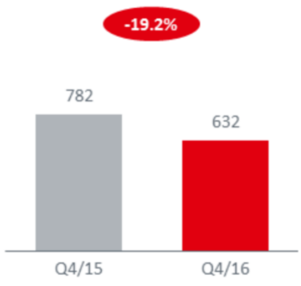


Key financials – Q4 2016

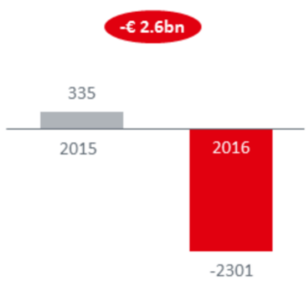
NWC in % of Sales



Free Cash Flow in m€



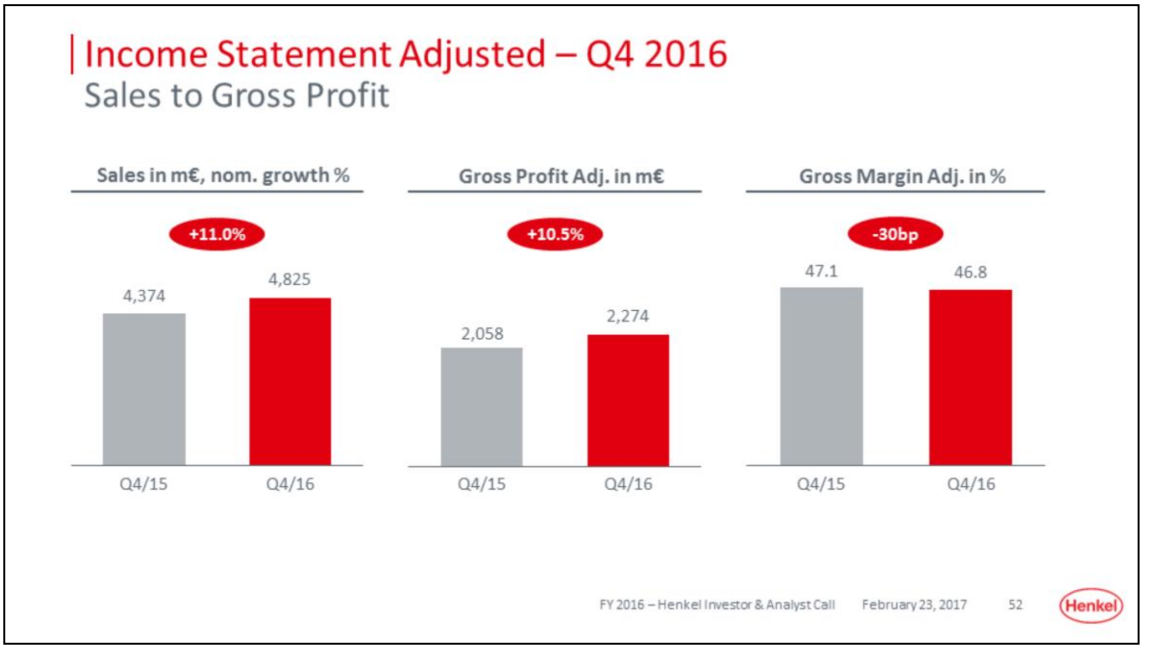
Net Financial Position in m€



Double-digit organic & inorganic sales growth

in m€, changes in %

Organic Growth by region – Q4 2016
in m€, OSG in %


Income Statement Adjusted – Q4 2016
Sales to Gross Profit
Sales in m€, nom. growth %
+11.0%
4,374
4,825
Q4/15
Q4/16
Gross Profit Adj. in m€
+10.5%
2,058
2,274
Q4/15
Q4/16
Gross Margin Adj. in %
-30bp
47.1
46.8
Q4/15
Q4/16
FY 2016 – Henkel Investor & Analyst Call
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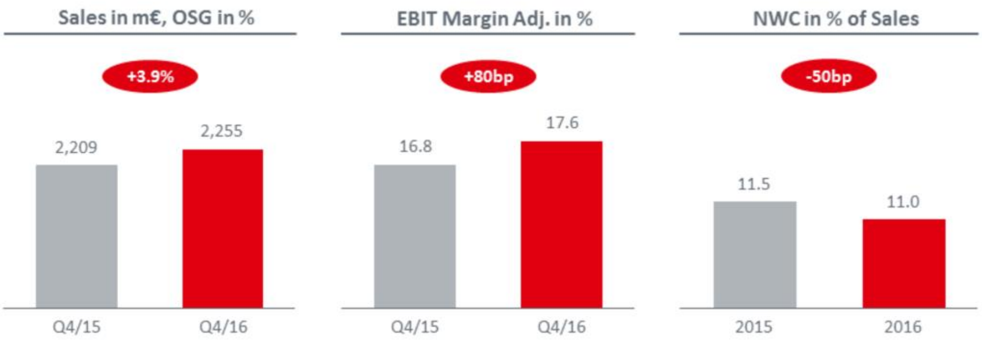
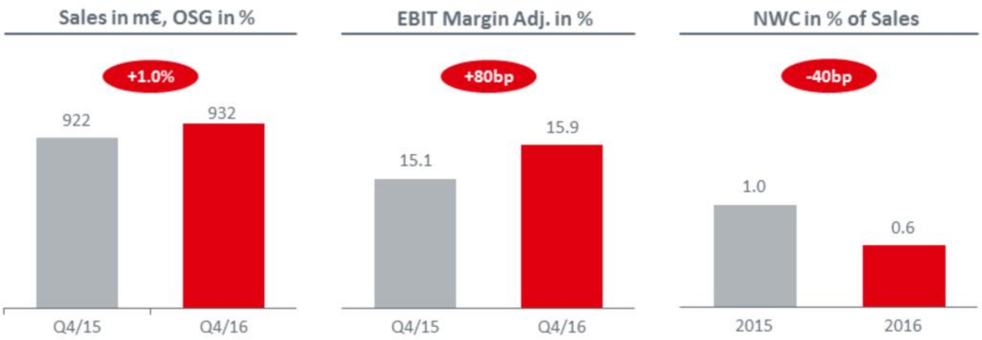
Continuous adaptation of our structures to the market
Q4 2016

in m€

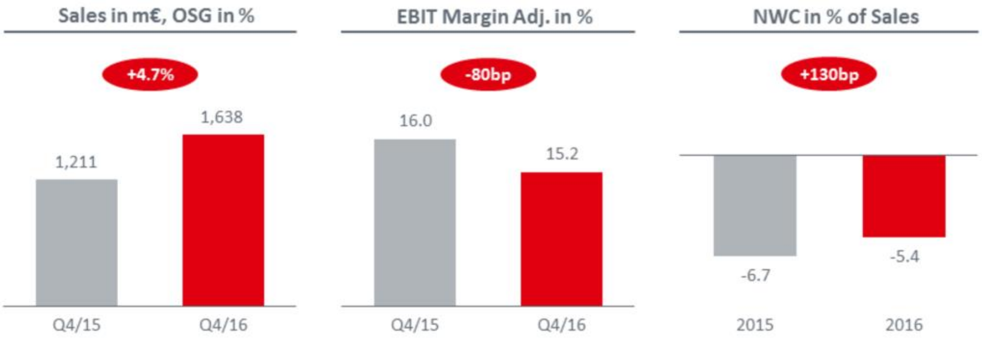
Adhesive Technologies
Key Financials Q4 2016



Beauty Care
Key Financials Q4 2016



Laundry & Home Care
Key Financials Q4 2016



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Thank you!