

Policy on Deforestation-Risk Commodities



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1. Policy Rationale

- The sourcing of ingredients based on bio-based renewable raw materials, when done unsustainably, can pose risks of deforestation and human rights violations. Henkel is committed to responsible sourcing of raw materials and recognizes that the protection of forests and other natural ecosystems is critical for maintaining biodiversity, combating climate change, and sustaining livelihoods.
- The Henkel 2030+ Sustainability Ambition Framework is a direct reflection of the company's commitment to "Purposeful Growth". Henkel is committed to driving transformational change by creating more value for its stakeholders, developing its business successfully, and acting sustainably for the benefit of our current and future generations. The 2030+ Sustainability Ambition Framework sets the frame for our global sustainability strategy with the three dimensions "Regenerative Planet", "Thriving Communities" and "Trusted Partner".
- At Henkel we want to actively drive the transformation to a sustainable economy and society. We are convinced that we can effectively contribute to change with our strategic framework and the priorities we have set, building on our values-based culture, deep rooting in science and our passion for technology.
- Henkel's continuous ambition is 100 percent responsible sourcing together with its partners and its commitment is zero net deforestation. The Henkel responsible sourcing strategy places a clear focus on a shared fundamental approach. We are convinced that we can only establish sustainable procurement practices if every single decision-maker in the global supply chains acts in the spirit of sustainability.
- Henkel has business partners around the globe. We place the same exacting demands on them worldwide. We expect their business conduct to be consistent with our sustainability requirements. In selecting and working with our business partners, we consider their performance regarding safety, health, environment, social standards, and fair business practices.
- The Henkel corporate purchasing standards apply worldwide. Compliance with the cross-sector Code of Conduct of the German Association of Materials Management, Purchasing, and Logistics (BME) is mandatory for all of Henkel's suppliers worldwide. This Code of Conduct makes international application possible and, in addition to the Responsible Sourcing Policy, also serves as the basis for contractual relationships with our strategic suppliers.
- This Policy aligns with the principles and guidelines laid out in the UN Global Compact, the UN Guiding Principles for Business and Human Rights, the International Bill on Human Rights, and the fundamental ILO conventions. This Policy also follows guidelines of the Accountability Framework and incorporates many of its terms and definitions to help clarify the intentions of these principles and promote alignment in sustainability practices across the sectors where we operate

- This Policy is a key element of Henkel's commitment to leadership in sustainability. It is supplemented by the following policies, as detailed in our Sustainability Report, for achieving the commitments stated in this Policy:
 - Responsible Sourcing Policy
 - Safety, Health and Environment (SHE) Standards
 - Human Rights and Social Standards
 - Code of Conduct
 - Code of Corporate Sustainability
- This company Policy is translated into requirements expected from Henkel's suppliers in the Responsible Sourcing Policy.
- The responsible sourcing efforts for other forest-risk commodities sourced in low volumes are targeted and selective to mitigate any environmental and social risks identified by evaluation of their supply chains.
- To fulfil this Policy on Deforestation-Risk Commodities across our entire business, we require our forest-risk commodity suppliers to adhere to our Responsible Sourcing Policy which serves as the basis for how Henkel evaluates and helps our suppliers' progress toward, and compliance with, the principles stated in this Policy.

2. Policy Scope

The provisions in this Policy apply to:

- The high-volume commodities Henkel sources that pose a material risk for deforestation, conversion, or human rights violations, namely pulp and paper, and palm oil, palm kernel oil and their derivatives.
- All Henkel operations globally, including those of its subsidiaries.
- All suppliers, including direct and indirect suppliers that are associated with the defined scope.

3. Principles of Action

- Henkel is committed to zero net deforestation and to respecting internationally acknowledged human rights. We work within our own operations and through our suppliers to achieve the following results.

NATURE

Protection of forests and natural ecosystems

- No deforestation of natural forests, including High Carbon Stock forests (HCS) or High Conservation Value Areas (HCVA) as defined by the High Carbon Stock Approach (HCSA).
- No conversion of other natural ecosystems to agriculture or other land uses.
- Engagement of our supply base to support long-term protection of natural forests and other natural ecosystems.
- Management systems shall be built on robust policies and effective risk due diligence mechanisms to identify, prevent, end, minimize and potentially compensate for violations, reflecting the impacts and opportunities of each supplier's organization.
- No burning or use of fire for land clearing/replanting.

Cut-off dates:

- The cut-off date after which deforestation or conversion is considered non-compliant with this Policy is, as a minimum, January 1, 2020, aligned with global goals to halt deforestation by 2020, as specified in the New York Declaration on Forests and in Target 15.2 of the United Nations Sustainable Development Goals.
- Nevertheless, Henkel considers deforestation or conversion non-compliant with this Policy after the following cut-off dates specified for palm oil, palm kernel oil and their derivatives as per the Roundtable on Sustainable Palm Oil (RSPO): November 2005 (for primary forest or any area required to protect or enhance HCVs) and 15 November 2018 (for HCVs or HCS forests).

We consider for palm (kernel) oil the special requirements of no new developments on peatland and responsible management of peatlands on existing plantations, as specified in the RSPO Principles and Criteria.

PEOPLE

Respect for Human Rights

- Henkel has a clear policy of doing business in an ethical and legal manner. This is inseparably linked with our commitment to respecting internationally acknowledged human rights. We adhere to international labor standards as a minimum, and local statutes where these are more exacting.
- Details on our commitment to respecting human rights are covered in the Social Standards, the SHE Standards, the Responsible Sourcing Policy, and our German Act on Corporate Due Diligence in Supply Chains Policy Statement.

Respect for the rights of indigenous people and local communities

- To respect the rights of indigenous peoples and local communities (IP/LC), including land tenure rights, we follow a broad approach, covering our own operations and supply chain.
- Details on our commitment to respecting rights of indigenous people and local communities are covered in the Social Standards, the SHE Standards, the Responsible Sourcing Policy, and our German Act on Corporate Due Diligence in Supply Chains Policy Statement.

Respect for workers' rights

- Henkel commits to the full respect for workers' rights.
- Details are specified in the Social Standards, the SHE Standards, the Responsible Sourcing Policy, and our German Act on Corporate Due Diligence in Supply Chains Policy Statement.

Smallholder engagement

- Henkel supports the inclusion of independent smallholders in global supply chains, in collaboration with its supply chain partners.

4. Targets

- In this context, at Henkel we strive for achieving the following underlying targets:
 - 100 % paper and cardboard from recycled material or from sustainable forestry sources.
 - 100 % palm and palm kernel oil whose responsible sourcing is certified or externally confirmed by 2025.
 - 100 % transparency and traceability for palm and palm kernel oil by 2025.
 - Improve livelihoods of smallholder farmers and protection of nature.

5. Implementation Mechanisms

- To implement and demonstrate progress, at Henkel we work with the following mechanisms:

Risk Assessment

- Our approach to assessing sustainability risks in the supply chain is part of the Group-wide risk management system. We assess risk potential at the regional and country level, as well as at the level of the value chain. In doing so, we concentrate on countries identified by international institutions as being associated with heightened levels of sustainability risks. The assessment includes criteria related to human rights, environment, and corruption.

Traceability

- At Henkel we trace supplies upstream to the point where compliance can be ascertained using several approaches varying according to commodities:
 - tracing material to the production unit (land area on which a producer cultivates crops or manages timber), or
 - via a third-party certification scheme that is aligned with company
 - via supplier systems that provide control back to the production unit level; or
 - sourcing from areas documented to be low risk.
- The Henkel Sustainability Report documents our systems in place to provide traceability.

Supplier engagement for compliance

- Henkel communicates to suppliers it accepts material produced and controlled in accordance with the principles outlined the Henkel Responsible Sourcing Policy.

- Henkel works with its suppliers to address, prevent, mitigate, and where necessary and applicable corrective action or remedy, environmental and social harms that violate the principles of action outlined in this Policy.
- Henkel's suppliers are evaluated with respect to their ability to meet Henkel's requirements and specified expectations. More specifically, Henkel assess and audits suppliers in fields such as environmental performance, health and safety, human rights, ethics, and fair competition. In case of a violation, the supplier must inform Henkel and cooperate with Henkel to prevent or end the violation as soon as possible – or to mitigate the violation as soon as possible if preventing or ending are not immediately possible because the underlying root cause is beyond the reasonable control of the supplier. This also applies to situations where breaches are identified further up the supply chain. In such cases, the supplier must cooperate with Henkel to ensure that reasonable efforts are taken to terminate the breaches and ensure systematic documentation and records.

Grievance mechanism

- Henkel operates a transparent, responsive company grievance complaints procedure mechanism for all stakeholders (including employees, suppliers, communities, and others) to report concerns, complaints, grievances, and breaches to this Policy. The grievance mechanism follows the Effectiveness Criteria of the UN Guiding Principles on Business and Human Rights. Our compliance hotline is operated by an independent external provider is available globally. Additionally, an email can be sent anonymously to the Henkel Compliance Office using a contact form.

Access to remedy

- If Henkel discovers that a violation of a human rights-related or environmental obligation has already occurred or is imminent in its own business area or at a supplier, it takes appropriate remedial action(s) without undue delay. The measures are taken on a case-by-case basis, based on the nature of the violation.
- Details are specified in our German Act on Corporate Due Diligence in Supply Chains Policy Statement.

Stakeholder engagement

- Henkel is committed to active and meaningful stakeholder engagement, and to participating in multi-stakeholder forums that advance shared goals for sustainable supply chains.
- We partner with others to increase the effectiveness of our actions and accelerate progress toward achieving our goals of halting deforestation and conversion and protecting human rights.
- Understanding the social and environmental demands that stakeholders of all kinds place on our company is a key component of our sustainability management. To better understand the expectations and perspectives of our stakeholders and to engage in dialog that is more targeted and solution oriented, we make use of specific surveys and continuously monitor the opinions of our stakeholders at several levels: in direct dialog, in multi-stakeholder initiatives, and through dialog platforms about sustainability-related topics.

Monitoring

- Henkel has established monitoring mechanisms to regularly track the extent to which sustainability targets – including the implementation of this Policy - are met, as detailed in the Henkel Sustainability Report.

Reporting and communication

- On an annual basis, Henkel transparently shares progress toward meeting the principles outlined in this Policy. In addition to our annual reporting on sustainability, we use various communication and dialog formats to provide our stakeholders with information, as well as to engage in open dialog.

Review

- To reflect changes of the applied concepts, organizational strategies and current understanding, regular and pro-active reviewing of this Policy is a key part of operational excellence and continuous improvement. The basic methodology for process reviews will involve a review by a panel of experts and other relevant stakeholders following good practice of policy review. The Policy contact is the Henkel Corporate Global Sustainability team and is responsible for ensuring the Policy is regularly reviewed and that the timeframe for review is appropriate for a specific type of policy.

6. References

Policy seeks alignment and is in support of:

- International Bill of Human Rights
- Universal Declaration of Human Rights
- International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights
- International Labour Organization’s Declaration on Fundamental Principles and Rights at Work
- United Nations Global Compact
- United Nations Declaration on the Rights of Indigenous Peoples (2007)
- OECD Guidelines for Multinational Enterprises and resulting commitments to compliance with applicable laws
- Integration of High Conservation Values (HCV), High Carbon Stock (HCS) Forest and Free, Prior and Informed Consent (FPIC) by HCS Approach Steering Group
- FAO’s Voluntary Guidelines on the Responsible Governance of Tenure
- The Accountability Framework

7. Accountability Framework Definitions

The below listed definitions are in line with the Accountability Framework (AFI). For more information visit www.accountability-framework.org.

Deforestation	<p>Deforestation: Loss of natural forest as a result of: i) conversion to agriculture or other non-forest land use; ii) conversion to a tree plantation; or iii) severe and sustained degradation.</p> <ul style="list-style-type: none"> ▪ This definition pertains to no-deforestation supply chain commitments, which generally focus on preventing the conversion of natural forests. ▪ Severe degradation (scenario iii in the definition) constitutes deforestation even if the land is not subsequently used for a non-forest land use. ▪ Loss of natural forest that meets this definition is considered to be deforestation regardless of whether or not it is legal. ▪ -The Accountability Framework’s definition of deforestation signifies “gross deforestation” of natural forest where “gross” is used in the sense of “total; aggregate; without deduction for reforestation or other offset.”
Degradation	<p>Changes within a natural ecosystem that significantly and negatively affect its species composition, structure, and/or function and reduce the ecosystem’s capacity to supply products, support biodiversity, and/or deliver ecosystem services.</p> <p>Degradation may be considered conversion if it:</p> <ul style="list-style-type: none"> ▪ is large-scale and progressive or enduring; ▪ alters ecosystem composition, structure, and function to the extent that regeneration to a previous state is unlikely; or ▪ leads to a change in land use (e.g., to agriculture or other use that is not a natural forest or other natural ecosystem).
Free, Prior and Informed Consent (FPIC)	<p>A collective human right of indigenous peoples and local communities to give and withhold their consent prior to the commencement of any activity that may affect their rights, land, resources, territories, livelihoods, and food security. It is a right exercised through representatives of their own choosing and in a manner consistent with their own customs, values, and norms</p>
Grievance mechanism	<p>Any routinised process through which grievances concerning business-related negative impacts to human rights or the environment can be raised and remedy can be sought.</p> <ul style="list-style-type: none"> ▪ Grievance mechanisms may be State-based or non-State-based and they may be judicial or non-judicial
Indigenous peoples	<p>Distinct groups of people who satisfy any of the more commonly accepted definitions of indigenous peoples, which consider (among other factors) whether the collective:</p> <ul style="list-style-type: none"> ▪ has pursued its own concept and way of human development in a given socio-economic, political, and historical context; ▪ has tried to maintain its distinct group identity, languages, traditional beliefs, customs, laws and institutions, worldviews, and ways of life; ▪ has at one time exercised control and management of the lands, natural resources, and territories that it has historically used and occupied, with which it has a special connection, and upon which its physical and cultural survival typically depends; ▪ self-identifies as indigenous peoples; and/or ▪ descends from populations whose existence pre-dates the colonisation of the lands within which it was originally found or of which it was then dispossessed. <p>When considering the factors above, no single one shall be determinative. Indigenous peoples are defined as such regardless of the local, national, and regional terms that may be applied to them, such as “tribal people,” “first peoples,” “secluded tribes,” “hill people,” or others.</p>
Local community	<p>A group of interacting people living in and sharing a specific environment and place, and sharing common concern around local facilities, services, and environment and which may at times depart from traditional or State definitions. Such communities may attach particular meaning to land and natural resources as sources of culture, customs, history, and identity, and/or depend on them to sustain their livelihoods, social organisation, culture, traditions, and beliefs. Local communities may be legally or customarily known or designated using various terms, such as “traditional communities.” Like indigenous peoples, they may use and manage land in accordance with customary tenure systems and associated rights and may depend on their land for cultural and physical survival. Due to their similarities, the Framework refers to both ‘indigenous peoples and local communities’ and requires the same processes and respect for the rights of both groups, including with respect to property and the right to give or withhold Free, Prior and Informed Consent (FPIC; see definition).</p>
Natural ecosystem	<p>An ecosystem that substantially resembles—in terms of species composition, structure, and ecological function—one that is or would be found in a given area in the absence of major human impacts. This includes human-managed ecosystems where much of the natural species composition, structure, and ecological function are present.</p> <p>Natural ecosystems include:</p> <ul style="list-style-type: none"> ▪ Largely “pristine” natural ecosystems that have not been subject to major human impacts in recent history ▪ Regenerated natural ecosystems that were subject to major impacts in the past (for instance by

	<p>agriculture, livestock raising, tree plantations, or intensive logging) but where the main causes of impact have ceased or greatly diminished and the ecosystem has attained species composition, structure, and ecological function similar to prior or other contemporary natural ecosystems</p> <ul style="list-style-type: none"> ▪ Managed natural ecosystems (including many ecosystems that could be referred to as “semi-natural”) where much of the ecosystem’s composition, structure, and ecological function are present; this includes managed natural forests as well as native grasslands or rangelands that are, or have historically been, grazed by livestock ▪ Natural ecosystems that have been partially degraded by anthropogenic or natural causes (e.g., harvesting, fire, climate change, invasive species, or others) but where the land has not been converted to another use and where much of the ecosystem’s composition, structure, and ecological function remain present or are expected to regenerate naturally or by management for ecological restoration.
No-conversion (synonym: conversion-free)	<p>Commodity production, sourcing, or financial investments that do not cause or contribute to the conversion of natural ecosystems (as defined by the Accountability Framework).</p> <ul style="list-style-type: none"> ▪ No-conversion refers to no gross conversion of natural ecosystems, which the Accountability Framework specifies as the appropriate policy and goal on this topic for companies and supply chains. ▪ The terms “no-conversion” and “conversion-free” are used in favour of “zero-conversion” because “zero” can imply an absolutist approach that may be at odds with the need to sometimes accommodate minimal levels of conversion at the site level in the interest of facilitating optimal conservation and production outcomes (see definition for minimal level [of deforestation or conversion])
No-deforestation (synonym: deforestation-free)	<p>Commodity production, sourcing, or financial investments that do not cause or contribute to deforestation (as defined by the Accountability Framework).</p> <ul style="list-style-type: none"> ▪ No-deforestation refers to no gross deforestation of natural forests, which the Accountability Framework specifies as the appropriate policy and goal on this topic for companies and supply chains. ▪ In the context of the Accountability Framework, deforestation refers to the loss of natural forest (see definition of deforestation). ▪ The Afi recognises the High Carbon Stock Approach (HCSA) as a practical tool to implement no-deforestation in the tropics, in contexts where the tool has been validated. ▪ The terms “no-deforestation” and “deforestation-free” are used in favour of “zero deforestation” because “zero” can imply an absolutist approach that may be at odds with the need sometimes to accommodate minimal levels of conversion at the site level in the interest of facilitating optimal conservation and production outcomes (see definition for minimal level [of deforestation or conversion])
Remediation and remedy	<p>Terms used interchangeably or in combination with one another to refer to both the process of providing redress for a negative impact and the substantive outcomes that can counteract, or make good, the negative impact. These outcomes may take a range of forms such as apologies, restitution, rehabilitation, restoration, financial or non-financial compensation, and punitive sanctions (whether criminal or administrative, such as fines), as well as the prevention of harm through, for example, injunctions or guarantees of non-repetition.</p>
Restoration (in relation to environmental harms)	<p>The process of assisting the recovery of an ecosystem, and its associated conservation values, that has been degraded, damaged, or destroyed.</p> <ul style="list-style-type: none"> ▪ The term “restoration” is also used in the context of remediation of human rights harms, for which restoration may come in many forms (e.g., restoration of benefits, employment, or access to lands). See the Operational Guidance on Remediation and Access to Remedy.

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Henkel AG & Co. KGaA
40191 Düsseldorf
Telefon: +49 (0)211-797-0
www.henkel.com