



Henkel Plastic Waste Reduction Framework

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1. Introduction

1.1 Henkel at a glance¹

Henkel was founded in 1876. At the end of 2019, around 52,450 employees were working for Henkel worldwide. We occupy globally leading market positions in our consumer and industrial businesses. Our purpose is to create sustainable value – for our customers and consumers, for our people and our shareholders, as well as for the wider society and communities in which we operate.

Henkel AG & Co. KGaA is operationally active as well as being the parent company of the Henkel Group. As such, it is responsible for defining and pursuing Henkel's corporate objectives and also for the management, control and monitoring of Group-wide activities, including risk management and the allocation of resources.

Henkel AG & Co. KGaA performs its tasks within the legal scope afforded to it as part of the Henkel Group, with the affiliated companies otherwise operating as legally independent entities. Operational management and control is the responsibility of the Management Board of Henkel Management AG in its function as sole Personally Liable Partner. The Management Board is supported in this by the central corporate functions.

Henkel is organized into three business units: Adhesive Technologies, Beauty Care, and Laundry & Home Care.

- Adhesive Technologies leads the global market with high-impact solutions. The business unit offers a broad portfolio of adhesives, sealants and functional coatings through both its Industry and its Consumers, Craftsmen and Building businesses.
- Worldwide, the Beauty Care business unit is active in the Branded Consumer Goods business area with Hair Cosmetics, Body Care, Skin Care and Oral Care, as well as in the professional Hair Salon business.
- The Laundry & Home Care business unit occupies leading market positions in both the Laundry and Home Care business areas. Our product portfolio ranges from heavy-duty detergents and specialty detergents, laundry additives, dishwashing products, hard surface cleaners and WC cleaners, to air fresheners and insect control products.

¹ Henkel Sustainability Report 2019: <https://www.henkel.com/sustainability/sustainability-report>

1.2 Sustainability Strategy²

We create more value for our customers and consumers, for the communities we operate in, and for the company – while reducing our environmental footprint at the same time. This is the idea at the heart of our sustainability strategy and its related ambitious targets. We aim to pioneer new solutions for sustainable development while continuing to shape our business responsibly and increasing our economic success. Our sustainability strategy provides a clear framework for this aim and reflects the high expectations of our stakeholders.

For a long time, growth and resource consumption seemed to go hand in hand and impossible to attain one without the other. Whenever population and living standards increased, it meant using up more and more of the earth's resources. With expected population to grow to about nine billion people by the year 2050, this trend will not change anytime soon. Resource consumption will accelerate in the coming decades as natural resources such as fossil fuels or water are consumed much faster than the planet can keep producing them.

While these developments are challenges for the future, they also offer great potential: Innovating and achieving more with less will be a key to becoming sustainable. We need solutions that allow people to live a good life yet use less and less materials. This idea is at the heart of Henkel's sustainability strategy, as we strive to find new ways of growing and improving quality of life without using up more resources. We want to improve our products and solutions through innovations and smart thinking – to create more value at a reduced ecological footprint.

Value & definition

We are committed to leadership in sustainability – this is one of our corporate values.

We aim to create sustainable value with everything we do – together with our employees, partners and stakeholders. We take responsibility for the safety and health of our employees, customers and consumers, the protection of the environment and the quality of life in the communities in which we operate.

Our strategy is based on the Vision 2050 of the World Business Council for Sustainable Development (WBCSD): "In 2050, 9 billion people live well and within the resource limits of the planet." For us as a company, this means helping people to live well by generating value while using less resources and causing less emissions.

² Henkel Sustainability Strategy: <https://www.henkel.com/sustainability/strategy>



For us, leadership means pioneering new solutions to sustainability challenges while continuing to shape our business responsibly and increasing our economic success on the basis of a long-term goal and clear interim targets.

Becoming three times more efficient by 2030

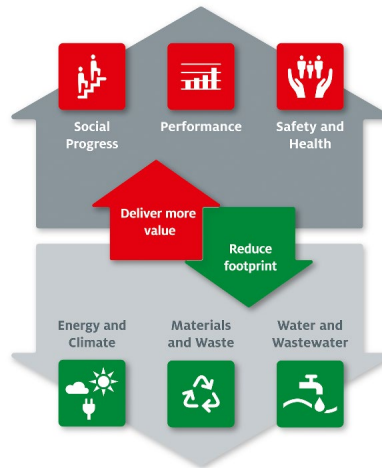
Our 20-year goal for 2030 is to triple the value we create for the environmental footprint made by our operations, products and services. We call this overarching goal to become three times more efficient Factor 3.

To achieve this goal, we can triple the value we create while leaving the footprint at the same level. Or we can reduce the environmental footprint to one third of today's level while achieving our improvement in efficiency by delivering the same value. In many cases, we will approach from both sides, reducing input and improving output at the same time.

To drive progress, we have defined specific goals to be achieved by 2020 and beyond in each of our focal areas.

Our contribution in six focal areas

We concentrate our activities along the value chain on six focal areas that reflect the challenges of sustainable development as they relate to our operations. Innovating and achieving more with less will be a key to a sustainable development that does not sacrifice people's quality of life. To drive progress along the entire value chain through our products and technologies, we concentrate on a fixed set of areas that summarize the challenges as they relate to our operations. We have subdivided these focal areas into two dimensions: "more value" and "reduced footprint". In order to successfully establish our strategy and reach our goals, both of these dimensions must be ever-present in the minds and day-to-day actions of our employees and mirrored in our business processes.









Our focal areas are divided into two dimensions: “more value” and “reduced footprint.” We aim to increase the value we create in the areas of “social progress”, “safety and health” and “performance”. In the areas “energy & climate”, “materials & waste” and “water & wastewater”, we aim to further reduce the resources we use and hence the ecological footprint of our operations and products.

Determining relevant topics and gaining insights and perspectives

To determine and categorize relevant topics for our business activities and reporting, we engage in a continuous process of recording and evaluating the challenges and opportunities of sustainable development using various tools. We assess the importance of the topics for the company, environment and society, and also for our stakeholders. Dialog with our stakeholders helps us to obtain insights and perspectives from outside our business and fosters a common understanding of priorities and challenges. We also consider the assessment criteria of various financial and sustainability-oriented ratings and the guidelines of the Global Reporting Initiative (GRI). The results of these processes can be categorized in the six focal areas which we have identified in a materiality analysis. In these focal areas, we want to drive sustainable development globally along the value chain with our business activities.

Our focal areas

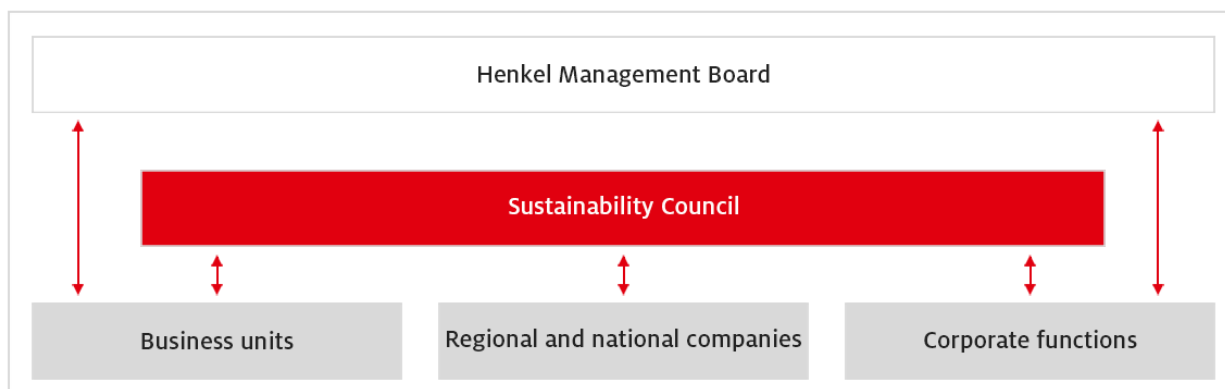
 <p>Social Progress</p> <ul style="list-style-type: none"> • Fair business practices • Human rights • Fair working conditions • Employee development • Diversity • Supplier relationships • Corporate volunteering 	 <p>Performance</p> <ul style="list-style-type: none"> • Business performance • Quality • Reliability • Convenience • Eco-efficiency 	 <p>Health and safety</p> <ul style="list-style-type: none"> • Occupational safety and health • Plant safety • Product safety and information • Alternative test methods • Hygiene
 <p>Energy and climate</p> <ul style="list-style-type: none"> • Operational energy efficiency • Renewable energies • Energy-efficient products • Transport and logistics • CO₂ mitigation • CO₂ footprint 	 <p>Materials and waste</p> <ul style="list-style-type: none"> • Resource consumption • Renewable raw materials • Sustainable palm (kernel) oil • Packaging and waste • Recycling 	 <p>Water and wastewater</p> <ul style="list-style-type: none"> • Water consumption in production • Wastewater and wastewater disposal • Biodegradability • Water footprint

1.3 Sustainability Management³

Sustainability management is integrated vertically, horizontally and cross-functionally into our organizational structure, with the aim of implementing sustainable business practices effectively. The Henkel Management Board bears overall responsibility for our sustainability strategy and for the compliance organization in order to ensure that legislation and internal guidelines are observed.

Our Sustainability Council steers our sustainability activities as a central decision-making body, with members from all business units and functions in the company. It is chaired by a Management Board member and reflects all areas of the company.

³ Henkel Sustainability Management: <https://www.henkel.com/sustainability/strategy/sustainability-management>



Corporate functions

Through their representatives, the corporate functions bring both their expertise and their needs to the Sustainability Council. At the same time, they are responsible for the implementation of our sustainability strategy in their respective functions. For example, they develop appropriate supplier management instruments, or ensure compliance with our standards for product safety. Key sustainability issues for Henkel are coordinated by a specialist unit in the Corporate Communications department, which serves as the company-wide interface for sustainability.

Regional and national companies

Managers in the regional and national companies steer the implementation of Henkel standards and compliance with legal requirements in their respective regions. With the support of the corporate functions and the operating business sectors, they develop an implementation strategy appropriate to the individual sites and their local circumstances.

Business units

The R&D departments of our three business units work on key technologies and supply the basis for tomorrow's sustainable products. The business units are also responsible for adapting our sustainability strategy to their operating needs, as well as providing the resources needed for its implementation. They align their brands and technologies, and the sites involved, to sustainability in line with the specific challenges and priorities of their product portfolio.

1.4 Rationale⁴

The packaging for our consumer products fulfills many different functions: It ensures the hygiene and safety of the products, protects goods during transport, provides space for necessary consumer information, and plays an important role in the purchasing decision through attractive packaging design and shelf appeal. At the same time, packaging waste – especially plastic waste and pollution – has captured the attention of the public, governments, and businesses around the world. The search for solutions is well underway, and there is growing recognition that addressing the symptoms through clean-ups and collection activities is not enough. A systemic shift that tackles the root causes is required: a transition toward a circular economy. Resource consumption can be reduced if materials are kept within the cycles of the economy for as long as possible.

Our mission is to include materials from sustainable sources into smart designs to close the loop:

1. Materials from sustainable sources

Henkel constantly works on increasing the share of recycled content in its packaging. While many of our brands already offer products with packaging made from recycled material, we have set the ambitious target to increase the proportion of recycled plastic globally to more than 30 percent in all plastic packaging for our consumer goods products by 2025.

In addition, we will increasingly use bio-based plastic because it represents a more sustainable alternative to fossil materials. The polymers of these materials are based on raw materials obtained from plant sources. Provided they can deliver the same technical performance as conventional polymers, they could offer a good alternative and provide long-term benefits. We explicitly exclude materials that might be in competition with food. For this reason, we are testing the use of second-generation bio-based feedstock material.

⁴ Henkel Creating Smarter Packaging: <https://www.henkel.com/sustainability/positions/packaging>

2. Smart packaging design

Reducing packaging material by offering smart solutions is the best way to minimize waste and the related negative environmental effects. For many years, we have been striving to reduce the quantity of packaging material in the entire product life cycle without impacting the quality, performance, or safety of our products. We will continue to do so in the future. Our goal is to reduce the amount of plastic used in our consumer packaging. As well as this, smart designs play a vital role right from the start when it comes to replacing virgin material with recycled or renewable alternatives where feasible and technically possible. For example, stability requirements can limit the use of alternative materials in some packaging. However, smart design goes beyond this, using less material and more sustainable materials. To transform a linear economy into a circular economy, our packaging experts rethink packaging concepts and assess further ways of developing re-usable and re-fillable solutions that place a stronger focus on durability. They also continue to optimize transport packaging and related logistics.

3. Closing the loop

To enable a circular economy, we are striving to make sure our product packaging can be recycled after the product has been consumed. Our aim is that 100 percent of Henkel's packaging will be recyclable or reusable by 2025. By systematically applying design-for-recycling principles, we want to overcome recycling hurdles specific to each category, like flexible packaging, sleeves or black packaging.

At the same time, it is important that appropriate systems for recycling packaging materials are in place. That is why we partner with organizations from along the packaging value chain to drive progress in the infrastructure for recycling. In particular, we work with our trade partners to help consumers understand how to use and dispose of our products correctly. Among other things, special recycling symbols on our products help us to do this. We aim to enable contact with more than 2 billion consumers per year by providing targeted information about recycling.

Another option to close the loop is to reuse packaging. We are testing refill solutions in relevant markets to explore and understand consumer acceptance, as well as the related requirements and costs.

We also want to maximize the re-usability of secondary and tertiary packaging that is typically used for shelf displays or logistical purposes.

In order to achieve our mission, and finance projects that will deliver substantial environmental benefits, we have elected to create a Framework (the "Framework"), under which we can issue Plastic Waste Reduction Bond(s).

2. Henkel Plastic Waste Reduction Framework

The present Framework is in accordance with the ICMA Green Bond Principles (GBP) 2018⁵, the ICMA Social Bond Principles (SBP) 2018⁶, the ICMA Sustainability Bond Guidelines (SBG) 2018.⁷ In alignment with these Principles, for each Plastic Waste Reduction Bond issued, Henkel asserts that it will adopt the following, as set out in this Framework:

- 1) Use of Proceeds
- 2) Process for Project Evaluation and Selection
- 3) Management of Proceeds
- 4) Reporting

Henkel will aim to, where possible, adhere to best practices in the market and will review the Framework's alignment to updated versions of the Principles as and when they are released. As such, this Framework may be updated and amended in the manner described in Section 4 ("Amendments to this Framework") below.

2.1 Use of Proceeds

An amount equivalent to the net proceeds raised from any Henkel Bond issued under this Framework will be allocated, in part or in full, to finance new eligible environmental/social expenditures ("Eligible Green/Social Projects") and/or to refinance existing Eligible Green/Social Projects carried out by Henkel and its partners.

The table below outlines the eligibility criteria for these Eligible Green/Social Projects and their alignment with the UN Sustainable Development Goals⁸ and the underlying target.


⁵ICMA's Green Bond Principles 2018 - <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

⁶ ICMA's Social Bond Principles 2018 - <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>



⁷ ICMA's Sustainability Bond Guidelines 2018 - <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

⁸ UN Sustainable Development Goals - <https://sustainabledevelopment.un.org/?menu=1300>

2.1.1 Green Projects Categories

ICMA Green Bond Principles Project Category	Eligibility Criteria	Alignment with the UN SDG targets
<p><u>Pollution Prevention and Control – Plastic reduction</u></p> 	<ul style="list-style-type: none"> • Investments in and expenditures for the construction, development, operation and refurbishment of recycling infrastructure and technologies • Expenditures in pilot projects for refillable or reusable packaging solutions • Premium paid for recycled materials • Investments and expenditures for the adaptation of infrastructure and moulds in order to switch to recyclable or reusable products • Share of R&D expenditures allocated to improve the recyclability of packaging, reduce the amount of plastic used for packaging and increase the use of recycled or biobased material Share of R&D expenditures for new packaging materials allocated (used / relating to) to improve the recyclability of such packaging, reduce the amount of plastic 	<p>SDG 12.2: By 2030, achieve the sustainable management and efficient use of natural resources</p> <p>SDG 12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment “</p> <p>SDG 12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.</p>

2.1.2 Social Project Categories

ICMA Social Bond Principles project category	Eligibility criteria	Alignment with the UN SDG Targets
<p><u>Employment generation including through the potential effect of SME financing and microfinance</u></p>  	<ul style="list-style-type: none"> • Purchase of social plastic from local collectors in partnership with the Plastic Bank • Fees incurred to maintain partnership with the Plastic Bank 	<p>SDG 1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than \$1.25 a day.</p> <p>SDG 1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.</p> <p>SDG 14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution</p>

2.2 Project Evaluation and Selection Process

2.2.1 Social Risk Assessment Process at Henkel⁹

All projects that Henkel considers for potential allocation to a Plastic Waste Reduction Bond must meet our codes and standards, which provide a basis for decision-making and engagement within our sphere of influence worldwide. In this context, we adhere to international labor standards as a minimum, and local statutes where these are more exacting. Our codes and standards also reflect our commitment to the Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact, as well as the expectations set out in the UN Guiding Principles on Business and Human Rights.

⁹ Henkel Sustainability Report 2019: <https://www.henkel.com/sustainability/sustainability-report>

We have clear due diligence and compliance processes in place to identify and assess social and human rights impacts, and ensure that – if necessary – access to remedy is in place and available. These processes include our Group-wide audit program, which assesses and improves governance, processes and controls independently and objectively. It also includes audits forming part of our supplier management system.

Within the scope of the risk analysis, we identify relevant human rights risks by assessing individual cases according to the following four criteria:

- Potentially significant negative impact on humans.
- Systemic lack of protection by the government.
- Conditions that potentially encourage repeated or systemic non-compliance.
- And influence or potential influence by Henkel (positive or negative).

2.2.2 Sustainable Financing Project Selection Process

The Project Evaluation and Selection Process will ensure that the proceeds of any Plastic Waste Reduction Bond Henkel issues under this framework are allocated to new or existing expenditures that meet the criteria set out above in section 2.1 ('Use of Proceeds').

Henkel will establish a Sustainable Finance Group (SFWG) for the evaluation and selection process for Eligible Projects, which will be made up of representatives from the below departments:

- Treasury
- Sustainability Management
- Investor Relations

The SFWG reports to the Sustainability Council.

On a biannual basis, the SFWG will consult with other departments (as necessary) to identify and recommend eligible projects or expenditures for inclusion as Eligible Use of Proceeds. The SFWG works on the basis of a detailed process from project identification, thorough project evaluation until project validation (to include or exclude from the portfolio of Eligible Green/Social Projects). The committee will evaluate to what extent core minimum environmental, social and governance (ESG) requirements, as well as those clear criteria set out in the 'use of proceeds' section, are incorporated and acted upon in the project design and subsequent process. Based on a thorough analysis and interaction with the responsible project teams, the committee will decide whether the project can be classified as an Eligible Green/Social Project.

On a biannual basis, the SFWG will review all proposed Eligible Use of Proceeds to determine their compliance with the criteria specified in Section 2.1 of Henkel's Sustainable Finance Framework in order to approve the allocation of proceeds.

On a biannual basis, the SFWG will review the allocation of the proceeds to the Eligible Use of Proceeds and determine if any changes are necessary (for instance, in the event that projects or expenditures have been cancelled, sold or otherwise become ineligible). In this instance, the SFWG will allocate the proceeds to other Eligible Use of Proceeds.

The SFWG will also review the management of proceeds (as described in Section 2.3) and is responsible for reporting of the Use of Proceeds (as described in Section 2.4).

Henkel's internal guidelines, policies and risk management procedures, in addition to applicable social and environmental standards and regulations, will ensure that there will be stringent management of any potential negative social and environmental impacts from the Eligible Projects.

2.3 Management of Proceeds

The net proceeds will be allocated to the new projects and / or refinancing of existing projects identified under the use of proceeds section above. Henkel will establish a Sustainable Finance Register to manage the proceeds of Henkel's Plastic Waste Reduction Bond(s).

The proceeds of each Henkel Plastic Waste Reduction Bond will be earmarked against the pool of eligible projects and expenditures identified in the Sustainable Finance Register. At the end of each year the unallocated net proceeds will be reduced by the amounts invested in eligible green projects within the annual period.

The SFWG is responsible for setting up a dedicated tracking process to monitor and account for the allocation of the proceeds.

The Sustainable Finance Register will be reviewed annually by the SFWG to account for any re-allocation, repayments or drawings on the eligible projects and expenditures within the pool. The Sustainable Finance Register will contain relevant information including:

(1) **Details of the Bond(s):** key information including transaction date, net proceeds, settlement date, maturity date, and interest margin or coupon, ISIN number etc.;

(2) **Details of Use of Proceeds, including:**

- Summary of eligible projects/expenditures to which the proceeds of the Bonds have been earmarked in accordance with this Framework;
- Amount of allocation made;
- Any unallocated Bond proceeds yet to be allocated against eligible projects/expenditures;
- Estimated environmental and social impact, where available;
- Other necessary information

In the event that funds cannot be immediately and fully allocated, or in the event of any early repayment, proceeds will be held in line with Henkel's general liquidity guidelines until an allocation to Eligible Green/Social Projects is achieved. The proceeds will be fully allocated by the end of 2025, in line with Henkel's 2025 targets for sustainable packaging.

2.4 Reporting

On an annual basis, Henkel will complete an allocation report and an impact report on its Green/Social Eligible Project Portfolio, as detailed below. This reporting will be provided, at minimum, to investors. This reporting will be updated annually until full allocation of the net proceeds of any Green Bond issued, or until the Henkel Plastic Waste Reduction Bond is no longer outstanding.

2.4.1 Allocation Reporting

Henkel will provide information on the Green/Social Eligible Project Portfolio. The information will contain at least the following details:

- I. A list of Eligible Projects
- II. The total amount of proceeds allocated to each Eligible Project
- III. The amount of proceeds allocated by Project Category
- IV. The balance of unallocated proceeds

2.4.2 Impact Reporting

Impact reporting will be provided at the level of each Project Category and may include the following estimated Impact Reporting Metrics, as recommended under the Harmonized Framework for Impact Reporting.

2.4.2.1 Environmental Impact Indicators

Project Category	Impact Reporting Metrics
<u>Pollution prevention and control</u>	<ul style="list-style-type: none"> • Annual absolute (gross) amount of waste that is separated and/or collected, and treated (including composted) or disposed of (in tonnes p.a. and in % of total waste) • Waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or in absolute amount in tonnes p.a. • Amount of waste reused or recycled (tons or in % of total waste) • % of packaging designed for recycling or reuse • % of recycled plastic as share of total plastic packaging • % of biobased plastic as share of total plastic packaging • # of projects at scale increasing collection and recycling infrastructure

2.4.2.2 Social Impact Indicators

Project Category	Impact Reporting Metrics
Employment generation	<ul style="list-style-type: none"> • Number of projects supported or funded • Number of people supported • Number of jobs generated

3. Amendments to this Framework

The SFWG will review this Framework on a regular basis, including its alignment to updated versions of the Principles as and when they are released, with the aim of adhering to best practices in the market. Such review may result in this Framework being updated and amended. The updates, if not minor in nature, will be subject to the prior approval of Henkel. Any future updated version of this Framework that may exist will either keep or improve the current levels of transparency and reporting disclosures. The updated Framework, if any, will be published on Henkel website and will replace this Framework.