

Task Force on Climate-related Financial Disclosures (TCFD)

Summarizing information according to the recommendations of the TCFD

February 2022

In line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, the following overview is structured into four key categories: Governance, Strategy, Risk Management, and Metrics and Targets.

The recommendations made by the reporting department are assigned to the core areas of governance, strategy and risk management of a company. This framework addresses how an organization manages climate-related risks and opportunities, how the actual and potential impacts of climate-related risks and opportunities on the company’s business are assessed, and how the organization identifies, assesses, and manages climate-related risks if they are considered to be material.

We identify and assess climate-related risks based on the recommendations of the TCFD.

TCFD Recommendations

<p>Governance Disclose the organization’s governance around climate-related risks and opportunities</p>	
<p>A. Describe the Board’s oversight of climate-related risks and opportunities.</p>	<p>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.</p>
<p>B. Describe the management’s role in assessing and managing climate-related risks and opportunities.</p>	<p>Chaired by Sylvie Nicol, Chief Human Resources Officer, the Sustainability Council is the central decision-making body for our global sustainability activities. On behalf of senior management, the committee performs coordination, initiative and control functions in relation to sustainability issues. These include strategic topics as well as issues that are operationally relevant, such as climate change and its effects.</p> <p>Sustainability, including climate-related risks, is monitored, and assessed as part of our company's risk management approach. All identified risks are compiled and forwarded to the Management Board. The focus is on material risks that are above a defined threshold.</p>

	<p>Group-wide risk management also makes an indispensable contribution to our strategic focus on sustainability and enables us to identify potential risks and business opportunities at an early stage. As part of the non-financial reporting process, a risk analysis has been conducted in line with the concepts and processes for risk mitigation that are described in this report. During this analysis of our own operations, our business relationships, our products and our services, no material risks were identified that meet, or will meet, the criteria of “having severe negative consequences” and “being very probable” according to the definition set out in paragraphs 2 and 3 of section 289c, as well as section 315c of the German Commercial Code (HGB).</p> <p>Further information: Sustainability Report 2021, pp. 29f.</p>
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<p>STRATEGY Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s business, strategy and financial planning, where such information is material</p>	
<p>A. Describe the climate-related risks and opportunities the organization has identified.</p> <p>B. Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning.</p> <p>C. Describe the resilience of the organization’s strategy.</p>	<p>Climate protection and CO₂ reduction is a fundamental part of the corporate strategy, as a significant driver of long-term business success.</p> <p>To explore the potential impacts of climate change, one of the sources we use is data from transition scenarios developed by the International Energy Agency (IEA) and from climate scenarios conducted by the Intergovernmental Panel on Climate Change (IPCC). The scenarios are based on different assumptions of potential climate warming.</p> <p>To this end, we identify relevant impacts in two major risk categories: transition risks associated with the transition to a low-emission economy and society; and physical risks, such as the increased probability of extreme weather events in the future. In line with the timeframe of our current sustainability strategy and our Group-wide risk management approach, we are initially focusing on the period up to 2030.</p>

The main transition risks for Henkel include the potential financial impact of a significant increase in the price of CO₂. By analyzing the CO₂ price developments based on different climate scenarios, we have identified potential risks both for production and along the value chain. We have assessed the potential direct and indirect effects on the costs of energy, products and services purchased by Henkel if the widely introduced price of CO₂ rises. We did this in the context of other price factors and possible feedback effects. We expect to help reduce potential long-term risks by implementing our medium and long-term climate change mitigation targets.

We have also examined the physical risks for Henkel. Our focus was on the risks associated with our raw material sourcing and on direct risks to our production from potential climate-related changes in the frequency and intensity of weather events such as heavy rain, droughts or floods.

With respect to sourcing, the raw material palm (kernel) oil is particularly interesting, as the yield of the plantations and consequently prices are influenced by prevailing weather conditions. Our main focus is on monitoring the El Niño weather phenomenon and managing its impacts. Based on the scenarios issued by the IPCC and IEA that we have applied, we do not expect any climate changes in the period up to 2030 that would lead to a significant long-term increase in the prices of our palm (kernel) oil-based raw materials.

We primarily based our analysis of possible climate-related production losses on the new IPCC report published in 2021. Henkel will continue to develop its assessment of these risks in the future, even though we currently assume that the risk to our sites from intensified climate events is low, based on the current interpretation of the climate scenarios.

Where relevant, we have put in place a system for managing weather and other geohazards.

The transition risks also present opportunities for Henkel: to position itself as a company with a proactive climate

	<p>protection strategy, to improve its own competitiveness by optimizing its production and raw material base, and to create added value for customers and consumers with innovative solutions and strong brands.</p> <p>Further information: Sustainability Report 2021, pp. 61f.</p>
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<p>RISK MANAGEMENT Disclose how the organization identifies, assesses and manages climate-related risks</p>	
<p>A. Describe the organization's processes for identifying and assessing climate-related risks.</p> <p>B. Describe the organization's processes for managing climate-related risks.</p> <p>C. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management approach.</p>	<p>Henkel AG & Co. KGaA is operationally active as well as being the parent company of the Henkel Group. In this capacity, it is responsible for defining and pursuing the company's goals. It is also responsible for the management, governance and control systems, including risk management, as well as the allocation of resources.</p> <p>In the pursuit of our business activities, Henkel is exposed to multiple risks inherent in the global market economy. We deploy an array of effective monitoring and control systems aligned to identifying risks at an early stage, evaluating the exposure, and introducing effective countermeasures. We have incorporated these instruments within a risk management system.</p> <p>The risk management system at Henkel is integrated into the comprehensive planning, controlling, and reporting systems used in the subsidiaries, in the business units, and at Group level. Our early warning system and Internal Audit function are also important components of our risk management system. Furthermore, within the corporate governance framework, our internal control and compliance management systems support our risk management capability. The risk reporting system encompasses the systematic identification, evaluation, documentation and communication of risks. We have defined the principles, processes and responsibilities relating to risk management in a corporate standard that is binding on the Henkel Group. With the continuous development of our corporate standards and systems, we take into account updated findings.</p>

We understand risk management, including climate-related risks, as an ongoing task to identify, analyze and evaluate actual and potential risks arising from our activities within our business environment. Our risk management system forms the basis for these activities. It enables us to identify risks that threaten our growth and existence, and to take measures to minimize negative effects. Risk management is an important part of our management and corporate governance approaches. Within our risk strategy framework, the assumption of calculated risk is an intrinsic part of our business. However, risks that endanger the existence of the corporation must be avoided. When it is not possible to avoid these critical risks, they must be reduced or transferred, for example through insurance. Risks are controlled and monitored at the level of the subsidiaries, the business units, and the Group. Risk management is thus performed with a holistic, integrative approach to the systematic handling of risks. The Group-wide risk management process also includes relevant environmental and social risks.

Short- and long-term risks are grouped by influencing factors, based on strategic analysis methods such as PESTEL analysis or Porter's Five Forces model. A distinction is made between (geo-)political, (macro-) economic, social, technological, environmental, legal, and business-/industry-specific risks.

Long-term risks arise in particular from accelerated climate change, water scarcity and restrictions on disposable and, in particular, plastic packaging and product ingredients. Accelerating climate change could have negative impacts on a wide range of countries, particularly through increases in the frequency and severity of extreme weather events. In addition to physical risks, this development may also give rise to socioeconomic, so-called "transition" risks, for example as a result of political measures such as regulations and taxes.

Further information: Sustainability Report 2021, p. 6; Annual Report 2021, pp. 149ff., 163

METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material

A. Disclose the metrics used by the organization to assess climate-related risks and opportunities, in line with its strategy and risk management process.

B. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions.

C. Describe the targets used by the organization to manage climate-related risks and opportunities.

Our strategy is based on our comprehensive risk management and compliance approach. The aim here is to gather and provide transparent key figures on the sustainability performance and risks of our suppliers as a basis for fact-based decision-making in sourcing processes and the awarding of contracts. The transparency gained in this area also benefits risk management and risk minimization as well as dialog and cooperation with our suppliers.

We reduce potential long-term risks with the help of our comprehensive sustainability strategy, medium and long-term targets, and the associated strategies and actions. For example, Henkel has defined science-based emission reduction targets for both its own greenhouse gas emissions and the greenhouse gas emissions of purchased goods and services, which meet the requirements for achieving the goals of the Paris Climate Agreement. We are reducing the carbon footprint of our own sites in particular by continuously improving our energy efficiency and switching to electricity from renewable sources. In addition, we are increasingly replacing the fuels used at our sites with lower carbon or carbon-free alternatives. Key starting points for reducing the carbon footprint of the raw materials and packaging materials we use include switching to alternative materials with a lower footprint, such as recycled plastics, and engaging in dialog with our suppliers to reduce the footprint of the raw materials and packaging materials they supply in line with our objectives. Where relevant, weather and geohazard management procedures have been established.

Henkel's climate targets:

- 100% of our electricity sourced from renewable sources (2030)
- –65% CO₂ emissions from our operations per ton of product (2025; vs. 2010)
- –30% CO₂ emissions from raw materials and packaging per ton of product (2030; vs. 2017)

	<ul style="list-style-type: none">▪ –100 million tons of CO₂ with customers, consumers and suppliers (2016–2025) <p>Further information: Sustainability Report 2021, p. 18, 45; Annual Report 2021, p. 164</p>
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