

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Sustainable Finance Framework

Henkel AG & Co. KGaA  
27 September 2021

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Green Bonds and Sustainability-Linked Bonds</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• Green Bond Principles (June 2021 version) and Sustainability-Linked Bond Principles (June 2020 version) administered by the International Capital Market Association (ICMA) and Green Loan Principles (February 2021 version) published by the Loan Market Association (LMA)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• Sustainable Finance Framework (as of August 2021)</li><li>• Eligibility Criteria</li><li>• Final version of the Bond Documentation (as of August 27<sup>th</sup>, 2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• As long as Henkel's Sustainable Finance Framework remains unchanged</li></ul>

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## Scope of work

Henkel AG & Co. KGaA (“Henkel” or “the issuer”) commissioned ISS ESG to assist with its Sustainable Finance Framework, under which the issuer is able to issue Green Bonds, Green Loans or Sustainability-Linked Bonds by assessing four core elements to determine the sustainability quality of the instruments:

1. Sustainable Finance Framework’s link to Henkel’s sustainability strategy – drawing on Henkel’s overall sustainability profile and issuance-specific Use of Proceeds categories.
2. Henkel’s Sustainable Finance Framework (August 2021 version) – benchmarked against the International Capital Market Association’s (ICMA) Green Bond Principles (GBPs) & Sustainability-Linked Bond Principles (SLBPs), and against the Loan Market Association’s (LMA) Green Loan Principles (GLPs).
3. The Use of Proceeds selection criteria – whether the projects contribute positively to the UN SDGs and perform against ISS ESG’s issue-specific key performance indicators (KPIs) (See Annex 2).
4. The sustainability credibility of the KPIs selected and Sustainability Performance Targets (SPTs) calibrated for Sustainability-Linked Transactions – whether the KPIs selected are core, relevant and material to the issuer’s business model and sector and whether the associated targets are ambitious.

## ISS ESG ASSESSMENT SUMMARY

SECTION	SUMMARY	EVALUATION <sup>1</sup>
<p><b>Part 1:</b></p> <p><b>Green and Sustainability-Linked Bonds link to issuer's sustainability strategy</b></p>	<p>According to the ISS ESG Corporate Rating published on 05.05.2021, the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Household &amp; Personal Products sector. The issuer is rated 1<sup>st</sup> out of 56 companies within its sector. The Use of Proceeds categories, KPIs and SPTs financed through this bond are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Green and Sustainability-Linked Bonds is clearly described by the issuer.</p>	<p><b>Consistent</b></p>
<p><b>Part 2:</b></p> <p><b>Alignment with GBPs, GLPs and SLBPs</b></p>	<p>The issuer has defined a formal concept for its Sustainable Finance Framework regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Green Bond Principles and LMA Green Loan Principles. The Issuer has defined a formal framework for its Sustainability-Linked Securities regarding the selection of KPI, calibration of Sustainability Performance Target (SPT), sustainability-linked securities characteristics, reporting and verification. The framework is in line with the ICMA Sustainability-Linked Bond Principles (SLBPs). However, some KPIs and SPTs will not be included in the entirety of Henkel's potential Sustainability-Linked Bond transactions and their selection will be closely linked to the maturity contemplated. KPI 2, for instance, will be linked to bonds with maturity beyond 2030</p>	<p><b>Aligned</b></p>
<p><b>Part 3:</b></p> <p><b>Sustainability quality of the Eligibility Criteria</b></p>	<p>The overall sustainability quality of the selection criteria in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG assessment. The Green Bonds will (re-)finance eligible asset categories which include: eco-efficient products, clean transportation, sustainable water and wastewater management, energy efficiency, green buildings, pollution prevention and control, and renewable energy.</p> <p>Those use of proceeds categories have a positive contribution to SDGs 3 'Good health and well-being', 6 'Clean water and sanitation', 7 'Affordable and clean energy', 11 'Sustainable cities and communities', 12 'Responsible consumption and production', 13 'Climate action', and 15 'Life on land'. The environmental and social risks associated with those use of proceeds categories have been well managed.</p>	<p><b>Positive</b></p>

<sup>1</sup> ISS ESG's evaluation is based on the Henkel's Sustainable Finance Framework (August 2021 version), on the analysed selection criteria as received in July 2021, and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 05.05.2021).

<p><b>Part 4:</b></p> <p><b>KPIs selection and SPTs calibration for Sustainability-Linked Transactions</b></p>	<p><b>KPI 1 - Scope 1 and 2 GHG emissions per ton of product:</b> Relevant, core and moderately material<sup>2</sup> to issuer’s business model and sustainability profile.</p> <p><u>Sustainability Performance Target (SPT 1) calibration:</u></p> <ul style="list-style-type: none"> <li>• Ambitious against issuer’s past performance.</li> <li>• Ambitious against industry peers.</li> <li>• Ambitious against international targets.</li> </ul> <p>ISS ESG finds that the KPI selected is core and relevant to the issuer’s business model and consistent with its sustainability strategy. The KPI is considered material to Henkel’s operations and activities that the company has direct control of (Scopes 1 and 2). However, it is considered as not material to the whole Corporate Value Chain as it only covers 1.1% of Henkel’s total GHG emissions. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable.</p> <p>ISS ESG finds that the SPT calibrated by Henkel is ambitious against the company’s past performance, against Household &amp; personal products industry peers and ambitious against Paris Climate Goals. Furthermore, the SPT has been validated by the SBTi in line with a 1.5°C scenario. Additionally, the SPT achievement would have a positive contribution to the SDG 13 “Climate action”. The target set is benchmarkable and supported by a credible strategy and action plan.</p> <p><b>KPI 2 - Reduce scope 3 GHG emissions from purchased goods and services:</b> Relevant, core to issuer’s business model and sustainability profile. It is partially material<sup>3</sup> to the company’s scope 3 emissions, as scope 3 emissions from purchased goods and services represent 25.7% of Henkel’s total GHG emissions and 26% of the total scopes 3 emissions in 2020. Excluding optional “indirect use-phase emissions” from Henkel’s reporting, emissions from purchased goods and services cover more than 80% of the scope 3 emissions required by the GHG protocol.</p> <p><u>Sustainability Performance Target (SPT 2) calibration:</u></p> <ul style="list-style-type: none"> <li>• Ambitious against issuer’s past performance.</li> <li>• Limited information with regards to global industry performance available to assess the ambition against industry peers on scope 3 emissions from purchased goods and services. Yet ISS ESG recognizes that by setting a scope 3 emission target, Henkel is ambitious against industry peers (in terms of existence of a target).</li> <li>• Limited information available to assess the ambition against international targets. Yet ISS ESG acknowledges that the target was approved by the SBTi.</li> </ul> <p>ISS ESG finds that the KPI selected is relevant and core to the issuer’s business model. It is partially material to the company, as scope 3 emissions from purchased goods and services represent 25.7% of Henkel’s total GHG emissions and 26% of the total scopes 3 emissions . The KPI is appropriately measurable, quantifiable and benchmarkable to industry peers to a limited extent. It is worth noting that no concrete methodology to</p>
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<sup>2</sup> “Moderately material” refers to the fact that the KPI is material to the company’s direct operations but not material to the whole Corporate Value Chain, as it does not include around 99% of the total GHG emissions (<https://ghgprotocol.org/standards/Scope-3-standard>)

<sup>3</sup> “Partially material” refers to the fact that the KPI is material, but only to a specific part of Henkel’s business (in this case, a portion of Scope 3 emissions).

calculate scope 3 emissions have been established in the Household & Personal Products industry specifically.

ISS ESG finds that the SPT calibrated by Henkel is ambitious against the company's past performance. Due to the fact that the SPT is not easily benchmarkable, ISS ESG could not verify the ambitiousness against Henkel's industry peers and international targets. Yet, it is fair to note that only three companies in the sector have established scope 1, 2 and 3 emissions targets. In this regard the SPT is ambitious against industry peers. Moreover, the target has been approved by the SBTi and meets its criteria for ambitious value chain goals. Furthermore, the SPT achievement would have a positive contribution to the SDG 13 "Climate action".

**KPI 3 – Percentage of recycled plastics in all plastic packaging of consumer products**  
Relevant, core and material to issuer's business model and sustainability profile.

Sustainability Performance Target (SPT 3) calibration:

- Limited information with regards to historical figures available to assess the ambition against the issuer's past performance.
- Ambitious against issuer's sectorial peer group.
- Ambitious against international targets.

The KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of Henkel's operations and activities. Furthermore, the KPI is consistent with the issuer's overall sustainability strategy.

The SPT calibrated by Henkel is ambitious against sectorial peers and when benchmarked with international targets. Limited information with regards to historical figures is available to assess the ambition of Henkel against its past performance, as only two years of historical global data were provided. The benchmark selected by the Issuer is provided by an independent third party based on a methodology established in the industry. The target is set in a clear timeline, it is benchmarkable and supported by a credible strategy and action plan.

## ISS ESG SPO ASSESSMENT

### PART I: GREEN BONDS LINK TO HENKEL'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF HENKEL'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

COMPANY	SECTOR	DECILE RANK	TRANSPARENCY LEVEL
<b>Henkel AG &amp; Co. KGaA</b>	<b>Household &amp; Personal Products</b>	<b>1</b>	<b>VERY HIGH</b>

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Household & Personal products sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

#### ESG performance

As of 26.07.2021, this Rating places Henkel 1<sup>st</sup> out of 56 companies rated by ISS ESG in the Household & Personal Products sector.

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.

**Key Issue Performance**



#### Sustainability Opportunities

Henkel's product portfolio mainly consists of household and personal care products as well as consumer and industrial adhesive technologies, which do not intrinsically provide a direct and substantial contribution to global sustainable development challenges. Yet, some products clearly contribute to sustainability objectives such as ensuring health (e.g., oral care products and household insecticides), and sustainable energy use and the mitigation of climate change (e.g., insulating materials). Moreover, the company shows initial efforts to shift its portfolio to a more sustainable direction, by offering products with an added social and/or environmental value (e.g., Ecocert certified). Yet, these products still account for a negligible share of the company's revenue. Henkel has implemented some measures to promote products with a social and/or environmental added value, including marketing campaigns, product placement strategies as well as training of sales personnel. The share of these products and measures in terms of sales is still negligible, though.

### *Sustainability Risks*

One of the main sustainability challenges for Henkel is consumer safety. Most aspects of consumer safety such as safety assessments of products as well as the provision of relevant product safety information to consumers are handled well. Shortcomings are especially exhibited regarding transparent and clearly understandable information on products which contain substances of concern (e.g., phthalates, parabens and triclosan). Through the sourcing of raw materials for its products, Henkel is also subject to social and environmental risks in its supply chain, and has developed a systematic approach to responsible sourcing. Yet, the company falls short in providing clear information on the main raw materials used in its products as well as exact amounts. With regard to palm oil, Henkel acknowledges its responsibility and seeks to drive progress in the physical certification of the palm and palm kernel oil supply in order to prevent deforestation. Accordingly, Henkel has established the goal to cover its entire purchasing volume with the RSPO Mass Balance certification by 2025 and has reached 90% in 2020. Moreover, as a company that uses soy, soy protein, and cotton as raw materials for its products, Henkel is exposed to the risk of purchasing and using genetically modified raw materials. There is no evidence of a policy or measures to address this issue. Furthermore, the company shows efforts to reduce the overall environmental footprint of its products and operations through the systematic use of lifecycle assessments as well as targets and measures to reduce the impact of packaging. There are also a few examples of the substitution of mineral oil based ingredients with alternative/renewable ingredients in products, but there is no evidence of a strategic approach in this regard, including, e.g., targets.

### *Governance opinion*





Henkel's shareholder structure is controlled, as members of the Henkel family share-pooling agreement hold more than 60% of the company's ordinary shares (as at April 24, 2020). Regarding the company's governance structure, the independence of the board chair, Ms. Simone Bagel-Trah, as well as of further board members is limited due to their ties to the Henkel family's share-pooling agreement. Only a minority of the board directors are considered independent, and board committees in charge of audit, remuneration and nomination also lack independence (all governance-related information as at March 31, 2021). Henkel discloses its remuneration policy for executives, including variable performance-related components and long-term incentive components. With regard to the governance of sustainability, the company's performance lags behind, as there is no evidence of an independent board committee in charge of this issue. As for executive compensation, the company reports on integrating sustainability performance objectives into the variable remuneration, yet, these objectives are not clearly specified. The company has established a code of business conduct, which covers almost all relevant issues such as conflicts of interest, corruption and bribery, anti-competitive practices, insider dealings, and gifts and entertainment. There is a group-wide compliance management system led by a central compliance office and managed by local and regional compliance officers. Several procedures (e.g., confidential reporting channels, trainings, risk assessments and audits) are in place.

### *Sustainability impact of products and services portfolio*

Using a proprietary methodology, ISS ESG assessed the contribution of Henkel's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs).



This analysis is limited to the evaluation of final product characteristics and does not include practices along Henkel's production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE	DIRECTION OF IMPACT	UN SDGS
<b>Household insecticides and repellents, oral health products</b>	2%	CONTRIBUTION	
<b>Building insulation materials</b>	2.5%	CONTRIBUTION	  
<b>Others</b>	N/A	NO NET IMPACT	N/A

*Breaches of international norms and ESG controversies*

The company is not facing any controversy.

## B. CONSISTENCY OF GREEN BONDS WITH HENKEL'S SUSTAINABILITY STRATEGY

### *Key sustainability objectives and priorities defined by the issuer*

In 2010 Henkel has developed a sustainability strategy and defined long-term goals for 2030. Its core is to deliver more value and reduce the environmental footprint with the following six focal areas: social progress, performance, health and safety, as well as energy and climate, materials and waste and water and wastewater.

Furthermore, Henkel is committed to helping to reach the global 1.5°C target and set goals with the Science Based Target Initiative (SBTi) from March 2020. In this context, Henkel commits to reducing scope 1 and 2 GHG emissions by 67% per ton of product by 2030 from a 2017 base year. Henkel also commits to increase annual sourcing of renewable electricity from 6% in 2017 to 100% by 2030. Moreover, Henkel commits to reducing scope 3 GHG emissions from purchased goods and services by 30% per ton of product by 2030 from a 2017 base year. In view of the urgent need to reduce CO<sub>2</sub> emissions, it is Henkel's long-term vision to become a climate-positive company by 2040 and make progress in further relevant parts of the value chain.

Additionally, Henkel has included in its strategy packaging targets for 2025, which include for example that 100% of Henkel's packaging and will be recyclable or reusable and various other measure to reduce the use of materials and waste as well as the prevention of waste entering the environment.

### *Rationale for issuance*

With its Framework Henkel demonstrates that it is aligning its business and financing with its commitments and values, by creating a direct link between its sustainability strategy and the funding strategy. The Key Performance Indicators in the Framework are linked to their climate and circularity goals, which are part of their focal areas. The eligibility criteria for the Use of Proceeds have been designed in line with their stringent way of doing business and best market practices or EU Taxonomy criteria when available.

### *Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under this Sustainable Finance Framework with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Household & Personal Products sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<b>Circular economy adapted products, production technologies and processes; and /or certified eco-efficient products</b>	✓	✓	Contribution to a material objective
<b>Clean Transportation</b>	✓	✓	Contribution to a material objective
<b>Sustainable water and wastewater management</b>	✓	✓	Contribution to a material objective
<b>Pollution prevention and control</b>	✓	✓	Contribution to a material objective
<b>Energy efficiency</b>	✓	✓	Contribution to a material objective
<b>Renewable energy</b>	✓	✓	Contribution to a material objective
<b>Green Buildings</b>	✓	✓	Contribution to a material objective
<b>KPI 1</b>	✓	✓	Contribution to a material objective
<b>KPI 2</b>	✓	✓	Contribution to a material objective
<b>KPI 3</b>	✓	✓	Contribution to a material objective

**Opinion:** ISS ESG finds that the Use of Proceeds financed through the framework are broadly consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing green bonds is clearly described by the issuer.

## PART II: ALIGNMENT WITH RELEVANT PRINCIPLES

### A. GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES

#### 1. Use of Proceeds

An amount at least equivalent to the net proceeds from the issuance of notes will be used to finance or refinance, in whole or in part, new or existing projects (assets, capital expenditures, operational expenditures, including research & development expenses) that meet the Eligibility Criteria defined below (the “Eligible Green Projects”).

#### Eligible Green Projects may contribute to various EU Environmental Objectives:

ICMA GBP CATEGORIES	ELIGIBLE GREEN PROJECTS
<p><b>Circular economy adapted products, production technologies and processes; and /or certified eco-efficient products</b></p>	<p>Enabling products based on Henkel’s product assessment methodologies, such as the Sustainability Master, or based on external recognized eco-certifications, such as the EU Ecolabel. Enabling products include in particular the following product groups:</p> <p>Products that are part of the CO<sub>2</sub>-saving portfolio, including solutions in the following six groups:</p> <ul style="list-style-type: none"> <li>• Energy saving building facades</li> <li>• Lightweight vehicle design</li> <li>• More efficient renewable energy</li> <li>• Repair and renovation</li> <li>• Intelligent material replacement</li> <li>• Consuming less hot water</li> </ul> <p>Reusable/recyclable packaging solutions, reducing packaging at the source, enabling significant reduction of virgin plastics’ use, including solutions such as:</p> <ul style="list-style-type: none"> <li>• Chemical recycling</li> <li>• Refill solutions</li> <li>• Solid products without packaging</li> </ul> <p>IT tools for the assessment of CO<sub>2</sub> footprints and recyclability, including solutions such as:</p> <ul style="list-style-type: none"> <li>• EasyLCA for calculating CO<sub>2</sub> footprints of product formulations</li> <li>• EasyD4R for evaluating recyclability of packaging</li> </ul>
<p><b>Clean Transportation</b></p>	<p>In line with EU Climate Delegated Acts criteria as adopted on 4 June 2021, notably vehicles with specific emissions of CO<sub>2</sub> lower than 50gCO<sub>2</sub>/km until 31 December 2025, and zero specific emissions thereafter.</p>

<p><b>Sustainable water and wastewater management</b></p>	<p>Expenditures related to implementation and expansion of water efficiency and wastewater management initiatives, including projects such as:</p> <ul style="list-style-type: none"> <li>• highly efficient reverse-osmosis systems for filtering water</li> <li>• water treatment installations</li> </ul> <p>and/or in line with technical screening criteria to be published in the final Delegated Act related to “sustainable use and protection of water and marine resources” as applicable.</p>
<p><b>Pollution prevention and control</b></p>	<p>Projects or activities related to:</p> <ul style="list-style-type: none"> <li>• reduction of air emissions</li> <li>• soil remediation</li> <li>• waste prevention, reduction and recycling</li> </ul> <p>and/or in line with technical screening criteria to be published in the final Delegated Act related to “pollution prevention and control” as applicable.</p>
<p><b>Energy efficiency</b></p>	<p>In line with technical screening criteria included in the EU Climate Delegated Act adopted on 4 June 2021, including projects such as:</p> <ul style="list-style-type: none"> <li>• LED lighting</li> <li>• Smart meters</li> </ul>
<p><b>Renewable energy</b></p>	<p>In line with EU Climate Delegated Acts criteria as adopted on 4 June 2021, including projects such as:</p> <ul style="list-style-type: none"> <li>• wind power generation units</li> <li>• solar power generations units</li> <li>• wind/solar related installation and maintenance</li> </ul>
<p><b>Green Buildings</b></p>	<p>In line with EU Climate Delegated Acts criteria as adopted on 4 June 2021, projects related to the acquisition and or construction of:</p> <ul style="list-style-type: none"> <li>• Buildings built before 31 December 2020 either with an EPC label <math>\geq</math> “A” or belonging to the top 15% of the national building stock</li> <li>• Buildings built after 31 December 2020 with energy performance lower of at least 10% than the threshold set for nearly zero-building (NZEB) requirements</li> </ul> <p>Renovations of existing buildings and individual measures to improve energy performance and achieve energy savings of at least 30% (or at least two steps of improvement in EPC label) in comparison to the baseline performance before the building renovation.</p>

Activated eligible green assets shall qualify for refinancing without a specific look-back period, provided that at the time of issuance they follow the relevant eligibility criteria. Eligible green capital expenditures and operational excellence measures shall qualify for refinancing with a maximum three-year look-back period.

**Opinion:** ISS ESG considers the Use of Proceeds description provided by Henkel's Sustainable Finance Framework as aligned with the GBPs and the GLPs. An expected lookback period of three years for green OPEX is defined. A detailed description of the environmental and social benefits of the project categories is also included.

## 2. Process for Project Evaluation and Selection

Henkel has a Sustainable Finance Working Group chaired by the head of Treasury composed of, but not limited to, members of the following departments:

- Treasury
- IR
- Accounting
- Planning
- Global Sustainability
- Business Units (guests)

The responsibilities of the Sustainable Finance Working Group in relation to the Green Bonds are:

- Validation of the allocation of net proceeds towards a pool of Eligible Green Projects (in line with the criteria defined in the framework).
- Reallocation of net proceeds in case a project does not meet the eligibility criteria any more or has been disinvested.
- Validation of the Allocation and Impact Reports.
- To discuss and validate potential evolution of this Framework upon regulatory or market standards changes.

Henkel has put in place an evaluation and selection process, corporate sustainability and risk management framework in order to ensure mitigation of potential environmental and social risks associated with the Eligible Green Projects (e.g. list of policies, codes and standards below), in addition to applicable national and international environmental & social standards and regulations. In case of any controversy on a specific asset, Henkel intends to replace this asset in the portfolio of Eligible Green Projects and will inform Investors through its reporting.

Policies, codes and standards can be retrieved under the Corporate Governance Section of the group's website [https://www.henkel.com/investors-and-analysts/corporate-governance#Tab-35912\\_2](https://www.henkel.com/investors-and-analysts/corporate-governance#Tab-35912_2)

**Opinion:** ISS ESG considers the Process for Project Evaluation and Selection description provided by Henkel's Sustainable Finance Framework as aligned with the GBPs and the GLPs. The projects selected show alignment with the sustainability strategy of the issuer. Henkel is also committed to transparency in case of controversy and/or potential ESG risks identified.

### 3. Management of Proceeds

Henkel intends to allocate the proceeds from the Green Bonds/ Loans to an Eligible Green Project Portfolio, selected in accordance with the use of proceeds criteria and evaluation and selection process presented above.

Over time, Henkel will strive to achieve a level of allocation for the Eligible Green Project Portfolio which matches or exceeds the balance of net proceeds from its outstanding Green Financing Instruments.

Pending the full allocation of an amount equivalent to the net proceeds, the unallocated amount will be managed within Henkel's regular cash management operations.

**Opinion:** ISS ESG finds that Management of Proceeds proposed by Henkel's Sustainable Finance Framework is well aligned with the GBPs and the GLPs, as all the proceeds are to be directly allocated to the green projects listed above. Henkel also discloses the intended types of temporary investment instruments for unallocated proceeds, in line with best-market practices.

### 4. Reporting

Henkel will publish annually a reporting until full allocation of the proceeds and on a timely basis in case of material development. The reporting will include:

- Allocation reporting
- Impact reporting

The Allocation reporting will provide:

- The total amount of Green Bonds issued and of Eligible Green Projects by eligible project category and geography
- The balance of unallocated proceeds

The impact reporting will include at least the following information and the methodology to evaluate Eligible Green Projects:

- A description of the Eligible Green Projects
- The share of financing and refinancing
- Metrics regarding the environmental impacts such as the indicators below and associated methodology calculation will be described

Henkel intends to align, on a best effort basis, the reporting with the portfolio approach described in ICMA's "Handbook – Harmonized Framework for Impact Reporting (December 2020)"<sup>4</sup>.

The Allocation and Impact reporting will be made available on Henkel's webpage.

<sup>4</sup> See [here](#)

ELIGIBLE CATEGORY	IMPACT INDICATORS MAY INCLUDE
1. Circular economy adapted products, production technologies and processes; and /or certified eco-efficient products	<ul style="list-style-type: none"> <li>▪ Sustainable products' impact such as CO<sub>2</sub> emissions avoided (compared to a reference market standard)</li> <li>▪ Waste management initiatives: tons of plastic recycled / tons of plastic avoided</li> </ul>
2. Clean transportation	<ul style="list-style-type: none"> <li>▪ Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub>/CO<sub>2</sub>e (equivalent)</li> </ul>
3. Sustainable water and wastewater management	<ul style="list-style-type: none"> <li>▪ Annual energy savings in MWh/GWh (electricity)</li> </ul>
4. Pollution prevention and control	<ul style="list-style-type: none"> <li>▪ Annual water savings: Reduction in water consumption of economic activities (e.g. industrial processes, agricultural activities including irrigation, buildings, etc.)</li> </ul>
5. Energy efficiency	
6. Renewable energy	<ul style="list-style-type: none"> <li>▪ Capacity of renewable energy plant(s) constructed (in MW) and production (in MWh)</li> </ul>
7. Green buildings	

**Opinion:** ISS ESG finds that the reporting proposed by Henkel's Sustainable Finance Framework to be aligned with the GBPs and GLPs. The Issuer is transparent on the level of expected reporting, the type of information, the frequency, scope, and duration. Moreover, Henkel will report on the impacts in line with the ICMA Harmonized Framework for Impact Reporting reflecting best market practices.

### External review

#### **Second-party opinion:**

Henkel has appointed ISS to conduct an external review of its Framework and issue a Second Party Opinion to assess the environmental value-added and confirm the alignment of the Framework with the ICMA Green Bond Principles.

The Second Party Opinion will be available on Henkel's website: <https://www.henkel.com/investors-and-analysts>

#### **Verification of the reporting:**

Henkel will engage an external auditor or other independent third party to verify the allocation of proceeds in accordance with this Framework.



## B. SUSTAINABILITY-LINKED BOND PRINCIPLES

### Rationale for Framework

#### FROM HENKEL'S FRAMEWORK

With the Framework Henkel aims at aligning its business and financing with its commitments and values, by creating a direct link between its sustainability strategy and the funding strategy. The Key Performance Indicators in this Framework are linked to Henkel's climate and circularity goals, which are part of its focal areas and material to Henkel's business.

**Opinion:** ISS ESG considers the Rationale for Issuance provided by Henkel as aligned with the Sustainability-Linked Bond Principles (SLBPs). The issuer has created and committed to publicly disclose its first framework in a comprehensive and credible manner.

#### 2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of the KPIs' selection available in Part III of this report.

**Opinion:** ISS ESG finds that the KPI 1 (reduce scopes 1 and 2 emissions) is core and relevant to the issuer's business model and consistent with its sustainability strategy. The KPI is considered material to Henkel's operations and activities that the company has direct control of (Scopes 1 and 2). However, it is considered as not material to the whole Corporate Value Chain as it only covers 1.1% of Henkel's total GHG emissions. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable.

ISS ESG finds that the KPI 2 (reduce scope 3 emissions for purchased of goods and services) selected is relevant and core to the issuer's business model. It is partially material to the company, as scope 3 emissions from purchased goods and services represent 25.7% of Henkel's total GHG emissions by Henkel and 26% of the total scope 3 emissions. The KPI is appropriately measurable, quantifiable and benchmarkable to industry peers to a limited extent. It is worth noting that no concrete methodology to calculate scope 3 emissions have been established in the Household & personal products industry specifically.

ISS ESG finds that the KPI 3 (Percentage of recycled plastics in all plastic packaging of consumer products) selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of Henkel's operations and activities. Furthermore, the KPI is consistent with the issuer's overall sustainability strategy.

#### 2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of the SPTs. It is available in Part III of this report.

**Opinion:** ISS ESG considers the calibration of the SPTs description provided by Henkel as aligned with the SLBPs. ISS ESG finds that SPT 1 (reduce scopes 1 and 2 emissions) calibrated by Henkel is ambitious against the company's past performance, against Household & personal products industry peers and ambitious against Paris Climate Goals. Furthermore, the SPT has been validated by the SBTi in line with

a 1.5°C scenario. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.

ISS ESG finds that SPT 2 (reduction of scope 3 emissions from purchased goods and services) calibrated by Henkel is ambitious against the companies past performance. Due to the fact that the SPT is not easily benchmarkable, ISS ESG could not verify the ambitiousness against Henkel's industry peers and international targets. Yet, it is fair to note that only three companies in the sector have established scope 1, 2 and 3 emissions targets. In this regard the SPT is ambitious against industry peers. Moreover, the target has been approved by the SBTi and meets its criteria for ambitious value chain goals. Furthermore, the SPT achievement would have a positive contribution to the SDG 13 "Climate action".

ISS ESG finds that SPT 3 (Percentage of recycled plastics in all plastic packaging of consumer products ) calibrated by Henkel is ambitious against sectorial peers and when benchmarked with international targets. Limited information with regards to historical figures is available to assess the ambition of Henkel against its past performance, as only two years of historical global data were provided. The benchmark selected by the Issuer is provided by an independent third party based on a methodology established in the industry. The target is set in a clear timeline, it is benchmarkable and supported by a credible strategy and action plan.

### 2.3. Sustainability-Linked Securities Characteristics

#### FROM HENKEL'S FRAMEWORK

The financial and/or structural characteristics of Henkel's Sustainability Linked Bonds may vary depending on whether or not the selected KPI reaches the predefined SPT(s). They are to be specified in the final terms of each Sustainability Linked Bond issued and may include (but not limited to) coupon step-up(s), coupon step-down(s) and/or a higher repayment amount and/or structural (non-financial) characteristics.

**Opinion:** ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by Henkel as aligned with the SLBPs. However, some KPIs and SPTs will not be included in the entirety of Henkel's potential Sustainability-Linked bond transactions and their selection will be closely linked to the maturity contemplated. KPI 2, for instance, will be linked to bonds with maturity beyond 2030.

### 2.4. Reporting

#### FROM HENKEL'S FRAMEWORK

Henkel's annual Sustainability Report (or other reporting available on its corporate website) benefitting from auditors' limited assurance will include the following information:

- The performance of the KPIs, as per the relevant reporting period and when applicable, as per the Target Date including the calculation methodology and baselines where relevant;
- A verification assurance report by an independent external auditor outlining the performance against the SPTs;
- Any update in Henkel's sustainability strategy or any recent announcements, strategic decisions and means mobilized that might impact the achievement of the SPT(s);
- Qualitatively or quantitatively explanation of the contribution of the main factors, including M&A activities, behind the evolution of the performance/KPI;

- When possible, illustration of the positive sustainability impacts of the performance improvement (e.g. translation of the positive climate impact of the KPI on the Group's carbon intensity);
- When relevant, any re-assessments of KPI and/or restatement of the SPT and/or pro-forma adjustments of KPI scope information on the products range/mix as evolution drivers of the KPIs.

**Opinion:** ISS ESG considers the Reporting description provided by Henkel as aligned with the SLBPs. The reporting will be made publicly available annually and include valuable information, as described above.

## 2.5. Verification

### FROM HENKEL'S FRAMEWORK

Henkel has appointed ISS ESG to provide an independent Second Party Opinion report ("SPO") to evaluate this Framework and its alignment with the SLBP. The SPO will be made publicly available on Henkel's corporate website.

The annual performance on the KPIs will be reviewed by Henkel's statutory auditors and benefit from limited assurance.

**Opinion:** ISS ESG considers the Verification description provided by Henkel as aligned with the SLBPs. The issuer plans on having all annual values of the relevant SPTs published and verified. This will outline the performance against the SPT, the related impact and timing of such impact on the securities' financial characteristics.

## PART III: SUSTAINABILITY QUALITY OF THE ISSUANCE









### A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green Bonds Eligibility Criteria and using a proprietary methodology, ISS ESG assessed the contribution of the Henkel's Green Bond to the Sustainable Development Goals defined by the United Nations (UN SDGs).









This assessment is displayed on 5-point scale (see Annex 2 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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Each of the Green Bonds' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<b>Eco-efficient processes</b> (building facades, more energy-efficient repairs and renovations, etc.)	<b>Significant Contribution</b>	 
<b>Reusable packaging solutions</b>	<b>Significant Contribution</b>	
<b>IT Tools to assess CO<sub>2</sub> footprints and recyclability</b>	<b>No Net Impact</b>	
<b>Clean Transportation</b>	<b>Significant<sup>5</sup> Contribution</b>	
<b>Sustainable water and wastewater management</b>	<b>Significant Contribution</b>	
<b>Pollution prevention and control</b> (Reduction of air emissions, such as Volatile Organic Compounds)	<b>Limited Contribution</b>	
<b>Pollution prevention and control</b> (Soil remediation)	<b>Limited Contribution</b>	

<sup>5</sup> This assessment differs from the ISS ESG SDG Solutions Assessment (SDGA) proprietary methodology designed to assess the impact of an issuer's product and service portfolio on the SDGs. For the projects to be financed under Use of Proceeds categories that comply with the Technical Screening Criteria defined by the EU Taxonomy Technical Annex, a significant contribution to climate change mitigation is attested.

<b>Pollution prevention and control</b> (Waste prevention and recycling)	<b>Significant Contribution</b>	
<b>Energy efficiency</b> (LED lighting)	<b>Significant<sup>6</sup> Contribution</b>	
	<b>Limited Contribution</b>	
<b>Energy efficiency</b> (Smart meters)	<b>Significant<sup>7</sup> Contribution</b>	
<b>Renewable energy</b>	<b>Significant Contribution</b>	 
<b>Green Buildings</b>	<b>Significant<sup>8</sup> Contribution</b>	
	<b>Limited Contribution</b>	

<sup>6</sup> See footnote number 3.

<sup>7</sup> See footnote number 3.

<sup>8</sup> See footnote number 3.

## B. MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS ASSOCIATED WITH THE ELIGIBILITY CRITERIA

The table below presents the findings of an ISS ESG assessment of the Selection criteria against ISS ESG KPIs<sup>9</sup>.

### ASSESSMENT AGAINST ISS ESG KPI

#### Biodiversity

- ✓ More than 80% of relevant operations are covered by an environmental management system that is certified to the ISO 14001 standard.
- ✓ The company purchases palm oil certified to the RSPO standard which requires biodiversity risk assessments.

#### Labour and Health & Safety Standards

- ✓ More than 80% of relevant employees (estimated) are covered by a health and safety management system that is certified to the OHSAS 18001 or ISO 45001 standard.
- ✓ Henkel has set of labour codes, standards and processes to provide its employees, customers, suppliers, investors and the communities. It adheres to the UN Global Compact (UNGC) and ILO Declaration on Fundamental Principles and Rights at Work.

#### Waste Management & Circular Economy

- ✓ Henkel provides policies on end-of-life decommissioning and recycling. Life cycle assessments are carried out in accordance with ISO 14040/14044 or other equivalent international standards.

#### Dialogue with Local Communities

- ✓ Henkel requires suppliers to seek free, prior and informed consent (FPIC) of stakeholders affected by resettlement, offer adequate compensation and avoid complicity in forced evictions.
- ✓ Compliance with the cross-sector Code of Conduct is mandatory for all of Henkel's suppliers worldwide. The signing company respects compliance of internationally recognized human rights standards.

#### Users Safety

- ✓ Safety tests and risk assessments regarding consumer safety and environmental impact of ingredients and products are conducted.

<sup>9</sup> The assessment in this section has specifically been developed by the SPO team and differ from the ISS ESG Corporate Rating methodology.

## Water

- ✓ The company identifies whether it has activities in regions with high levels of water stress with respect to water quantity.
- ✓ The company's action plan comprises planned measures to achieve water use reductions and progress reports. Each company's facility must monitor and record a defined set of environmental data concerning water.

## PART IV: ISSUANCE CREDIBILITY OF THE KPI AND SPT FOR SUSTAINABILITY-LINKED BONDS

### 1. KPI 1: Henkel's Scope 1 and 2 GHG emissions per ton of product

#### 1.1. KPI selection

##### FROM HENKEL'S FRAMEWORK

- **KPI:** Scope 1 and 2 GHG emissions per ton of product.
- **SPT:**
  - **2025:** Reduce Scope 1 and 2 GHG emissions by 54% per ton of product.
  - **2030:** Reduce Scope 1 and 2 GHG emissions by 67% per ton of product.

**Long-term goal:** Becoming Climate-positive by 2040.

**Rationale:** Henkel fully supports the commitment of the United Nations' Paris Agreement on climate change and sees the 1.5 degrees Celsius target as an essential prerequisite if more than nine billion people are to be able to live well within the resource limits of the planet in 2050.

Henkel pursues the vision to become a climate-positive company by 2040 by driving significant progress in its own operations. By pursuing this goal, Henkel will make an active and committed contribution toward climate protection.

- **Baseline: 0.076 tCO<sub>2</sub> per ton of product**
- **Baseline year:** 2017<sup>10</sup>
- **Target year:** 2025 or 2030 depending on bond maturity.
- **Target goal:** Henkel's Scope 1 and 2 GHG emissions are lower or equal to 0.035 tCO<sub>2</sub> per ton of product by 2025, or are lower or equal to 0.025 tCO<sub>2</sub> per ton of product by 2030.
- **Scope:** Henkel's Scope 1 and 2 GHG emissions per ton of product. The indicator covers Henkel's fully consolidated activities. Acquisitions are taken into account as of January 1st of the current year (on a pro forma basis) to the extent possible or as of the following year.
- **Methodology:** Scope 1 and 2 emissions are reported in line with the Corporate Accounting and Reporting Standard (Scope 1 and 2) of the Greenhouse Gas Protocol.

**Scope 1:** Carbon dioxide emissions are calculated using emissions factors provided by Öko-Institut e.V. which are mainly based on data from RAINS7.52.<sup>11</sup>, an Air Pollution Model. No CO<sub>2</sub> offsets are taken into account when determining the Scope 1 carbon dioxide emissions. The net volume of GHG emissions (Scope 1) is shown. The gross volume includes Electricity additionally generated and sold to third parties. For site-specific reasons, this occurs primarily at the Düsseldorf-Holthausen (Germany) site; gross emissions at Henkel level total 592 thousand metric tons. Biogenic CO<sub>2</sub> emissions and CO<sub>2</sub> equivalents of other greenhouse gases are of minor importance in Henkel's business activities at present and are not reported separately.

**Scope 2:** Carbon dioxide emissions from bought-in energy (electricity, steam and district heating) are calculated using the market-based method as recommended by the Greenhouse Gas (GHG) Protocol. The CO<sub>2</sub> emissions relate to Henkel production sites that are under its direct operational control. These sites represent Henkel's core activities.

<sup>10</sup> The baseline was selected in line with the SBTi instructions received by Henkel.

<sup>11</sup> <https://user.iiasa.ac.at/~schoepp/doc/manual/intro.htm>



Information on gross volume and CO<sub>2</sub> equivalents has not yet been provided in itemized form, as the data basis required for the calculation still has to be expanded.

No emissions are calculated for the purchase of electricity from renewable sources that meets internal quality criteria. For the remaining electricity, contract, provider or region-specific emission factors are calculated, depending on the sites for which Henkel has access to the figures. In the remaining cases, Henkel uses country-specific factors that are published by the International Energy Agency (IEA) at the beginning of the respective year. 64% of the entire electricity purchase comes from renewable sources or falls under supplier-specific emission factors. No CO<sub>2</sub> offsets and no emissions certificate trading were taken into account when determining the Scope 2 CO<sub>2</sub> emissions.

### Materiality and relevance

Although climate protection is not considered as a key ESG issue faced by the Household & personal products sector according to ISS ESG assessment, it is yet relevant for the industry.

ISS ESG finds that the KPI selected by the issuer related to its total CO<sub>2</sub> eq. emissions (i.e. Scopes 1 & 2) is:

- **Relevant** to Henkel's business as the Household & personal products industry is GHG-emitting.
- **Core** to the issuer's business as climate change mitigation reduction measures affect key processes and operations that are core to the business model of the issuer.
- **Moderately material** to Henkel's as a stand-alone KPI, due to the fact that the KPI covers only 1.1% of the company total emissions and does not cover Scope 3 emissions. It is worth noting that Henkel has established a second KPI as part of their framework concentrating on some of its Scope 3 emissions.

### Consistency with overall company's sustainability strategy

Henkel has a long-standing history of commitments in limiting the impact of its activities on the environment. The core of its sustainability strategy is to deliver more value and reduce its environmental footprint. Henkel focuses its activities along the value chain on six focal areas that reflect the key challenges and opportunities of sustainable development as they relate to its business. Henkel concentrates on three sustainable development to deliver more value, and the other three to reduce its environmental footprint. Following its 2020 targets for these focal areas, Henkel has set itself new goals for 2025 and beyond. The three focal areas identified related to delivering more value are: social progress, performance, and health and safety. Henkel strives to reduce its environmental footprint along the value chain through important activities covered by its focal areas of energy and climate, materials and waste, and water and wastewater.

### Measurability

- **Material scope and perimeter:** The KPI selected covers a 100% of its direct operations and activity.
- **Quantifiable:** The KPI selected is measurable and quantifiable. GHG emissions (scopes 1 and 2) are widely disclosed and standardized in the market. The issuer is referring to key reporting and accounting protocols for GHG emissions such as The Greenhouse Gas Protocol (GHG Protocol).
- **Externally verifiable:** The KPI selected is externally verifiable thanks to the various standards and protocols mentioned above. The GHG inventory of the issuer has been verified by a third-party.

The issuer commits to get a third-party verification of its GHG accounting and of the KPI considered under this transaction annually and in any case for any period relevant for assessing if a SPT Event has occurred (event that triggers variation in the bond characteristics).

- **Benchmarkable:** By referring to commonly acknowledged GHG accounting standards and protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement. Benchmarking of the SPT in relation with this KPI has been analysed in section 2.

**Opinion on KPI selection:** ISS ESG finds that the KPI selected is core and relevant to the issuer's business model and consistent with its sustainability strategy. The KPI is considered material to Henkel's operations and activities that the company has direct control of (Scopes 1 and 2). However, it is considered as not material to the whole Corporate Value Chain as it only covers 1.1% of Henkel's total GHG emissions. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable.

## 1.2. Calibration of SPT

### SPT set by the issuer

#### FROM HENKEL'S FRAMEWORK AND BOND DOCUMENTATION<sup>12</sup>

- **SPT:** Reduce Scope 1 and 2 GHG emissions by 67% per ton of product by 2030 - Intermediate target (2025): Reduce Scope 1 and 2 GHG emissions by 54% per ton of product.
- **SPT Trigger:** Achieving Henkel's Scopes 1 and 2 GHG emissions to be lower or equal to 0.035 tCO<sub>2</sub> per ton of product by 2025, or lower or equal to 0.025 tCO<sub>2</sub> per ton of product by 2030 from a 2017 baseline.
- **SPT Observation Date:** 31 December 2030.
- **Rationale for SPT calibration:** In scope of the SBTi, Henkel commits to reduce scope 1 and 2 GHG emissions by 67% per ton of product by 2030 from a 2017 base year. Henkel also commits to increase annual sourcing of renewable electricity from 6% in 2017 to 100% by 2030.

**Factors supporting the achievement of the target:** Increase energy efficiency at all Henkel's production sites and design sustainable factories:

- Example of Henkel's factory in Kurkumbh, India which was developed in line with lean manufacturing concepts that organize material flows in the best possible way to increase productivity, minimize waste and cut emissions. Alongside highly efficient equipment, it uses digital technology to optimize processes, and features smart systems for ventilation, air conditioning and lighting. On top of this, the roof is covered by 7,000 square meters of solar panels that generate more than 1,000,000 kilowatt hours of energy and save around 800 tons of CO<sub>2</sub> each year – and plans are in place to add more panels soon and to purchase additional solar power from an external provider. In recognition of its energy-efficient design, the factory is one of only a handful of Household & personal products manufacturing sites in the world that have received the LEED Gold certificate from the US Green Building Council.
- Example of Henkel's headquarters in Düsseldorf, Germany. In 2019, Henkel optimized its spray drying tower at this site. This tower is used to make a powder that forms the basis for many of its laundry

<sup>12</sup> This information is displayed by the issuer in its Green and Sustainability-Linked Bond Framework and Bond Documentation and have been copied over in this report by ISS ESG for clarity.

detergents – and more than one third of the energy consumed by its Laundry & Home Care business in Düsseldorf is used in this process. Henkel’s team installed additional sensors inside and outside the tower to gather more data, and this data is made available in its global Digital Backbone system. It enables Henkel to increase the efficiency of its processes and to make comparisons across its sites worldwide. Following this successful pilot project in Düsseldorf, Henkel is implementing this data-driven approach across all of its factories that produce washing powder with spraydrying towers. This will empower its teams to identify opportunities to further increase energy efficiency by analyzing data at their site, as well as by benchmarking against other sites around the globe.

## Ambition

### Against company’s past performance

The issuer sets the SPT to reduce its GHG emissions (Scopes 1 & 2) by 54% by 2025, and by 67% by 2030 compared to a 2017 baseline year. This would imply an annual linear reduction rate of -6.75% over the 2017-2025 period, and of -5.15% over the 2017-2030 period. Achieving these targets would represent a significant reduction of Scopes 1 and 2 emissions relative to the baseline year.

Based on historical performance data provided by the issuer on Scopes 1 and 2 emissions, ISS ESG finds that the SPTs set for 2025 and 2030 are ambitious against the company’s past performance.

### Against company’s sectorial peers

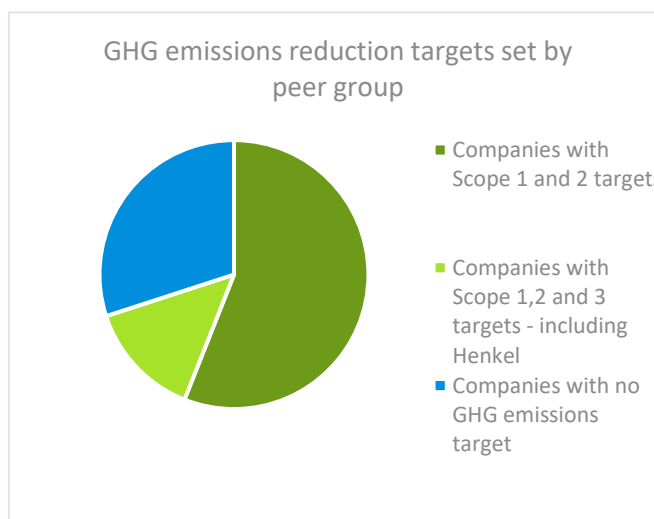
ISS ESG conducted a benchmarking of the SPT set by Henkel against the Household & personal products peer group of 170 listed companies derived from the ISS ESG Universe.

As of 21.07.2021, ISS ESG evaluates that Henkel is one of 56 companies (top 70%) in its industry to have set GHG emissions reduction targets.

In terms of target set, Henkel is one of 3 companies in its industry to have GHG emission reduction target on Scope 1, 2 and 3 and it thus belongs to the top 5% tier of its sector in terms of existence of such targets (see Figure 2).

However, this SPT only focuses on Scope 1 and 2 emissions. Furthermore, looking at the ambition of this SPT, focusing on Scopes 1 and 2, Henkel remains in the top 5% of the industry.

ISS ESG concludes that the SPT set by the issuer is ambitious compared to the Household & Personal products sector practices in terms of defining a GHG emissions reduction target. In terms of magnitude, the SPT belongs to the top 5% in the Household & Personal products sector as per ISS ESG Universe.



Source: ISS ESG, as of 21.01.2021

## Against international targets

### Paris Agreement

Henkel benchmarked its SPT against the Science Based Targets initiatives (SBTi) in line with the Paris Agreement. The SBTi has confirmed the alignment of the targets with a 1.5°C scenario. In scope of the SBTi, Henkel commits to reduce scope 1 and 2 GHG emissions 67% per ton of product by 2030 from a 2017 base year. Furthermore, Henkel has set an intermediate target, to reduce Scope 1 and 2 GHG emissions by 54% by 2025 from a 2017 baseline. Henkel also commits to increase annual sourcing of renewable electricity from 6% in 2017 to 100% by 2030. The SPT set by Henkel advances its commitment to become a climate-positive company by 2040.

ISS ESG concludes that the SPT set by the issuer is ambitious against the international targets.

### UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDG 13 “Climate action”.

## Measurability & comparability

- **Historical data:** The issuer has provided relevant historical data for Scope 1 and 2 emissions. The 2017 baseline year for the SPT has been verified by an external verifier.
- **Benchmarkable:** By referring to commonly acknowledge GHG accounting standards and protocol, the KPI is easily comparable with the data reported by other companies.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

## Supporting strategy and action plan

To reduce its Scopes 1 and 2 emissions by 2030, Henkel will implement a set of investments in its operation to increase efficiency, including:

- **Reducing carbon footprint** of its production by 65% by 2025 and by 75% by 2030 compared to the base year 2010 by continuing to improve its energy efficiency and use more energy, particularly electricity, from renewable sources.
- **Increasing energy efficiency.** Henkel has defined specific targets for its operations to support its progress toward its long-term goal of becoming three times more efficient by 2030. Henkel aims to reduce the energy used by its production sites by 50 % per ton of product by 2030 compared to the base year 2010.
- **Strive to source 100%** of the electricity purchases for production from renewable sources by 2030.

The supporting strategy and action plan contemplated by Henkel aligns with sector recommendations<sup>13</sup> by the World Economic Forum on how Household & personal products companies can reduce GHG emissions, by focusing namely on renewable energy use and implementing new

<sup>13</sup> <https://www.weforum.org/agenda/2020/01/how-to-build-a-more-climate-friendly-household-&-personal-products-industry/>

technologies to improve process efficiency. This action plan is perceived as credible to support the achievement of the SPT set by Henkel.

***Opinion on SPT calibration:*** ISS ESG finds that the SPT calibrated by Henkel is ambitious against the company's past performance, against Household & personal products industry peers and ambitious against Paris Climate Goals. Furthermore, the SPT has been validated by the SBTi in line with a 1.5°C scenario. Additionally, the SPT achievement would have a positive contribution to the SDG 13 "Climate action". The target set is benchmarkable and supported by a credible strategy and action plan.

## 2. KPI 2: Reduce scope 3 GHG emissions from purchased goods and services

### 2.1 KPI selection

#### KPI selected by the issuer

##### FROM HENKEL'S FRAMEWORK

- **KPI 2:** Scope 3 GHG emissions from purchased goods and services
- **SPT 2:** Reduce scope 3 GHG emissions from purchased goods and services by 30% per ton of product by 2030 from a 2017 baseline.

**Rationale:** The 2015 Paris Agreement on Climate Change represents a commitment by the community of nations to limit global warming to below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. Henkel fully supports the commitment of the United Nations' Paris Agreement on climate change and sees the 1.5 degrees Celsius target as an essential prerequisite if more than nine billion people are to be able to live well within the resource limits of the planet in 2050. Henkel pursues the vision to become a climate-positive company by 2040 by driving significant progress in relevant areas of its value chain. By pursuing this goal, Henkel will make an active and committed contribution toward climate protection.

- **Baseline:** 1.4 tons of CO<sub>2</sub> (equivalent) per ton of product
- **Baseline year:** 2017
- **Target year:** 2030

**Scope:** The indicator covers Henkel's fully consolidated activities. Acquisitions are taken into account as of January 1<sup>st</sup> of the current year (on a pro forma basis) to the extent possible or as of the following year. The levels of CO<sub>2</sub>e emissions during the base year 2017 will be recalculated to reflect any significant changes in Henkel Group's structure (e.g. acquisition, divestiture, mergers, insourcing or outsourcing). Recalculated levels of CO<sub>2</sub>e emissions will be reported to the SBTi. The threshold value for a significant change is a change that impacts the Sustainability Performance Target, in aggregate, by 5 percent or more (which threshold for recalculation is in line with the recommendation by the SBTi).

**Methodology:** Scope 3 emissions are calculated and reported in line with the Corporate Value Chain Standard (Scope 1 and 2) of the Greenhouse Gas Protocol. Scope 3 emissions are calculated using supplier data-specific method and average-data method (for specific data) and spend-based method (for non-specific data). The activity data used in the reporting are based on the actual amounts of chemicals and packaging materials purchased. Emissions factors used are cradle-to-gate emission factors from suppliers (primary data) and average data (from associations or Ecolnvent).

#### Materiality and relevance

Although climate protection is not considered as a key ESG issue faced by the Household & personal products sector according to ISS ESG assessment, it is yet relevant for the industry. Other indicators that have a significant impact across the sector include freshwater use and hazardous waste intensity according to ISS ESG's proprietary rating methodology.

ISS ESG finds that the KPI selected by the issuer related to its indirect CO<sub>2</sub>e emissions (i.e. Scope 3) is:

- **Relevant** to Henkel's business as the Household & personal products sector has a high impact on the environment through its scope 3 emissions. Furthermore, scope 3 emissions include the environmental impact of the products, which is a key ESG issue according to ISS ESG methodology.
- **Core** to the issuer's business as climate change mitigation reduction measures affect key processes and operations that are core to the business model of the issuer.
- **Partially material** to Henkel from an ESG perspective, as the KPI partly covers Henkel's scope 3 emissions. Scope 3 emissions from purchased goods and services represent 25.7% of the total GHG emissions produced by the company and 26% of the total scope 3 emissions. As the KPI does not cover the rest of scope 3 emissions (accounting for around 73% of Henkel's total GHG emissions), it is not considered material to the whole Corporate Value Chain of the company.

### Consistency with overall company's sustainability strategy

The core of Henkel's sustainability strategy is to deliver more value and reduce its environmental footprint. Henkel focuses its activities along the value chain on six focal areas that reflect the key challenges and opportunities of sustainable development as they relate to its business. Henkel concentrates on three sustainable development to deliver more value, and the other three to reduce its environmental footprint. Focusing on its impact on the environment, Henkel strives to reduce its environmental footprint along the value chain through important activities covered by its focal areas of energy and climate, materials and waste, and water and wastewater. Henkel aim to reduce CO<sub>2</sub> emissions including emissions generated from raw materials and help customers and consumers to reduce CO<sub>2</sub> emissions that are generated when using Henkel's products. Hence, in this regard the KPI is consistent with the overall company's sustainability strategy.

### Measurability

- **Material scope and perimeter:** The KPI selected covers a material scope of the company's direct and indirect operations, as the entirety of Henkel's activities are covered.
- **Quantifiable:** The KPI selected is measurable and quantifiable as the indicator covers the GHG protocol methodology (GHG protocol scope 3.1)
- **Externally verifiable:** The KPI selected is externally verifiable thanks to the protocol mentioned above. The GHG inventory of the issuer has been verified by a third-party. The issuer commits to get a third-party verification of its GHG accounting and of the KPI considered under this transaction annually and in any case for any period relevant for assessing if a SPT Event has occurred (event that triggers variation in the bond characteristics).
- **Benchmarkable:** This KPI is benchmarkable to a limited extent as it exclusively focuses on scope 3 emissions from purchased goods and services, a granularity that other companies may not systematically report on.

**Opinion on KPI selection:** ISS ESG finds that the KPI selected is relevant and core to the issuer's business model. It is partially material to the company, as scope 3 emissions from purchased goods and services represent 25.7% of the total GHG emissions produced by Henkel. The KPI is appropriately measurable, quantifiable and benchmarkable to industry peers to a limited extent. It is worth noting that no concrete methodology to calculate scope 3 emissions have been established in the Household & personal products industry specifically.

## 2.2. Calibration of SPT

### SPT set by the issuer

#### FROM HENKEL'S FRAMEWORK AND BOND DOCUMENTATION<sup>14</sup>

- **SPT:** Reduce scope 3 GHG emissions from purchased goods and services by 30% per ton of product by 2030.
- **SPT Trigger Date:** 31.12.2030
- **SPT Observation Date:** 31.12.2030
- **Rationale for SPT calibration:** In scope of the SBTi, Henkel commits to reduce scope 1 and 2 GHG emissions 67% per ton of product by 2030 from a 2017 base year. Henkel also commits to increase annual sourcing of renewable electricity from 6% in 2017 to 100% by 2030. Furthermore, Henkel commits to reduce scope 3 GHG emissions from purchased goods and services by 30% per ton of product by 2030 from a 2017 base year.

#### Factors supporting the achievement of the target:

- For many years, Henkel has engaged in a targeted dialog with its most important strategic partners on the subject of sustainable supply chains. The dialog centers on the definition and implementation of a common plan for Henkel's sustainability goals for 2025 and beyond. The focus here is to create transparency about the sustainability performance of Henkel's direct suppliers and the responsible program they have been implementing in their upstream supply chain beyond the second level. To support Henkel's vision to become climate-positive by 2040, Henkel also requires its suppliers to provide transparency about the emission values of the product portfolios.
- Henkel's six-step Responsible Sourcing Process, which assesses the sustainability performance of its suppliers, is a central element of the strategic risk management and compliance approach. The Responsible Sourcing Process is an integral part of Henkel's purchasing activities and is applied both at the beginning of any cooperation and in the repeated cycle of review, analysis, and continuous improvement with existing suppliers. Using this process for the audit and assessment of the sustainability performance of its suppliers, Henkel covers 91% of its purchasing volume in the areas of packaging, raw materials and contract manufacturing.

### Ambition

#### Against company's past performance

Henkel sets the SPT to reduce its scope 3 emissions from purchased goods and services by 30% per ton of product by 2030.

Henkel has provided past performance data as follow:

KPI	2017 (BASELINE)	2018	2019	2020	2030 (TARGET)
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<sup>14</sup> This information is displayed by the issuer in the issuer's Green and Sustainability-Linked Bond Framework and Bond Documentation and have been copied over in this report by ISS ESG for clarity.



<b>Scope 3 emissions in thousands of metric tons of CO<sub>2</sub> equivalent</b>	1.4 tons of CO <sub>2</sub> e	1.32 tons of CO <sub>2</sub> e	1.22 tons of CO <sub>2</sub> e	1.24 tons of CO <sub>2</sub> e	0.980 tons of CO <sub>2</sub> e
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Table 2: Henkel’s past performance and target in terms of Scope 3 emissions (tCO<sub>2</sub>)

The issuer has provided a clear trajectory regarding the reduction of scope 3 emissions (in terms of CO<sub>2</sub> equivalent) per ton of product by 2030. This reduction amounts to a decrease of 30% from a 2017 baseline. This means that on average Henkel commits to reduce its scope 3 emissions from purchased goods and services by 2.3% annually.

Based on the historical data on past performances provided by Henkel, ISS ESG finds that the SPT set by the issuer is ambitious against company’s past performance.

#### Against company’s sectorial peers

Due to the fact that the KPI exclusively focuses on scope 3 emissions from purchased goods and services ISS ESG could not conduct a benchmarking exercise against Henkel’s peers in the Household & personal products sector. Moreover, the business is not fully comparable to the Household and Personal Products peers as Adhesive Technologies represent close to half of Henkel’s sales. Yet it is worth noting that only three companies in the Household & Personal Products sector have established scope 1, 2 and 3 emissions targets. Henkel is one of those three companies with such targets. Hence, in this regard, ISS ESG finds that by setting an SPT on scope 3 emissions from purchased goods and services is ambitious against the company’s sectorial peers.

#### Against international targets

Henkel’s SPT has been approved by the SBTi. In this sense, it meets the SBTi’s criteria for ambitious value chain goals. However, there is no commitment towards international targets such as the Paris Agreement. Yet, the SPT selected positively contributes to the UN Sustainable Development Goals.

#### UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDG 13 “Climate action”.

#### Measurability & comparability

- **Historical data:** The issuer has provided historical data in order to assess the ambition of the KPI against the company’s past performance.
- **Benchmarkable:** By referring specifically to scope 3 emissions from the purchase of goods and services, the SPT is not easily benchmarkable against market standards and protocol.
- **Timeline:** The issuer defined a timeline related to the SPT achievement. However, the target observation and trigger date, and the frequency of SPTs measurement is not clearly defined by the issuer.

**Opinion on SPT calibration:** *ISS ESG finds that the SPT calibrated by Henkel is ambitious against the company's past performance. Due to the fact that the SPT is not easily benchmarkable, ISS ESG could not verify the ambitiousness against Henkel's industry peers and international targets. Yet, it is fair to note that only three companies in the sector have established scope 1, 2 and 3 emissions targets. In this regard the SPT is ambitious against industry peers. Moreover, the target has been approved by the SBTi and meets its criteria for ambitious value chain goals. Furthermore, the SPT achievement would have a positive contribution to the SDG 13 "Climate action".*

### 3. KPI 3: Percentage of recycled plastics in all plastic packaging of consumer products

#### 3.1. KPI Selection

##### KPI selected by the issuer

###### INFORMATION PROVIDED BY HENKEL

- **KPI 3:** Percentage of recycled plastics in all plastic packaging of consumer products<sup>15</sup>
- **SPT 3:** Increase the percentage of recycled plastics in all plastic packaging of consumer products to 30% by 2025

**Long-term goal:** Henkel aims to reduce the amount of virgin plastics from fossil sources in Henkel's consumer products by 50%.

**Rationale:** Henkel is committed to fostering a circular economy. Its mission is to include materials from sustainable sources into smart designs to close the loop. Henkel's goal is to design packaging with the most sustainable materials available, while using the least possible amount of packaging material – all without compromising the high level of performance expected by consumers. To achieve this goal, Henkel's packaging engineers work closely with partners along the entire value chain so they can make use of leading design techniques, modern production technologies and sustainable materials in the development process.

Henkel aims to reduce the amount of virgin plastics from fossil sources in its consumer products by 50%. Henkel will achieve this by increasing the proportion of recycled plastic to more than 30%, by reducing the plastic volume and by increasingly using bio-based plastics.

The European Strategy for Plastics has set the target that 10 million tons of recycled plastics are used to make products in the EU by 2025<sup>16</sup>. This compares to less than 4 million tons used in 2016. This corresponds to an increase of 150% of recycled plastics used to make products in the EU from 2016 to 2025.

Recycled materials are not yet used on any large scale, hence only few benchmarks or trajectories exist.

**Baseline:** Henkel is currently using 10% of recycled plastics in consumer products

**Baseline year:** 2019

**Scope:** The indicator covers Henkel's fully consolidated activities. Acquisitions are taken into account as of January 1st of the current year (2021, on a pro forma basis) to the extent possible or as of the following year (2022).

##### Materiality and relevance

The World Economic Forum currently predicts that, by 2050, plastic waste in the oceans will outweigh the fish. However, plastic packaging keeps being employed for a variety of reasons. Plastic is long-lasting and provides protection against contamination and deterioration. Considering consumer packaged goods, plastics help reducing the overall quantity of packaging. Plastic packaging is generally both light and robust. Various plastics can be shaped, extruded, moulded and blown into seemingly

<sup>15</sup> The metric adopted for this KPI will be measured (in %) as the quantity of recycled plastic/overall amount of plastic packaging of consumer good products.

<sup>16</sup> <https://circulareconomy.europa.eu/platform/en/commitments/pledges?populate=henkel>

limitless forms. This feature often results in less waste, fewer resources used and fewer CO<sub>2</sub> emissions than alternative materials<sup>17</sup>. Plastics make packaging more efficient, which ultimately preserves resources.

According to ISS ESG methodology, the environmental impact of products (and, more specifically, eco-efficiency) is considered as a key ESG issue for the Household & Personal Products sector. By focusing on eco-efficiency and waste intensity issues, Henkel tackles significant environmental issues in the Household & Personal Products sector.

ISS ESG finds that the “materials and waste” KPI selected by the Issuer is:

- **Relevant** to Henkel’s business because, as described above, the reduction of non-reusable plastic packaging is highly important for the industry actively operating with consumer products. Eco-efficiency and waste intensity are key ESG issues faced by the Household & Personal Products sector.
- **Core** to the Henkel’s business as a variety of resources is needed to reduce the plastic volume and use bio-based plastics packaging. Engineers will work with partners along the entire value chain so they can employ leading design techniques, modern production technologies and sustainable materials in the development process to come up with more sustainable solutions.
- **Material** to Henkel’s entire business, as the KPI covers all consolidated financial activities and acquisitions.

### Consistency with overall company’s sustainability strategy

Henkel has included in its strategy packaging targets for 2025, which include for example that 100% of Henkel’s packaging and will be recyclable or reusable and various other measure to reduce the use of materials and waste as well as the prevention of waste entering the environment.

### Measurability

- **Material scope and perimeter:** The KPI selected covers a significant amount of operations and activities of the issuer.
- **Quantifiable:** The KPI selected is measured (in %) as the quantity of recycled plastic/overall amount of plastic packaging of consumer good products. Therefore, it is measurable and quantifiable. For the purpose of this KPI, the Issuer will engage an external auditor to provide at least a limited assurance regarding such KPI performance information.
- **Externally verifiable:** The KPI refers to clear accounting metrics, and has been verified. The KPI selected is externally verifiable.
- **Benchmarkable:** By referring to the fraction of reusable plastic out of the total amount of plastic employed for consumer goods, the KPI is easily comparable with the data reported by other companies.

<sup>17</sup> This is mainly due to the fact that plastic doesn’t appreciably add volume or mass to transport, unlike weighty metals.

**Opinion on KPI selection:** ISS ESG finds that the KPI selected is core, relevant and material to Henkel's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of Henkel. Furthermore, the KPI is consistent with the issuer's overall sustainability strategy.

### 3.2. Calibration of SPT

#### SPT set by the Issuer

##### FROM BORROWER'S FRAMEWORK

- **SPT:** Increase the percentage of recycled plastics in all plastic packaging of consumer products to 30% by 2025
- **SPT Trigger:** achievement of 30% recycled plastics in all plastic packaging of consumer products by 2025.
- **SPT Observation Date:** December 31, 2025.
- **2019 Baseline:** 10% recycled plastics in all plastic packaging of consumer products
- **Rationale for SPT calibration:** The SPT selected is measured (in %) as the quantity of recycled plastic/overall amount of plastic packaging of consumer good products.

##### Factors that support the achievement of the target:

Henkel is engaged in several cross-industry initiatives to drive innovation in packaging development and to find effective solutions that can be developed on a large scale. Henkel has also teamed up with different organizations that are working on improving recycling infrastructure to enable a circular economy. Appropriate systems for recycling packaging materials are not in place in many areas, especially in developing countries. Henkel believes that partnerships along the value chain are the only way Henkel can make sure its product packaging can be recycled or reused after the product has been consumed.

Some examples:

- Cooperation with retail partners through the Recyclate Forum in Germany. The initiative has two objectives. First, to significantly increase the reuse of packaging materials in order to offer consumers more sustainable packaging alternatives and reduce the amount of packaging waste. Secondly, to raise awareness about a closed-loop system – from product development at the manufacturers, through to use by customers, disposal of household waste, and recycling of packaging.
- Henkel and the packaging manufacturer Alpla jointly produced bottle bodies based on chemically recycled plastic for the first time. Plastic waste that is not recycled by mechanical recycling can be returned to the cycle through chemical recycling. In certain cases, chemical recycling can be used alongside mechanical recycling. By using chemical recycling, material made from fossil resources can be replaced by recycled material made from plastic waste.
- Henkel is part of the new HolyGrail 2.0 initiative, making it a pioneer in digital watermarks for better recycling of packaging. Digital watermarks are inconspicuous, postage stamp-size codes that are applied to the surface of consumer product packaging.

**Risks to the target:** Appropriate systems for recycling packaging materials are not in place in many areas, especially in developing countries. Operating across the value chain to develop those systems represents a major challenge.

## Ambition

### Against company's past performance

Henkel set a SPT to increase the share of recycled plastic packaging for consumer goods from 10% (in 2019) to 30% (by 2025). This equates to a growth of +200% in terms of the plastic share included in Henkel's plastic packaging (33.3% yearly). While this growth would represent a considerable increase, it is important to compare the yearly rate with the past achievements of Henkel on this KPI.

Henkel's historical data show that, at the global level, the reusable plastic share was 10% in 2019 and 15% in 2020. At the European level, limited data<sup>18</sup> is available (10% in 2018).

Henkel achieved to increase its recycled share of plastic in its plastic packaging from 10% to 15% in one single year at a global level (2019/2020). This represents a growth of 50%.

The SPT aims to an annual growth of 33.3%, that is lower than the past annual performance of Henkel, based on two years exclusively.

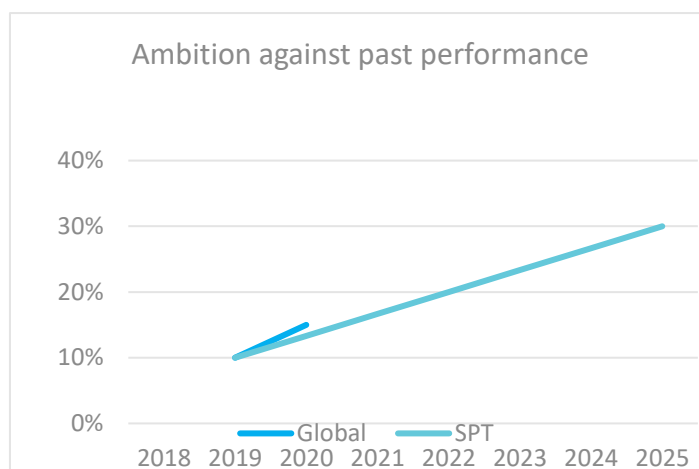
Past performance data on the KPI, including baseline year, has been verified by a third-party.

In this context, and considering that only two years' historical global data were provided, ISS ESG finds that limited information with regards to historical figures is available to assess the ambition of the SPT set by Henkel against the company's past performance. However, it is important to consider that the exponential annual growth of 50% in the FY 2019/2020 might be due to a multi-annual strategy that would not be achievable on a longer-term basis.

### Against company's sectorial peers

Recycled materials are not yet used on any large scale, hence only few benchmarks or trajectories exist. Some companies have openly published their targets, but very limited information is available with regards to global performance related to this KPI. Further, it is difficult to compare across regions as recycling rates of packaging products differ significantly across countries.

The Ellen MacArthur Foundation publishes an annual [New Plastics Economy Global Commitment Progress Report](#). It looks at how Global Commitment signatories, which together account for more than 20% of the plastic packaging market, are faring against their 2025 targets to tackle plastic pollution at its source.

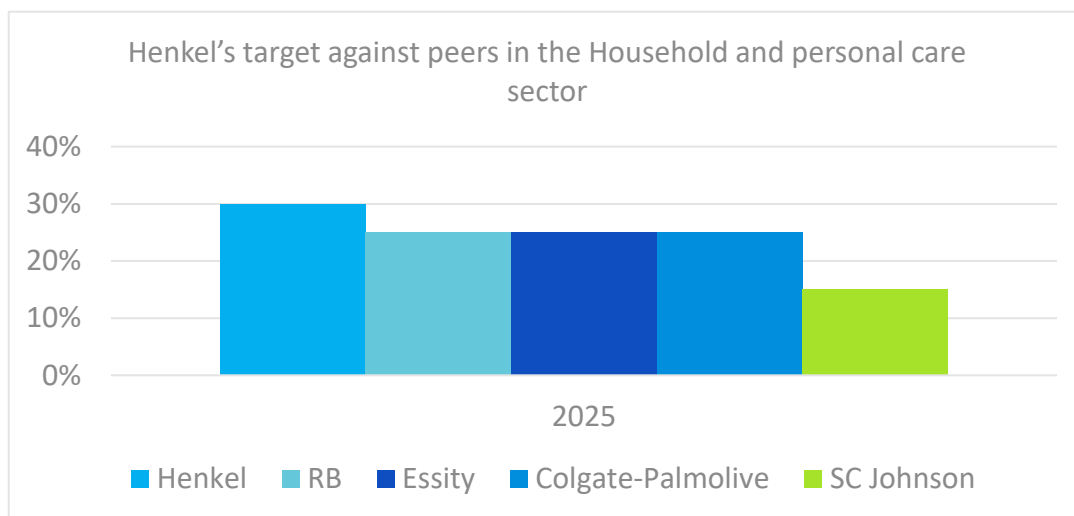


Graph 1: Ambition of Henkel's SPT against past performance

Source: Henkel's Framework

<sup>18</sup> As a single year data was provided for the European level, this information was not used in the reasoning to calculate the ambition of the target.

In the Household and Personal Care sector, post-consumer recycled content (%) 2025 targets are as follows:



Graph 2: Ambition of Henkel's SPT against its peer group

Source: Ellen MacArthur Foundation

In light of what described above, ISS ESG finds that the target set by Henkel is ambitious against its global sectorial peers. However, it is important to note that limited information is available with regards to global performance on this specific indicator.

#### Against international targets

Recycled materials are not yet used on any large scale, hence only few benchmarks or trajectories exist.

#### European Strategy for plastics

Henkel benchmarked its SPT against the European Strategy for plastics. According to the European Commission, the European Union produces around 58 million tonnes of plastic every year. 40% of this plastic waste comes from packaging.

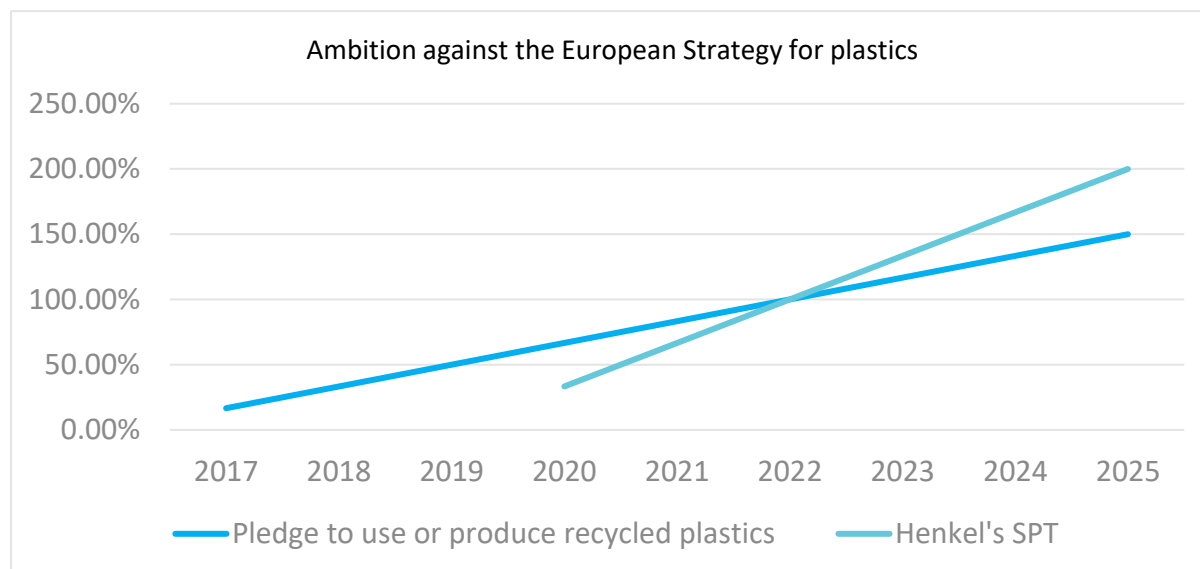
In this context, the EU adopted a European strategy for plastics in January 2018. It is part of the EU's [circular economy action plan](#), and builds on existing measures to reduce plastic waste. The plastics strategy is a key element of Europe's transition towards carbon neutrality and circular economy. It will contribute to reaching the 2030 Sustainable Development Goals, the Paris Climate Agreement objectives and the EU's industrial policy objectives.

The plastics strategy aims, amongst other, to transform the way plastic products are designed, produced, used and recycled in the EU. For this purpose, the EU has launched a [pledging campaign](#) setting the target that 10 million tonnes of recycled plastics are used to make products in the EU by 2025. The target compares to less than 4 million tonnes used in 2016. Thus, this represents a 150% growth over a 9 years period (2016-2025), equating to a 16.6% annual growth.

In this sense, as described in graph 2, Henkel’s target is ambitious when benchmarked against the target of employing recycled plastics to make products in the EU.

Moreover, as part of the European Strategy for plastics, the European Union has recently amended

Graph 3: Ambition of Henkel’s SPT against the European Strategy for plastics



Source: [European strategy for plastics](#)

the [Packaging and Packaging Waste Directive](#), that aims to:

- harmonize national measures on packaging and the management of packaging waste
- provide a high level of environmental protection
- ensure the good functioning of the internal market

The Directive also sets the following specific targets for recycling used packaging:

	Current targets (%)	By 2025 (%)	By 2030 (%)
All packaging	55	65	70
Plastic	25	50	55
<b>Henkel (All packaging)</b>	<b>N/A</b>	<b>100</b>	<b>100</b>
Wood	15	25	30
Ferrous metals	50 (incl. Al)	70	80
Aluminium	-	50	60
Glass	60	70	75
Paper and cardboard	60	75	85

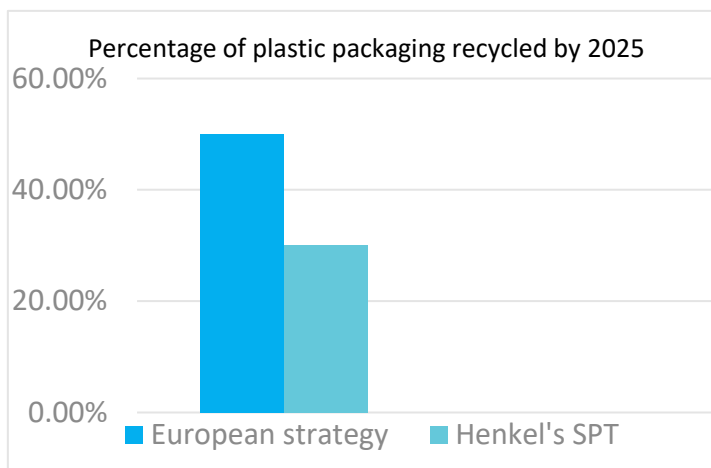
Table 3: Ambition of Henkel against international targets

Source: [Packaging and Packaging Waste Directive](#)



As part of the same plastics strategy adopted in 2018, the European Commission set itself the goal that at least 65% of all packaging waste will be recycled by 2025, and to reach 70% by 2030. In this regard, Henkel's strategy is more ambitious than the Directive, as 100% of its packaging will be recyclable or reusable by 2025.

In this sense, ISS ESG finds that the SPT is ambitious when compared to the European plastics strategy. Henkel's strategy supports the European Directive in two ways – by making its packaging 100% recyclable or reusable by 2025, and by increasing the share of recycled plastics in all plastic packaging of consumer products to 30% by 2025. The benchmark selected by the Issuer is provided by an independent third party based on a methodology established in the industry.



Graph 4: ambition of Henkel's SPT against the European strategy for plastics

Source: [Packaging and Packaging Waste Directive](#)

### UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDG 12 "Responsible Consumption and Production".

### Measurability & comparability

- **Historical data:** The Issuer provided historical data on its percentage of plastic packaging recycled in 2018, 2019 and 2020. Historical data related to 2018, however, is only available for the European market.
- **Benchmarkable:** By referring to commonly acknowledge benchmarks in the global market, the SPT is easily comparable with the data reported by other companies. On top of this, the target can easily be compared to international standards and peers' targets. It is measured in relative terms (not absolute) and represents a meaningful tool to measure eco-efficiency.
- **Timeline:** The issuer defined a precise timeline and target observation date related to the SPT achievement.

### Supporting strategy and action plan

Henkel is engaged in several cross-industry initiatives to drive innovation in packaging development and to find effective solutions that can be developed on a large scale.

To improve its eco-efficiency in the reusable share of plastic packaging, Henkel plans to undertake various activities and initiatives:

- Cooperation with retail partners through the Recyclate Forum in Germany. The initiative has two objectives. First, to significantly increase the reuse of packaging materials in order to offer

consumers more sustainable packaging alternatives and reduce the amount of packaging waste. Secondly, to raise awareness about a closed-loop system – from product development at the manufacturers, through to use by customers, disposal of household waste, and recycling of packaging.

- Henkel and the packaging manufacturer Alpla jointly produced bottle bodies based on chemically recycled plastic for the first time. Plastic waste that is not recycled by mechanical recycling can be returned to the cycle through chemical recycling. In certain cases, chemical recycling can be used alongside mechanical recycling. By using chemical recycling, material made from fossil resources can be replaced by recycled material made from plastic waste.
- Henkel is part of the new [HolyGrail 2.0 Initiative](#), making it a pioneer in digital watermarks for better recycling of packaging. Digital watermarks are inconspicuous, postage stamp-size codes that are applied to the surface of consumer product packaging.

This action plan is perceived as credible to support the achievement of the SPT set by Henkel.

**Opinion on SPT calibration:** *ISS ESG finds that the SPT calibrated by Henkel is ambitious against sectorial peers and when benchmarked with international targets. Limited information with regards to historical figures is available to assess the ambition of Henkel against its past performance, as only two years of historical global data were provided. The benchmark selected by the Issuer is provided by an independent third party based on a methodology established in the industry. The target is set in a clear timeline, it is benchmarkable and supported by a credible strategy and action plan.*

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## ANNEX 1: Methodology

### ISS ESG Green KPIs

The ISS ESG Green Bond KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of Henkel’s Green and Sustainability-Linked Bonds.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

### Environmental and social risks assessment methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Bond KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green Bond KPIs.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by Henkel (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

### Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which Henkel’s Green and Sustainability-Linked Bonds contributes to related SDGs.

## ANNEX 2: ISS ESG Corporate Rating Methodology

The following pages contain methodology description of the ISS ESG Corporate Rating.

### Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

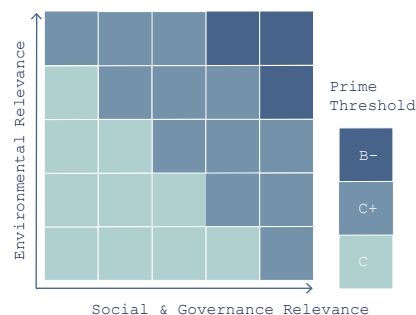
Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 3: Quality management processes

### SCOPE

Henkel commissioned ISS ESG to compile a Green and Sustainability-Linked Bonds SPO. The Second Party Opinion process includes verifying whether the Sustainable Finance Framework aligns with the GBPs, GLPs and SLBs and to assess the sustainability credentials of its Green and Sustainability-Linked Bonds, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles and Sustainability-Linked Principles
- LMA Green Loan Principles

### ISSUER'S RESPONSIBILITY

Henkel's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green and Sustainability-Linked Bonds to be issued by Henkel based on ISS ESG methodology and in line with the ICMA Green Bond Principles and Sustainability-Linked Bond Principles, and the LMA Green Loan Principles.

The engagement with Henkel took place from June to September 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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### Project team

Project lead	Project support	Project support	Project supervision
Giorgio Teresi Analyst ESG Consultant	Henrik Hopmann Analyst ESG Consultant	Armand Satchian Associate ESG Consultant	Viola Lutz Executive Director Head of Climate Services