



SECOND PARTY OPINION¹ ON THE SUSTAINABILITY OF THE CO-OPERATIVE GROUP'S SUSTAINABILITY BOND²

November 7, 2018

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Sustainability Bond (the "Bond") proposed to be issued by the Co-operative Group (the "Issuer" or "Co-op") to finance and refinance purchasing costs of Fairtrade-certified products and investment in Fairtrade-related projects. Our opinion is established according to our Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the International Capital Market Association's Green Bond Principles ("GBP") and Social Bond Principles (SBP) (referred to as the "Principles").

Our opinion is built on the review of the two following components:

- 1) **Issuer:** we have assessed the Issuer's involvement in potential ESG controversies and controversial activities.
- 2) **Issuance:** we have assessed the consistency of the Bond's use of proceeds, its contribution to sustainability and its alignment with the Principles.

Our sources of information are multichannel, combining data from our general rating database, information provided by the Issuer, press content providers and stakeholders, and complemented by interviews with the Issuer's employees held via a telecommunications system. We carried out our due diligence assessment from October 1 to November 7, 2018.

We were provided with access to all the appropriate documents and people we solicited. We consider that the information provided enables us to establish our opinion with a reasonable level of assurance on its completeness, precision and reliability.

VIGEO EIRIS' OPINION

Vigeo Eiris is of the opinion that the Bond considered to be issued by the Co-operative Group is aligned with the voluntary guidelines of the Green Bond Principles and the Social Bond Principles.

We consider that the net proceeds of the Bond will be allocated to Eligible Projects which are intended to contribute both directly and indirectly to sustainability benefits.

We express a reasonable assurance³ (our highest level of assurance) on the Issuer's commitments and the Bond's overall contribution to sustainability, which is likely to contribute to six United Nations' Sustainable Development Goals (the "SDGs"), namely Goal 1. No Poverty, Goal 2. Zero Hunger, Goal 5. Gender Equality, Goal 8. Decent Work and Economic Growth, Goal 10. Reduced Inequalities, and Goal 12. Responsible Consumption and Production.

We are of the opinion that the contemplated Bond is coherent with Co-op's strategic sustainability priorities and sector issues, and contributes to achieving Co-op's sustainability commitments.

¹ This opinion is to be considered as the "Second Party Opinion" described by the International Capital Market Association (www.icmagroup.org).

² The "Bond" to be considered is a potential bond which issuance is subject to the Issuer discretion.

³ Definition of Vigeo Eiris' scales of assessment (as detailed in the Methodology section of this document):
Level of Evaluation: Advanced, Good, Limited, Weak.
Level of Assurance: Reasonable, Moderate, Weak.

1) Issuer:

- ▶ Co-op has always been a business with a social commitment to create value for its members and communities, and has formalized long-term commitments in terms of its ethical, social and environmental responsibility. Co-op can evidence a longstanding commitment to Fairtrade in the United Kingdom, with its pioneering support going back to 1992, helping to develop the United Kingdom Fairtrade market to become the world's largest⁴. Of note, Co-op has published standalone and independently audited sustainability reports for over a decade.
- ▶ In March 2018, Co-op has faced one isolated controversy of minor severity related to Business Behaviour to which the co-operative is remediative. Co-op has a minor involvement in Alcohol and Tobacco derived from the sale of alcoholic beverages and tobacco⁵.

2) Issuance:

Co-op has described the main characteristics of the Bond within a Sustainability Bond Framework (the "Framework"). The Issuer has committed to make both the Framework and this Second Party Opinion publicly accessible on its website⁶, in line with good market practices.

- ▶ The net proceeds of the Bond will be used to finance and refinance two types of Eligible Projects which are clearly defined (namely purchasing costs of seven Fairtrade-certified products: bananas, cocoa, flowers, tea, sugar, coffee and wine; and investment in Fairtrade-related projects).
Eligible Projects are intended to support and promote the Fairtrade model and the empowerment of producer communities, producers and workers. These sustainability objectives are relevant and measurable. The Issuer is committed to quantifying them.
Eligible Projects are intended to overall contribute to sustainability benefits, namely sustainable local socioeconomic development. Co-op will assess and quantify some of the sustainability benefits expected to be provided by the Eligible Projects.
- ▶ The governance and the process for the evaluation and selection of the Eligible Projects appear to be documented and relevant. The process relies on explicit eligibility criteria.
The identification and management of the environmental and social risks associated with the Eligible Projects are considered to be good.
- ▶ The rules for the management of proceeds are clearly defined.
- ▶ The reporting process and commitments appear to be good overall, covering the funds allocation and the social benefits of the Eligible Projects.

Co-op's Sustainability Bond issuance is supported by external reviews:

- A pre-issuance consultant review in the form of a Second Party Opinion delivered by Vigeo Eiris on the sustainability credentials of the Bond, covering all the features of the Bond.
- An annual verification performed by a third-party auditor, covering the allocation of funds, the compliance in all material aspects, of (i) the actual allocation of proceeds to the Eligible Sustainability Project Portfolio and their alignment with the eligibility criteria and (ii) the impact reporting, annually and until the Bond's full allocation and in case of any material change.

The validity of this Second Party Opinion is limited to Co-op's 1st Sustainability Bond expected to be issued in 2019.

Paris, November 7, 2018



Paul Courtoisier
Sustainability Consultant
Project Manager



Adriana Cruz Félix
Sustainability Consultant

⁴ www.fairtrade.org.uk

⁵ The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco.

⁶ <https://www.co-operative.coop/investors>

DETAILED RESULTS

The Co-operative Group is a British consumer co-operative of a number of businesses including food retail, funeral services, electrical retail, legal services and insurance services. It is one of the world's largest consumer co-operative with over 4.6 million members and more than 2,500 local, convenience and medium-sized stores.

Co-op has always been a business with a social commitment to create value for its members and communities. Co-op can evidence a longstanding commitment to Fairtrade in the United Kingdom, with its pioneering support going back to 1992, helping to develop the United Kingdom Fairtrade market to become the world's largest. Of note, Co-op has published standalone and independently audited sustainability reports for over a decade.

Coherence of the issuance

We are of the opinion that the contemplated Bond is coherent with Co-op's strategic sustainability priorities and sector issues, and contributes to achieving Co-op's sustainability commitments.

The nature of retail businesses exposes them to major challenges in terms of social responsibility. For instance, the rise of multiple health impacts from products can significantly influence customers' interest on product safety and to demand transparency and integrity in the information provided through labelling. Supply chain concerns have become a focus of environmental, social, political and economic debates. Consumption should not only be seen simply in terms of price, choice and functionality but should also incorporate criteria to ensure the sustainable use of natural resources, the reduction of environmental impacts, guarantee the respect of the human and labour rights of all the workers. Supermarkets occupy a strategic position to promote sustainable consumption and production patterns, and to improve the living conditions of many employees throughout supply chains. In addition, supermarkets are one of the most energy intensive buildings in the commercial sector. Their energy consumption coupled with the transportation of their products represent the main sources of greenhouse gas (GHG) emissions of the sector.

Co-op seems to acknowledge its role as a lead actor in the shift of the retailer sector towards sustainable development and has formalized long-term commitments in terms of its ethical, social and environmental responsibility. In 2018, Co-op has issued its ambition for "Stronger Co-op, Stronger Communities" which sets the scene for Co-op's approach to ethics and sustainability. The Co-op Way Policy Framework sets out the nine-priority ethics and sustainability issues for the Co-op, under which sit a range of more detailed business and issue-specific strategies, policies and targets. In September 2018, Co-op launched its "Future of Food ambition", setting specific ambitions, targets and action plans to address Co-op's sustainability challenges by 2030. This plan is structured in three chapters, which are in line with the main challenges in terms of environmental and social responsibility of the supermarket sector:

1. Sourcing & Creating with Care: covering its responsibility to ensure product safety and integrating environmental factors in the supply chain, namely practices for the responsible use of natural resources and reducing food waste.
2. Treating People Fairly: covering its responsibility to integrate social and environmental factors in the supply chain, and promoting local socioeconomic development with initiatives such as continuing and strengthening Co-op's commitments on Fairtrade.
3. Learning & Celebrating Together: covering its responsibility to promote sustainable consumption and production patterns.

In addition, Co-op is a signatory of the UN Global Compact, the British Retail Consortium's Better Retail, Better World; and has pledged its support to the International Fairtrade Charter and to the International Co-operative Alliance's Co-ops for 2030; and is currently working on setting long-term quantified targets aligned with the SDGs.

Co-op has set specific quantified targets that directly relate to the Eligible Projects financed by its first Sustainability Bond issuance:

- Co-op reports being the first retailer to have offered Fairtrade products in its stores in 1998 and to have brought the first Fairtrade bananas to the United Kingdom in 2000. Since 2015, in line with and beyond Fairtrade Foundation's own focus, Co-op has strategically decided to focus on seven categories of Fairtrade goods: wine, banana, cocoa, flowers, tea, sugar and coffee. In 2017, Co-op's Fairtrade market share among United Kingdom convenience stores was 80% in 2017. In 2017, Co-op achieved its target to

have 100% of its chocolate confectionary and all the cocoa used in Co-op's products certified Fairtrade; and for 2018, it has set up the following targets:

- All the tea, coffee and bananas we use in Co-op branded recipe production will benefit Fairtrade producers and their communities.
- All roses sourced from Africa – whether marked as Fairtrade or not – will be purchased on Fairtrade terms (rose bouquets, single stem roses and roses for mixed bouquets).
- Beyond providing Fairtrade premiums, Co-op also funds "Beyond Fairtrade" projects in favour of the social and economic development of Fairtrade farmers communities (e.g. supporting women's education in Cote d'Ivoire), and includes Fairtrade in its wider activities (e.g. holding events to support Fairtrade education at Co-op Academies and supports the All Party Parliamentary Group for Fairtrade).

By issuing a Sustainability Bond to finance the purchasing costs of Fairtrade-certified products and investment in Fairtrade-related projects, Co-op coherently aligns with its sustainability strategy and commitments, and addresses main issues of the sector in terms of social responsibility, namely promoting local social and economic development.

Part I. ISSUER

Involvement in stakeholder-related ESG controversies

In March 2018, Co-op has faced one stakeholder-related ESG controversy, related to one out of the six domains we analyse, namely Business Behaviour, in the criteria of "Supplier Relations".

- Frequency: The frequency of this controversy is isolated, in line with the sector average.
- Severity: The severity of the case is minor based on the analysis of its impact on both the co-operative and its stakeholders. This is less severe than the sector average (high).
- Responsiveness: The co-operative is remediative, which is a higher level of responsiveness than the sector average (reactive): Co-op has voluntarily taken specific corrective actions.

Involvement in controversial activities

Co-op has a minor involvement in two controversial activities, namely:

- Alcohol: Co-op has an estimated turnover from alcoholic beverages which is below 5% of total turnover. This turnover is derived from the sale of alcoholic beverages as part its food business (74.5% of 2017 revenues). As of 2017, the co-operative distributed its foods and beverages in 2,532 food stores across the United Kingdom.
- Tobacco: Co-op has an estimated turnover from tobacco sale which is less than 5% of total turnover. This turnover is derived from the sale of tobacco based products from the co-operative's supermarkets and convenience stores.

The Issuer is not significantly involved in any of the other 13 controversial activities screened under our methodology, namely: Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear Power, Pornography, and Reproductive Medicine.

The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Part II. ISSUANCE

Use of proceeds

The net proceeds of the Bond will be used to finance and refinance two types of Eligible Projects which are clearly defined (namely purchasing costs of seven Fairtrade-certified products: bananas, cocoa, flowers, tea, sugar, coffee and wine; and investment in Fairtrade-related projects).

Eligible Projects are intended to support and promote the Fairtrade model and the empowerment of producer communities, producers and workers. These sustainability objectives are relevant and measurable. The Issuer is committed to quantifying them.

Eligible Projects are intended to overall contribute to sustainability benefits, namely sustainable local socioeconomic development. Co-op will assess and quantify some of the sustainability benefits expected to be provided by the Eligible Projects.

The Issuer has defined five Eligible Sustainability Projects categories in its Framework:

- Fairtrade products and Fairtrade
- Co-operative Academies
- Water and sanitation projects
- Responsible sourcing (supply chains)
- Investments in technologies resulting in greater energy efficiency / lower GHG emissions

The net proceeds of its first Sustainability Bond will finance and refinance, in whole or in part, two types of projects already selected by Co-op (hereafter the “Eligible Projects”) which fall into one of the defined Eligible Sustainability Projects categories.

The Issuer has declared that the allocation of the Bonds proceeds will be distributed as follows: around 99% for the purchasing costs of Fairtrade-certified products, and 1% for the investment in Fairtrade-oriented projects.

The Issuer has declared that the refinancing share of the Bond issuance will be around 70% and defined a look-back period of maximum 36 months prior to the issuance date (two previous fiscal years), in line with good market practices.

The Issuer has formalized the main environmental characteristics of the Eligible Projects in its Framework and internal documentation, as presented in the table below.

Framework			Analysis
Category	Eligible Projects	Definition	
Fairtrade products and Fairtrade	Purchasing costs of Fairtrade-certified products	Purchasing costs of Fairtrade certified products (for the Co-op Group and other Co-operative Retail Societies)	<p>The definition is clear and the content is relevant.</p> <ul style="list-style-type: none"> - The definition is based on internationally-recognized Fairtrade International Standards. - Seven types of goods are targeted: bananas, cocoa, flowers, tea, sugar, coffee and wine. Of note, Alcohol is subject to philosophical or moral beliefs of some investors. - Target populations have been identified as farmers and producers in developing countries. <p>The social objective of the Eligible Projects has been defined in the Framework, as the support and promotion of the Fairtrade model and the empowerment of producer communities, producers and workers. We consider this objective as relevant and measurable. The Issuer is committed to quantifying them.</p> <p>We consider that the purchasing costs of Fairtrade products overall contribute to sustainable local socioeconomic development.</p> <ul style="list-style-type: none"> - Ultimately, the Fairtrade model is designed to “bring better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world”⁷. - Part of Co-op’s purchasing costs pay the guaranteed minimum Fairtrade price plus an additional social premium to the producers in developing countries, thus contributing directly to sustainable local socioeconomic development. <p>The remaining part of these purchasing costs is considered as standards costs, meaning costs that would apply to any product regardless of Fairtrade certification. However, these standards costs benefit a production done under the Fairtrade model, inserted in a long-term virtuous circle of better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world. Consequently, the contribution to sustainable local socioeconomic development of this latter part is considered as indirect.</p> <p>Co-op will assess and quantify some of the sustainability benefits (through quantitative output indicators and case studies) expected to be provided by the Eligible Projects.</p>

⁷ www.fairtrade.org.uk

Framework			Analysis
Category	Eligible Projects	Definition	
Fairtrade products and Fairtrade	Investment in Fairtrade-related projects	Investment in “Beyond Fairtrade” projects with Co-op Fairtrade producers, communities and supply chains (including providing access to clean and safe water, and farmer training and advice)	<p>The definition is clear and the content is relevant.</p> <ul style="list-style-type: none"> - Co-op provides supplementary investments in its Fairtrade producers by funding projects related to its seven Fairtrade products. Examples of these projects include piloting a fully optimised water station with solar water pumps, prepaid smart meters, 24/7 water ATMs and remote monitoring in Ghana; and funding the construction of gender separated toilet blocks, rainwater harvesting systems and hand washing stations in 10 schools in Kenya. - Target populations have been identified as farmers and producers in developing countries. <p>The social objective of the Eligible Projects has been defined in the Framework, as the support and promotion of the Fairtrade model and the empowerment of producer communities, producers and workers. We consider this objective as relevant and measurable. The Issuer is committed to quantifying them.</p> <p>We consider that the investment in Fairtrade-related projects contributes to sustainable local socioeconomic development. Co-op will assess and quantify some of the sustainability benefits (through quantitative output indicators and case studies) expected to be provided by the Eligible Projects.</p>

In addition, the Eligible Projects are likely to contribute to six United Nations' Sustainable Development Goals, namely Goal 1. No Poverty, Goal 2. Zero Hunger, Goal 5. Gender Equality, Goal 8. Decent Work and Economic Growth, Goal 10. Reduced Inequalities, and Goal 12. Responsible Consumption and Production.

Eligible Projects	UN SDGs identified	UN SDGs targets
<ul style="list-style-type: none"> - Purchasing costs of Fairtrade-certified products - Investment in Fairtrade-related projects 	SDG 1. No Poverty	1.2
	SDG 2. Zero Hunger	2.4
	SDG 5. Gender equality	5.1
	SDG 8. Decent Work and Economic Growth	8.4, 8.5, 8.7, 8.8
	SDG 10. Reduced inequalities	10.2
	SDG 12. Responsible consumption and production	12.1, 12.2



UN SDG 1 consists in ending poverty in all its forms everywhere. More precisely, SDG 1 targets by 2030 include:

- 1.2. reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions



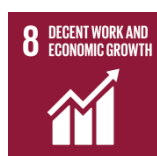
UN SDG 2 consists in ending hunger, achieving food security and improving nutrition and promoting sustainable agriculture. More precisely, SDG 2 targets by 2030 include:

- 2.4 ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality



UN SDG 5 consists in achieving gender equality and empowering all women and girls. More precisely, SDG 5 targets by 2030 include:

- 5.1 End all forms of discrimination against all women and girls everywhere



UN SDG 8 consists in promoting inclusive and sustainable economic growth, employment and decent work for all., SDG 8 targets by 2030 include:

- 8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-year framework of programmes on sustainable consumption and production, with developed countries taking the lead
- 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value
- 8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms
- 8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment



UN SDG 10 consists in reducing inequality within and among countries.

- 10.2 Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status



UN SDG 12 consists in ensuring sustainable consumption and production patterns. More precisely, SDG 12 targets by 2030 include:

- 12.1 Implement the 10-year framework of programmes on sustainable consumption and production, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries
- 12.2 achieve the sustainable management and efficient use of natural resources

Process for evaluation and selection

The governance and the process for the evaluation and selection of the Eligible Projects appear to be documented and relevant.

The process for evaluation and selection of the Eligible Projects is clearly defined and formalized in the Framework.

The evaluation and selection of Eligible Projects is reasonably structured.

- The evaluation and selection of Eligible Projects is based on relevant internal expertise with well-defined roles and responsibilities:
 - Co-op has created a dedicated Project Team, comprised of representatives from the Treasury, Finance, Legal, Policy & Campaigns, Office of the Executive, Group Procurement, Food Policy teams. Relevant members of the Project Team and subject matter experts were responsible for assessing the different type of projects eligibility based on the criteria established in Co-op's Framework and recommending these to Co-op's Ethics and Sustainability Management Forum for final approval.
 - Co-op's Ethics and Sustainability Management Forum, which addresses Co-op's wide issues relating to ethics and sustainability, is comprised of representatives from Group Policy and Campaigns, Group Procurement, Co-op Food, Office of the Executive, Finance and Legal, and other experts as required. The Forum is responsible for the overall governance of the sustainability aspects of the Bond and selecting the Eligible Sustainability Portfolio to be (re)finance by the Bond.
- The verification and traceability is ensured throughout the process:
 - The Project Team will annually verify the Selected Projects continued compliance with the eligibility criteria, and minutes of each meeting will be created to ensure decision traceability.
 - An independent external reviewer will verify the compliance of the Selected Projects with the eligibility criteria.

The process relies on explicit eligibility criteria.

- The eligibility requirements are based on the Eligible Projects types definitions.

The identification and management of the environmental and social risks associated with the Eligible Projects are considered to be good.

Environmental risks:

- Co-op suppliers are required to respect an extensive list of policies covering climate change, waste and pollution and natural resource use. These policies clearly outline the processes to guide its employees in the integration of environmental risk assessment in purchasing practices, including training to relevant employees. Suppliers are also required to meet environmental specifications set out in tenders for goods and services, provide data on environmental performance, waste produced and energy used.
- For Fairtrade products and Fairtrade category: Since summer 2018, Co-op has put in place a Policy Scorecard which includes questions on “Environment and packaging” as part of the tender process that is applied to its suppliers. In addition, Co-op reportedly works with suppliers on reducing energy, water efficiency and waste reduction measures in their operations through an online platform, namely Manufacture 2030.

Co-op relies on the Fairtrade Standards to ensure compliance with environmental standards throughout the supply chain, from producer level to the packaged product. The certification includes specific criteria on environmental management, pest management; choice, proper use and handling of pesticides and other hazardous chemicals; avoidance of soil erosion; fertilizers handling; water sourcing and efficient use; waste management; prohibition of the use of genetically modified organisms; protection of biodiversity; and minimization of energy and GHG emissions. These standards are independently audited by an audit and certification body for Fairtrade Standards. Co-op works closely with the Fairtrade Foundation to timely identify potential controversies that could emerge around its Fairtrade products.

Social risks:

Co-op has a set of adequate measures to integrate all the relevant social factors in the supply chain, namely the respect of fundamental human rights and labour rights, specifically mentioning fair reward, safe and decent working conditions, freedom of association, prohibition of child, forced labour, modern slavery and inhumane treatment. The Issuer has a set extensive list of policies and procedures based on international standards that explicitly cover these social factors and to which all its suppliers and contractors are required to contractually adhere to. The Policy Scorecard includes questions on “Ethical Trade”, “Fairtrade” and “Diet and Health” as part of the tender process that is applied to its suppliers.

The Issuer has appropriate measures to promote responsible relationships with its suppliers. Co-op is regulated by the United Kingdom’s Groceries Supply Code of Practice (GSCOP), which compliance is monitored by Groceries Code Adjudicator. A Code Compliance Officer is the contact point for suppliers with unresolved issues relating to the Code and Co-op provides on-board and annual trainings on the Code to relevant teams. Supplier surveys are carried out independently and the compliance to the Code is also internally monitored and audited. In addition, Co-op has formalized policies that address its main responsibilities in terms of responsible purchasing practices, namely to respect payment deadlines, control the risk of mutual dependence and ensure equal treatment in the selection process.

Co-op Procurement team conducts appropriate due diligences to ensure that suppliers comply with its business ethics policies, including the prevention of corruption, fraud, collusive or coercive practices conflict of interest, terrorism financing, money laundry tax evasion.

As part of its approach of Food’s ethical trade programme for Co-op brand suppliers (including Fairtrade suppliers), Co-op requires suppliers to provide clear visibility of their performance on the above mentioned social factors through the registration on a recognized platform for sharing ethical supply chain data, the Sedex. Co-op audits and monitors compliance of suppliers with its standards and organizes training events about ethical trade and human rights. When areas of improvement are identified, Co-op reportedly works with suppliers to bring them up to its standards.

Co-op has adopted appropriate measures to manage product safety in its Food supply chains (including Fairtrade). These include Co-op’s Fairtrade Code of Practice that the suppliers of Fairtrade products are required to meet, as well as the Fairtrade Foundation certification standards, which include measures to ensure product safety throughout the supply chain. Co-op’s Fairtrade suppliers have the responsibility to monitor compliance against Fairtrade Foundation certification standards, including other legal and product-specific and chemical standards (in line with EU or national/local regulations), as well as they are expected to have accreditation to the BRC global standard on food safety as a minimum standard. In addition, the Co-op Food

technical team works with suppliers to provide them with advice, and conducts audits and site visits to monitor compliance. Co-op has a comprehensive authenticity and surveillance programme, in collaboration with an accredited testing lab to conduct analyses of food and food products, including tests on the level of chemical, pesticides, provenance and other food safety related risks. In addition, Co-op has a crisis management system in place, which lists clear processes and mechanisms to resolve and manage incidents. A dedicated expert team is responsible for the overall implementation this system, namely the Retail Incident Management Team.

Management of proceeds

The rules for the management of proceeds are clearly defined.

The allocation and tracking processes are clearly defined.

- The net proceeds of the Sustainability Bond will be managed on a portfolio basis and tracked in an appropriate manner by Co-op's Treasury team in line with Co-op's Financial Control and Reporting Policy.
- Co-op has committed to allocate all the proceeds to Eligible Projects by December 2019 at the latest, meaning within approximately 12 months after the Bond's settlement date, in line with good market practices.
- As long as the Bond is outstanding, the balance of the tracked proceeds will be periodically adjusted to match allocations to the Eligible Sustainability Projects Portfolio.
- The Issuer has transparently communicated that unallocated proceeds will be held and/or invested in its treasury liquidity portfolio in cash or cash equivalents, or use them to pay a portion of its outstanding indebtedness.
- In case of divestment or if a Selected Project fails to comply with the eligibility criteria, Co-op has committed to replace this project with another project respecting the eligibility criteria. The eventual changes in the Bond will be made available to investors in the Bond's report.

Traceability and verification are ensured throughout the process.

- Co-op's Financial Control and Reporting Policy requires maintaining a specific control and the production of information with accounting records and safeguards assets.
- In addition, an independent party will verify the allocation of funds once all Bond's proceeds will be allocated.

Monitoring & Reporting

The reporting process and commitments appear to be good overall, covering the funds allocation and the social benefits of the Eligible Projects.

The process for monitoring, data collection, consolidation and reporting is clearly defined by the Issuer in internal documentation although not formalized in the Framework. The process is based on relevant internal expertise:

- The relevant teams (Food, Estates/Property, Procurement, Policy & Campaigns, etc.) will be responsible for monitoring the Selected Projects in line with Co-op's corporate sustainability reporting processes.
- The Finance and Policy & Campaigns teams will be responsible for the creation of the Bond's post-issuance reports.

The Bond's post-issuance reports will be part of Co-op's annual cycle of financial and sustainability reporting and will be made publicly accessible on its website.

The Issuer commits to annually and transparently report on the Bond, until full allocation and later in the case of any material change, on:

- The allocation of proceeds: the selected reporting indicators related to the funds allocation are relevant to the Eligible Projects types.

We have suggested reporting the amount allocated per type of Eligible Project.

- Sustainability benefits: the selected reporting indicators related to the sustainability benefits are overall relevant to the Eligible Projects types.

The reporting on the social outputs and impacts resulting of the purchase of Fairtrade-certified products and of the investment in Fairtrade-oriented products will include quantitative indicators supplemented by case studies to provide qualitative information on impacts.

The Issuer has committed to disclose the calculation methodologies and assumptions that will be used for reporting on the Selected Projects' benefits.

The environmental and social data included in the Bond post-issuance report will be annually verified by an external auditor.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the projects to be financed by this transaction.

Vigeo Eiris' methodology for the definition and assessment of the corporate's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. The evaluation framework has been customized regarding material issues, based on our generic Food and Supermarket sectors ESG assessment frameworks and specific issues considering the Issuer's business activity.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources are considered as long as they are public, documented and traceable. Vigeo Eiris has reviewed documents and websites of the Issuer (including but not limited to Co-op's Sustainability Bond Framework, Bond's Eligible Sustainability Projects Portfolio, Co-op's Way Report 2017, Sustainable Procurement and Supplier Policy, Sound Sourcing Code of Conduct...) and interviewed employees from several departments of the Issuer.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Ethics.

Part I. ISSUER

NB: The Issuer's performance, i.e., commitments, processes, results of the Issuer, related to ESG issues has not been assessed through a complete process of rating and benchmark developed by Vigeo Eiris Rating.

Involvement in stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Severity:** the more a controversy will relate to stakeholders' fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).
- **Frequency:** reflects for each ESG challenge the number of controversies faced. At corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

15 controversial activities have been analysed following 30 parameters to verify if the company is involved in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The precise nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Bond has been evaluated by Vigeo Eiris according to the Green Bond Principles and the Social Bond Principles and our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The use of proceeds guidelines is defined to ensure that the funds raised are used to finance and/or refinance Eligible Projects and are traceable within the issuing organization. The projects endorsed shall comply with the eligibility criteria in order to be considered as the Eligible Projects. Vigeo Eiris evaluates the relevance, measurability and preciseness of the associated environmental and/or social objectives. The contribution of the Eligible Projects to sustainable development is evaluated based on the United Nations Sustainable Development Goals.

Process for evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The explicitness of eligibility criteria and associated supporting elements integrated in the Bond issuance, and the coherence of the process are analysed based on material issues considered in Vigeo Eiris' methodology.

Management of proceeds

The rules for the management of proceeds and the allocation process have been evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

Reporting

Reporting indicators, processes and methodologies are defined by the Issuer to enable annual reporting on fund allocation, social benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed by the Bond proceeds, collected at project level and potentially aggregated at Bond and/or project level. Vigeo Eiris has evaluated the relevance of the reporting framework according to three principles: transparency, exhaustiveness and effectiveness.

- Scale of assessment for processes and commitments: Weak, Limited, Good, Advanced.
- Scale of level of assurance on Issuer's capacity: Reasonable, Moderate, Weak.

VIGEO EIRIS' ASSESSMENT SCALES

Performance evaluation		Level of assurance	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.	Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.	Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.	Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.		



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Hong Kong, Milan, Montreal, Rabat, Santiago and Stockholm.

The Vigeo Eiris Global Network, comprising 7 exclusive research partners, is present in Australia, Brazil, Germany, Israel, Japan, Spain and Mexico.

For more information: www.vigeo-eiris.com

Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has not carried out any audit mission or consultancy activity for the Co-operative Group until so far and no established relationship (financial or other) exists between Vigeo Eiris and the Co-operative Group.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the Project to be financed by the Bond. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of the Issuer or its financial obligations. Vigeo Eiris does not express an opinion as a score when controversial activities, products and services are not prohibited by international standards or treaties.

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