



# Sustainability Bond Framework

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## 1. Introduction

The Co-op is one of the world's largest consumer co-operatives, with over 4.6 million members and 64,000 colleagues. Since its formation over 150 years ago, our Co-op has been a business with a clear social commitment. We exist to create value for our members, for the communities where we trade, and for wider society. Our approach to running our business in an ethical and sustainable way is rooted in our co-operative values and principles. Our Co-op model of ownership has allowed us to respond to changing economic, political and social environments, and our history is full of examples of where the Co-op has led the way – be it equality of voting before universal suffrage, or being one of the first UK businesses to recognise and respond to climate change.

Today we continue to lead the way in Fairtrade, supporting British farming and responsible sourcing, sustainability reporting and campaigning (for example on modern slavery). In 2014 the Co-op was voted the UK's most ethical company over the past 25 years according to a survey by Ethical Consumer magazine<sup>1</sup>.

As part of our commitment to sustainability, we have now released Co-op's Sustainability Bond Framework which we intend to use for financing or refinancing projects supporting and enhancing our social and environmental programmes in key strategic areas, including promoting Fairtrade products and Fairtrade, responsible sourcing, and renewable energy and energy efficiency. The Co-op Sustainability Bond Framework is fully aligned with Co-op Group strategy and follows the guidelines of the International Capital Market Association (ICMA) Green and Social Bond Principles as well as the Sustainability Bond Guidelines 2018.

## 2. About the Co-op and sustainability

The Co-operative Group is a UK consumer co-operative with a diverse family of retail businesses including food retailing and wholesale, insurance, funeral and life planning. The Group's revenue amounted to GBP 9.5bn in 2017.

The Co-op's purpose is 'Championing a better way of doing business for you and your communities'. In 2018 Co-op set out its 'Stronger Co-op, Stronger Communities' ambition – based on the virtuous circle in which the more successful the Co-op is, the more value it creates for its members and their communities.

This sets the scene for Co-op's approach to ethics and sustainability, which is being mapped out in more detail through a One Co-op Plan, which will include Co-op's Sustainability, Future of Food, Community and Campaigns strategies, among others. Within this, Co-op focuses on its most significant impacts and the issues that matter most to its stakeholders – including fair and ethical trade, reducing inequalities, climate change and sustainable resource use.

At a global level, Co-op welcomes and supports the vision provided by the UN Sustainable Development Goals (SDGs) as a framework that allows for genuine long-term and collaborative action to address poverty, hunger, environmental degradation and human rights. In 2018, Co-op became a signatory to the UN Global



<sup>1</sup> Ethical Consumer, Set/Oct 2014; <http://www.itv.com/news/update/2014-08-04/co-op-voted-uks-most-ethical-company-of-last-25-years/>

Compact; signed up to the British Retail Consortium's Better Retail, Better World; pledged its support to the International Fair Trade Charter, and to the International Co-operative Alliance's Co-ops for 2030.

In line with the co-operative ethical values of honesty and openness, Co-op is committed to providing its members and stakeholders with a comprehensive report on its ethics and sustainability performance each year. Co-op's 2017 [Sustainability Report](#)<sup>2</sup> includes detailed performance data and progress against its sustainability targets, as well as a summary of its progress against the SDGs.

### 3. Co-op Sustainability Bond Framework

In line with Co-op's approach to ethics and sustainability, Co-op has established this Sustainability Bond Framework under which Co-op can issue Sustainability Bond(s) to finance or refinance projects promoting social and environmental progress.

Following the ICMA Green Bond Principles (GB), Social Bond Principles (SB) and Sustainability Bond Guidelines 2018, the Coop Sustainability Bond Framework has the following four core components:

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

Being socially and environmentally responsible in our operations, products and services and campaigning, Co-op is championing a better way of doing business. This Sustainability Bond Framework reflects the extent to which these activities and programmes helps deliver social and environmental benefits for members, communities and wider society.

<sup>2</sup> [https://assets.ctfassets.net/5ywmq66472jr/5E6ujbvsicqcW0mAUleq00/9e03a905c80431fc7c6308a9f536fdc4/Co-opWayReport\\_2017\\_\\_1\\_.pdf](https://assets.ctfassets.net/5ywmq66472jr/5E6ujbvsicqcW0mAUleq00/9e03a905c80431fc7c6308a9f536fdc4/Co-opWayReport_2017__1_.pdf)

## 4. Use of Proceeds

Co-op intends to allocate the net proceeds of Sustainability Bond issuances to a portfolio of Eligible Sustainability Projects within the following eligible categories, ie the Eligible Sustainability Projects Portfolio.

ICMA GBP / SBP category	The Co-op themes / initiatives	Objectives	Examples of eligible projects	SDG
Socio-economic advancement and empowerment	<ul style="list-style-type: none"> <li>Fairtrade products and Fairtrade</li> </ul>	<ul style="list-style-type: none"> <li>Support and promote the Fairtrade model and the empowerment and strengthening of producer communities, producers and workers.</li> </ul>	<ul style="list-style-type: none"> <li>Costs of bringing Fairtrade products to customers, including but not limited to:               <ul style="list-style-type: none"> <li>Purchasing costs of Fairtrade certified products (for the Co-op Group and other Co-operative Retail Societies)</li> <li>Other embedded costs such as certification, packaging, transportation and other associated costs</li> </ul> </li> <li>Marketing and promotion of Fairtrade products and the wider Fairtrade movement to raise awareness of/stimulate demand for Fairtrade, including:               <ul style="list-style-type: none"> <li>advertising and marketing</li> <li>support for Fairtrade Fortnight</li> <li>awareness raising with stakeholders (including schools, customers, co-op members, the wider co-op movement)</li> <li>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)</li> </ul> </li> </ul>	1, 8
	<ul style="list-style-type: none"> <li>Co-operative Academies</li> </ul>	<ul style="list-style-type: none"> <li>Work with academies to empower teachers and young people to work together for a better education and a better community.</li> </ul>	<ul style="list-style-type: none"> <li>Sponsoring costs associated with The Co-op Academies programme to help communities in the north of England, including investment in:               <ul style="list-style-type: none"> <li>the Co-op Academy Trust infrastructure and technologies, including IT, development of courses on ethics and Co-op values</li> <li>the growth of the Co-op Academy Trust, including non-educational costs of converting schools to Co-op Academies</li> </ul> </li> </ul>	4
	<ul style="list-style-type: none"> <li>Water and sanitation projects</li> </ul>	<ul style="list-style-type: none"> <li>Improve quality of life by providing access to clean water</li> </ul>	<ul style="list-style-type: none"> <li>Donations to fight water poverty and provide access to clean and safe water:               <ul style="list-style-type: none"> <li>The One Foundation through a donation of 3p/litre of own (Co-op) branded water</li> <li>Global Investment Fund for Water to fight water poverty around the world through a donation of 1p/litre of branded water sold through Co-op stores</li> </ul> </li> </ul>	11
Environmentally sustainable management of natural resources and land use	<ul style="list-style-type: none"> <li>Responsible sourcing (supply chains)</li> </ul>	<ul style="list-style-type: none"> <li>Provide access to responsibly sourced products</li> </ul>	<ul style="list-style-type: none"> <li>Purchasing costs of products with sustainability certifications by third parties, including:               <ul style="list-style-type: none"> <li>Marine Stewardship Council (MSC)</li> <li>Forest Stewardship Council (FSC)</li> <li>RSPCA certified food</li> </ul> </li> <li>Compostable and biodegradable plastic products (EN 13432:2000 certified or OK compost HOME tested), including but not limited to: carrier bags, tea bags, agricultural mulch film</li> </ul>	14, 15, 12
Renewable Energy & Energy Efficiency	<ul style="list-style-type: none"> <li>Investments in technologies resulting in greater energy efficiency / lower GHG emissions</li> </ul>	<ul style="list-style-type: none"> <li>Purchase energy from renewable sources</li> <li>Invest in technologies / infrastructure resulting in more energy-efficient / lower emission stores, funeral homes, depots and buildings</li> <li>Invest in more energy-efficient / lower emission transport for Co-op food, funeral and wider operations</li> </ul>	<ul style="list-style-type: none"> <li>Investments include but are not limited to:               <ul style="list-style-type: none"> <li>Renewable (REGO backed) electricity purchase for Co-op and other Co-operative Retail Societies</li> <li>Efficiency and GHG intensity improvements in existing buildings, infrastructure and through estate fit-outs/refurbishment, such as:                   <ul style="list-style-type: none"> <li>Replacing less-efficient lighting (eg fluorescents to LED lighting)</li> <li>Lower GHG or more energy-efficient refrigeration technology</li> <li>New renewable energy generation capacity</li> <li>Ventilation and a/c system upgrades</li> </ul> </li> <li>Electric vehicle charging infrastructure/systems</li> </ul> </li> </ul>	13, 7

## 5. Process for Project Evaluation and Selection

Projects financed and/or refinanced through the Sustainability Bond proceeds are evaluated and selected based on compliance with the Sustainability Bond Eligibility Criteria and alignment with Co-op's strategic sustainability objectives. A core project team, including subject matter experts, will assess project eligibility and allocation of proceeds to eligible projects, and will recommend projects for selection by the Co-op's Ethics and Sustainability Management Forum. The Forum comprises representatives of key functions and businesses, including Group Policy and Campaigns<sup>3</sup>, Group Procurement, Co-op Food, Office of the Executive, Finance and Legal, with other subject matter experts as required.

Co-op's Treasury department will allocate the proceeds of the Sustainability Bond to the selected portfolio of products / projects in accordance with the respective eligible expenditures.

The core team will (re)assess the selection and eligibility of projects at least once a year.

Co-op ensures that all selected Eligible Sustainability Projects comply with official national and international environmental and social standards and local laws and regulations on a best effort basis. Co-op applies core minimum environmental and social (ESG) requirements for many of its activities, including those financed with the proceeds of the Sustainability Bond. Co-op also applies risk management measures in its capital allocation decisions which are supported by a company-wide planning, reporting and controlling system. Co-op's approach to environmental, social and sustainability is described in its sustainability report: <https://www.co-operative.coop/ethics/the-co-op-way-2017>.

## 6. Management of Proceeds

The net proceeds of Sustainability Bonds issued by Co-op under this Framework will be managed on a portfolio basis. Proceeds will be used for (re)financing the Eligible Sustainability Projects Portfolio.

The portfolio consists of expenditures that are maximally two years older than the oldest outstanding Sustainability Bond. When the oldest Sustainability Bond outstanding will mature then the oldest expenditures will be removed from the portfolio. New expenditures will be added to the portfolio each year. Specific expenditures will not be allocated to specific Sustainability Bond issuances.

Co-op will strive, over time, to achieve a level of allocation for the Eligible Sustainability Project Portfolio which matches or exceeds the balance of net proceeds from its outstanding Sustainability Bonds. Additional eligible investments will be added to the Eligible Sustainability Project Portfolio to the extent required to ensure that the net proceeds from outstanding Sustainability Bonds will be allocated to Eligible Sustainability Projects.

Pending the full allocation to the Eligible Sustainability Project Portfolio, Co-op will hold and / or invest the balance of net proceeds not yet allocated, at its own discretion, in its treasury liquidity portfolio (in cash or cash equivalents) or apply all or a portion of the net proceeds to pay a portion of its outstanding indebtedness.

<sup>3</sup> Responsible for Co-op's Group-wide approach to ethics and sustainability strategy, policy and reporting.

## 7. Reporting

Co-op will make and keep readily available reporting, covering the allocation of net proceeds to the Eligible Sustainability Project Portfolio and, wherever feasible, reporting on the impact of the Eligible Sustainability Project Portfolio, at least at the category level. Reporting will take place in line with Co-op's general annual reporting cycle until full allocation of Sustainability Bond net proceeds. Any material developments, such as modification of the Framework or allocation portfolio, will be reported in a timely manner. Reports will be available at [www.co-operative.coop/investors](http://www.co-operative.coop/investors).

### 7.1 Allocation reporting

The allocation report will provide:

- the total amount of investments and expenditures in the Eligible Sustainability Projects Portfolio;
- the amount or percentage of new and existing projects; and
- the balance of unallocated proceeds.

### 7.2 Impact Reporting

Where feasible, Co-op also intends to report on the social and environmental impacts of the projects funded with the Sustainability Bond proceeds, by way of existing sustainability reporting and /or specific impact reports. A list of potential indicators is included in Appendix A. These may be supplemented by qualitative and/or case-study reports on outcomes and impacts of the projects funded. Where relevant, information may be provided on data reporting and impact assessment methodologies, to increase transparency.

## 8. External Review

### 8.1 Second Party Opinion (pre issuance)

This Co-op Sustainability Bond Framework has been reviewed by Vigeo Eiris who has issued a Second Party Opinion. The Second Party Opinion as well as the Sustainability Bond Framework will be made available to the Sustainability Bond investors on [www.co-operative.coop/investors](http://www.co-operative.coop/investors).

### 8.2 Verification (post issuance)

Co-op intends to request a verification by its external auditor of a management statement on the allocation of the Sustainability Bond proceeds to the Eligible Sustainability Project Portfolio.



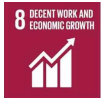






## APPENDIX A

### Potential KPIs / impact indicators per category

ICMA GBP / SBP category	The Co-op themes / initiatives	Potential Reporting Indicators
<b>Socio-economic advancement and empowerment</b>	• Fairtrade products and Fairtrade	<ul style="list-style-type: none"> <li>- Cost of purchases that are Fairtrade certified</li> <li>- Producers/producer communities reached</li> <li>- Market share of Fairtrade in convenience offering</li> <li>- Perceived retailer ethical leadership on Fairtrade</li> </ul>
	• Co-operative Academies	<ul style="list-style-type: none"> <li>- Number of new academies</li> <li>- People receiving training on ethics/Co-op Values and Principles</li> </ul>
	• Water and sanitation projects	<ul style="list-style-type: none"> <li>- Number of people reached (access to clean, safe water)</li> </ul>
<b>Environmentally sustainable management of natural resources and land use</b>	• Responsible sourcing	<ul style="list-style-type: none"> <li>- Volume / cost (£) of purchases that are third party verified</li> </ul>
<b>Renewable Energy and Energy Efficiency</b>	• Investments in technologies resulting in greater energy efficiency / lower GHG emissions	<ul style="list-style-type: none"> <li>- Renewables: Reduced GHG emissions (metric tons of CO<sub>2</sub>e, % reduction in direct GHGs from ops, generation capacity in kWh)</li> <li>- Energy efficiency: energy saved aggregate (kWh), GHG emissions avoided (metric tons CO<sub>2</sub> equivalent)</li> </ul>

## APPENDIX B





### Mapping of the Eligible Sustainability Bond categories with the Sustainable Development Goals

ICMA GBP / SBP category	SDG	SDG Goal
Socio-economic advancement and empowerment		No Poverty
		Quality Education
		Decent work and economic growth
		Sustainable cities and communities
Environmentally sustainable management of natural resources and land use		Responsible consumption and production
		Life below water
		Life on land
Renewable Energy & Energy Efficiency		Affordable and clean energy
		Climate action



## APPENDIX C

### Overview of eligible sustainability certification schemes

Certification	Description
	<p>Fairtrade is about better prices, decent working conditions, local sustainability, and fair terms of trade for farmers and workers in the developing world. By requiring companies to pay sustainable prices (which must never fall lower than the market price), Fairtrade addresses the injustices of conventional trade, which traditionally discriminates against the poorest, weakest producers. It enables them to improve their position and have more control over their lives.</p> <p>The FAIRTRADE Mark is an independent registered certification label for products that meet the international Fairtrade standards, which include minimum social, economic and environmental requirements producers must meet to be certified. Fairtrade producers receive a minimum price for their product, plus an additional Premium that they invest in social, environmental and economic developmental projects to improve their businesses and their communities.</p>
	<p>RSPCA Assured is the RSPCA's farm assurance and food label scheme for animal welfare. Only products from animals kept on farms that meet the RSPCA's welfare standards can be labelled RSPCA Assured. The welfare standards cover the whole of an animal's life, including health, diet, environment and care. This includes things like space, light, bedding, transport and humane slaughter.</p> <p>The welfare standards cover beef cattle, chickens reared for meat, dairy cows, egg laying hens, pigs, sheep, salmon and trout, turkeys and veal calves. The standards are designed to ensure animals have everything they need for a better quality of life, whether they're kept on large or small farms, or in indoor or outdoor production systems.</p>
	<p>The Marine Stewardship Council (MSC) is an international, independent and accredited certification scheme for sustainable fisheries. The MSC label can only be applied to wild fish or seafood from fisheries that have been certified to the MSC Fisheries Standard.</p> <p>The MSC Fisheries Standard is used to assess if a fishery is well-managed and sustainable. The Standard reflects the most up-to-date understanding of internationally accepted fisheries science and management. When a fishery is successfully certified to the Fisheries Standard, its certified catch can be sold with the blue MSC label. Fisheries are assessed by accredited independent certification bodies. MSC certified fish and seafood can be traced down the supply chain back to a certified sustainable fishery.</p>
	<p>The Forest Stewardship Council (FSC) is an international non-profit, multi-stakeholder organisation established in 1993 to promote responsible management of the world's forests. The FSC does this by setting standards on forest products, along with certifying and labelling them as eco-friendly.</p> <p>The FSC logo on a wood or wood-based product provides assurance that it is made with, or contains, wood that comes from FSC certified forests or from post-consumer waste. In order to be given FSC certification a forest must be managed in an environmentally appropriate, socially beneficial and economically viable manner</p>

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