

SAINSBURY'S GREEN LOAN FRAMEWORK

July 2014

Highlights:

- **Innovative Green Loan aligned with the Green Bond Principles**
- **Strong alignment of Sainsbury's environmental commitments and performance with the Green Loan objectives**
- **Robust internal management and external reporting of the project allocation**
- **3rd party verification and public disclosure of project impacts**



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1. PREFACE

Sustainalytics has been engaged by J Sainsbury plc (Sainsbury's), Lloyds Bank plc ("Lloyds") and Rabobank International ("Rabobank") to support in the creation of a Green Loan framework. The loan framework is consistent with the Green Bond Principles, the voluntary Process Guidelines for issuing Green Bonds established in June 2014. As part of this engagement Sustainalytics met with Sainsbury's Group Treasurer and Head of Sustainability, Engineering and Energy to understand Sainsbury's current environmental strategy and projects, planned use of proceeds and subsequently reviewed relevant internal documents to develop the Green Loan framework. In the following pages, an outline of Sustainalytics' framework and assessment is provided.

2. INTRODUCTION

In June 2014, Sainsbury's released its 11th annual corporate responsibility and sustainability progress report on its 20x20 Sustainability Plan. The plan outlines five goals under the theme "respect for the environment". The goals outline Sainsbury's progress in putting all waste to positive use, reducing packaging, reducing operational carbon emissions, ensuring robust water stewardship, and reducing carbon emissions across the company's own brand products.

'Project Graphite', is an integral part of Sainsbury's 20x20 Plan, where the company is planning to invest in onsite renewable energy projects related to photovoltaics, biomass boilers, ground source heat pumps, LED lighting and other energy efficient initiatives. Project Graphite is run by a cross-functional team involving engineering, finance, facilities management, project managers, procurement and planners. The project focuses on existing stores which account for 95% of the company's outlets.

In addition to Project Graphite, Sainsbury's plans to invest in similar energy efficiency and renewable energy projects when building new stores, extending and refurbishing existing stores and modifying depots, including also water reduction projects and low carbon natural refrigeration systems.

Sainsbury's plans to borrow funds to allocate, over two to three years, to the projects planned under Project Graphite and other environmental and water related projects that support the company to meet its 20x20 environmental targets.

3. ASSESSMENT OF SAINSBURYS' ENVIRONMENTAL POLICIES AND PERFORMANCE

Sustainalytics performed a benchmark assessment on Sainsbury's environmental policies and performance to illustrate the alignment of the company's environmental performance with the overall objectives of the Green Loan and to outline the company's commitment to ongoing environmental outperformance.

3.1 Sainsbury's Environmental Commitment

Sainsbury's corporate social responsibility (CSR) strategy, outlined in the company's 20x20 plan, aligns well with the objective of the Green Loan to finance investments in renewable energy, energy efficiency, and water management. The company's 20x20 plan outlines targets and deadlines to reduce carbon emissions, to utilize waste for the generation of energy, and to ensure the company's food supply chain is sustainable.

Sainsbury's further demonstrates its commitment to greenhouse gas (GHG) emissions reductions through its transparent and robust emissions reporting. Sainsbury's reports on scope 1, 2, and relevant scope 3 emissions data to the Carbon Disclosure Project (CDP) on an annual basis. This dedication to transparency places Sainsbury's amongst a high performing group of food retail industry peers. In 2013, Sainsbury's was the highest rated UK-only retailer by the CDP.

Sainsbury's environmental policy is considered by Sustainalytics to be strong and detailed, positioning Sainsbury's well above the average performer in the food retail industry. As part of its 20x20 Plan, the company has set targets with related deadlines regarding its environmental commitment, such as aiming to put all of its waste to positive use and reducing the company's own packaging by a half compared to 2005 by 2020. These commitments are part of Sainsbury's values which guide all key business decisions.

3.2 Benchmark Assessment

Sustainalytics reviewed Sainsbury's ESG performance according to a unique set of food retail indicators, which reflect the most material sustainability issues for the industry. Considering the significant environmental focus of the Green Loan, Sustainalytics performed an in-depth assessment of Sainsbury's environmental performance.

3.2.1 Overall ESG Performance Summary

Out of the companies that Sustainalytics tracks globally in the food retail industry, Sainsbury's has been assessed as an outperformer compared to its industry peers. The company's total ESG score places Sainsbury's in the top ten ESG performers in the industry, and places the company as the second highest ranked UK based food retailer. Sainsbury's performs well above the industry average on environment,

social, and governance indicators, and has maintained this above average ESG score over the last three years. Sustainalytics has found no evidence of any significant ESG controversies involving Sainsbury's, which provides a clear indication of the company's strong ESG preparedness and policies.

3.2.2 Environmental Performance Assessment

Sainsbury's has demonstrated considerably strong environmental performance and has therefore been assessed as an outperformer compared to the food retail industry as a whole.

Of particular note, is Sainsbury's strong performance concerning GHG reduction programmes. The company has set quantitative targets at group level and has set a clear deadline for reaching these targets. Sainsbury's is committed to reduce operational carbon emissions by 30% absolute and 65% relative, compared to 2005. This commitment sets Sainsbury's apart from its peers. To achieve this GHG reduction goal, Sainsbury's has invested significantly in the production of renewable energy at its stores.

Furthermore, the company demonstrates strong performance regarding phasing out the use of HCFCs in refrigeration equipment. The company reports that 185 stores have been switched to a low carbon natural refrigerant, and that the company is on track to achieve low carbon refrigerants across all its stores by 2030. Sainsbury's leading performance in this area places it in the top three amongst its industry peers.

Through the completion of this benchmark assessment, Sustainalytics has determined that Sainsbury's environmental policies and performance have outperformed peers in the food retail industry making Sainsbury well positioned to obtain a green loan.

4. ELIGIBILITY CRITERIA & ELIGIBLE PROJECTS

4.1 Use of Proceeds

Upon receipt of the Green Loan, the proceeds will be managed by Sainsburys' Group treasury as part of its on-going liquidity operations. Funding will be assigned to eligible assets, which are projects and capital expenditures that meet the eligibility criteria, over a two to three year time horizon.

4.2 Eligibility Criteria

Within the context of this green loan and the food retail industry, Sustainalytics has identified the following broad criteria that would result in positive environmental outcomes for which the proceeds from the loan can be utilized. This eligibility criteria defines the scope of projects that proceeds from the green loan could be utilized.

1. Renewable Energy:
 - a. Development and Generation of Renewable Energy
 - b. Renewable Fuels
 - c. Renewable Energy Generation Equipment

2. Energy Efficiency
 - a. Building energy efficiency
 - b. Transportation energy efficiency
 - c. Industrial energy efficiency
 - d. Power management

3. Water Use Management
 - a. Water Infrastructure
 - b. Water Treatment & Purification
 - c. Water Resource Management & Water Efficiency

4. Carbon Reduction
 - a. Low Carbon Systems

More detailed sub categories of the above are provided in Appendix A.

4.3 Eligible Projects

Sustainalytics reviewed Sainsburys' planned environmental projects within Sainsburys' Project Graphite and other related areas that are part of its 20x20 plan and identified the following projects and capital expenditures that meet eligibility criteria:

4.3.1 Projects in Project Graphite:

1. Energy Infrastructure projects such as, but not limited to:
 - Photovoltaic
 - Biomass boilers
 - Combined Heat and Power (CHP) green gas
 - Ground Source Heat Pump (GSHP)
2. Energy Efficiency projects such as, but not limited to
 - LED lighting
 - Voltage optimization

4.3.2 Other Projects (Non-Project Graphite):

3. Water Use Management and Low Carbon Systems such as, but not limited to:
 - Rainwater harvesting
 - Low carbon refrigeration systems

5 MANAGEMENT OF PROCEEDS & REPORTING

In order to ensure transparency and traceability of the use of proceeds, Sainsbury's has committed to the following management practices and reporting process:

5.1 Management Oversight of the Use of Proceeds

Sainsbury's has an internal governance process in which the Investment Board tracks capital allocation and reviews impacts on a regular basis. As part of this process, Sainsbury's finance team produces a Capital Request paper, typically annually, which details the forecasted savings and financial hurdle rates for each project. On completion of the works and after a reasonable time frame, Sainsbury's project team will produce a Project Investment Review document that will outline actual savings achieved.

This process will be retained for the management of the green loan.

5.2 Use of Proceeds Reporting (Internal)

On a 4-week periodic basis, Sainsbury's project team will produce an internal report (the 'First Lender Report') attesting to:

- a) The expenditure commitments (approved Sainsbury's purchase orders) in respect of the qualifying assets (per eligibility criteria) on a store by store basis; and
- b) The absolute CO2 reductions arising from the qualifying assets on a store by store basis.

The First Lender Report will be made available on request to Rabobank and Lloyds within 30 days of the close of each 4-week financial period.

Sainsbury's will be fully responsible for the completeness, accuracy and validity of all reports produced. There will be appropriate preparer and reviewer segregation of duties and final sign-off will be undertaken by a senior finance executive.

5.3 Use of Proceeds and Impact Reporting (Public)

On an annual basis, Sainsbury's project team will produce an external report (the 'Second Lender Report') attesting to:

- a) The expenditure commitments in respect of the qualifying assets on an aggregate company basis; and
- b) The absolute CO2 reductions arising from the qualifying assets on an aggregate company basis.

The Second Lender Report will be published on the Investor Relations section of the Sainsbury's corporate web-site (www.j-sainsbury.co.uk) within 2 months of each financial year-end.

The Second Lender Report will be reviewed and endorsed by an external 3rd party assurance provider.

Sustainalytics has met and discussed with Sainsbury's Treasury and Sustainability teams, and has determined that Sainsbury's has adequate processes in place to ensure that the allocation of funds towards the eligible assets are tracked through the business, and to ensure that the eligible assets selected sufficiently meet the eligibility criteria.

APPENDICES

Appendix A: Eligibility Criteria Sub Categories

The eligibility criteria sub categories include, but not limited to, the following

Renewable Energy

Development and Generation of Renewable Energy	Renewable energy development and independent power production using wind, solar, geothermal, wave/tidal, run-of-river or small-scale hydro, distributed energy, district heating, cogeneration and combined heat and power as well as purchase of specialized products and services to the development and generation of renewable energy.
Renewable Fuels	Bio-fuels produced from biomass; agricultural and food waste; and by-products, including biogas from methane and landfill gas
Generation Equipment	Purchase or installation of equipment and components for the renewable energy production, (including bearings, gearboxes, blades, towers, wafers, cells, etc.); and purchase of specialist materials into the renewable energy value chain. This also includes technologies used for the processing or production of bio-derived fuels/energy.

Energy Efficiency

Building energy efficiency	Design, purchase or installation of energy efficient products and services for use in buildings, including integrated buildings control systems, insulation materials, energy efficient lighting, efficient heating, ventilation and air-conditioning equipment and energy efficient refrigeration and process equipment.
Transportation energy efficiency	Design, purchase or application of technology to deliver improved efficiency in the transportation sector (including automotive, heavy duty, rail and aerospace). This includes higher efficiency conventional engines and powertrain technologies, and new vehicle technology (such as natural gas engines, hybrids and electric vehicles, including specialist batteries).
Industrial energy efficiency	Investment or purchase of technologies and systems that promote efficiency in industrial operations (e.g. industrial turbines, motors, and engines); industrial automation and controls; and energy-efficient equipment and appliances.
Power management	Design, purchase or install equipment and services which enhance the efficiency of operation of the electrical power network. This includes advanced meters, distributed generation, “smart grid” technologies, high efficiency power generation, transmission and distribution technologies, and technologies for advanced energy storage and backup power.

Water Use Management

Water Infrastructure	Development, purchase or installation of new or repairing existing water and sanitation systems. Purchase of products (including specialty pipes, pumps, valves, actuators, hydrants and meters) and services that enhance water infrastructure systems.
Water Treatment & Purification	Design, purchase and/or installation of technologies or facilities for the separation and purification of water to meet environmental standards. This includes membranes, ultra-violet, desalination, filtration, ion exchange, and biological treatment.
Water Resource Management & Water Efficiency	Design, purchase and/or installation of technologies and products that reduce, reuse, or recycle water as a means of conservation, including smart metering devices and controls, low-flow equipment, rainwater/greywater harvesting systems.

Carbon Reduction

Low Carbon Refrigeration Systems	Design, purchase and/or installation of technologies or facilities for the provision of low GWP or natural refrigeration systems
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