

Second-Party Opinion

Woolworths Group

Sustainability Linked Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the Woolworths Group Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020. This assessment is based on the following:

- **Selection of Key Performance Indicator (KPI)** The Woolworths Group Sustainability Linked Bond Framework includes one KPI: Absolute scope 1 and 2 Greenhouse Gas Emissions. Sustainalytics considers the KPI to be adequate based on its materiality, its relevance to the Woolworths Group's business and its ability to be assessed against external benchmarks.
- **Calibration of Sustainability Performance Target (SPT)** Sustainalytics considers the SPT – Scope 1 and 2 emissions reduction in line with the 1.5°C Paris Agreement scenario as verified by the Science Based Targets initiative (SBTi) – to be aligned with the Woolworths Group's sustainability strategy. Sustainalytics further considers the SPT to be ambitious based on historical performance, as well as in comparison with peers and external contextual benchmarks.
- **Bond Characteristics** Woolworths Group will link the bond's structural characteristics to achievement of the SPT. Failure to achieve the SPT by the target date will trigger an adjustment to the coupon rate, premium payment or other applicable penalty mechanisms.
- **Reporting** Woolworths Group commits to report on an annual basis on its performance on the KPI in its sustainability reports as well as on its website. Woolworths Group commits to disclose relevant information that affect KPI performance, such as KPI or SPT reassessments and any adjustments to any baselines or KPI scope. These reporting commitments are aligned with the Sustainability-Linked Bond Principles 2020.
- **Verification** Woolworths Group commits to have external limited assurance conducted on its KPI performance as disclosed in its sustainability reports as well as on its website, which is aligned with market expectations.

Evaluation Date	September 02, 2021
Issuer Location	New South Wales, Australia

The SPTs contribute to the following SDGs:



Overview of KPIs and SPTs

KPI	Baseline	SPT	Strength of the KPI	Ambitiousness of SPT
KPI 1: Absolute scope 1 and 2 Greenhouse Gas (GHG) Emissions	2015	Percentage reduction of absolute scope 1 and 2 GHG Emissions in line with 1.5°C Paris Agreement scenario as verified by SBTi by 2030 ¹	Adequate	Ambitious

¹ Sustainalytics notes that the current SPT aims for a reduction of scope 1 and 2 GHG emissions by 63% by 2030 compared to 2015 levels, which is verified by SBTi to align with reductions required to keep warming to 1.5°C. Given a recent demerger and also recent acquisitions (to the extent that they are material and applicable), Woolworths Group will need to recalculate the baseline for its GHG emissions target for the new scope of business, which will remain aligned with a SBTi 1.5°C trajectory, although a more recent baseline may be selected.

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Scope of Work and Limitations

Woolworths Group Limited (“Woolworths Group”, “Woolworths” or the “Group”) has engaged Sustainalytics to review its Sustainability-Linked Financing Framework (the “Framework”) and provide an opinion on the alignment of the bonds with the Sustainability-Linked Bond Principles.²

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the Sustainability-Linked Bond Principles 2020 (SLBP), as administered by ICMA.

As part of this engagement, Sustainalytics exchanged information with various members of Woolworths Group’s management team to understand the sustainability impact of their business processes and SPTs, as well as reporting and verification processes of aspects of the SLB Framework. Woolworths Group’s representatives have confirmed that:

- (1) They understand it is the sole responsibility of the Group to ensure that the information provided is complete, accurate and up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with the Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Woolworths Group. Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated SPTs of KPIs but does not measure the KPIs’ performance. The measurement and reporting of the KPIs is the responsibility of the Group. No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Woolworths Group has made available to Sustainalytics for the purpose of this Second-Party Opinion.

The Second-Party Opinion is valid for issuances aligned with the respective Framework for which the Second-Party Opinion was written and aligned with the methodology to calculate the KPI performance outlined in the Second-Party Opinion up to 24 months or until one of the following occurs:

- (1) A material change to the external benchmarks⁴ against which targets were set;
- (2) A material corporate action (such as a material M&A or change in business activity) which has a bearing on the achievement of the SPTs or the materiality of the KPI.

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² The Sustainability-Linked Bond Principles were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

⁴ Benchmarks refers to science-based benchmarks.

Introduction

Woolworths Group is a major retail company founded in 1924 with more than 3,000 stores across Australia and New Zealand. As of 2021, the Group operates supermarkets, general merchandise and consumer stores as well as hotels, serving over 29 million customers weekly in Australia and New Zealand.⁵ The Group has more than 200,000 employees across its businesses and brands.

Woolworths Group intends to issue sustainability-linked bonds tying the coupon rate or premium payment to the achievement of sustainability performance targets for one KPI related to decreasing its absolute scope 1 and 2 GHG emissions.

Woolworths has engaged Sustainalytics to review the Framework and provide an opinion on the alignment of the Framework with the Sustainability-Linked Bond Principles.

The KPI and SPT used by Woolworths are defined in Tables 1 and 2 below.

Table 1: KPI Definition

KPI	Definition
Absolute scope 1 and 2 GHG Emissions	Absolute scope 1 and 2 GHG emissions, measured in tonnes of carbon dioxide equivalent (tCO ₂ e). Woolworths Group follows the GHG Protocol in calculating its scope 1 and 2 emissions. ⁶

Table 2: SPTs and Past Performance⁷

KPI	2015 (baseline)	2016	2017	2018	2019	2020	2021 (projected)	SPT 2030
Absolute scope 1 and 2 GHG Emissions (tCO ₂ e)	3,288,012	3,136,697	2,884,516	2,852,713	2,657,314	2,435,226	2,337,484	Percentage reduction of absolute scope 1 and 2 GHG emissions in line with 1.5°C Paris Agreement scenario as verified by SBTi
Scope 1(tCO ₂ e)	887,445	802,283	675,006	662,047	564,301	471,003	426,852	N/A
Scope 2 (tCO ₂ e)	2,400,567	2,334,414	2,209,510	2,190,666	2,093,013	1,964,223	1,910,632	N/A

⁵ Woolworths Group has confirmed with Sustainalytics that stated metrics are accurate as of FY21 and prior to the demerger with Endeavour Group.

⁶ The GHG Protocol Corporate Standard defines scope 1 and scope 2 emissions as follows: "Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy", at: https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf.

⁷ The emissions included in the table represent the existing emissions of Woolworths and does not reflect recent demergers and acquisitions.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of Woolworths Group Sustainability Linked Financing Framework with the Sustainability-Linked Bond Principles.

Sustainalytics is of the opinion that the Woolworths Group Sustainability-Linked Bond Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP).



Selection of Key Performance Indicators (KPIs)

Relevance and Materiality of KPIs

In its assessment of materiality and relevance, Sustainalytics considers: i) whether an indicator speaks to a material impact of the issuer's business on environment or social issues, and ii) to what portion of impact the KPI is applicable.

Sustainalytics considers the KPI to be material and relevant given:

- Sustainalytics ESG Risk Rating identifies "Carbon-Own Operations" as a material ESG issue and an area of medium exposure for the food retail sub-industry. Further, the Sustainability Accounting Standards Board identifies air emissions from refrigeration and energy management as material areas to measure, track and disclose within the food retail industry.⁸
- In 2019 Woolworths Group conducted a materiality assessment⁹ which identified climate risk as a key material issue to its business. The Group's Sustainability Plan 2025¹⁰ includes carbon emissions reduction from its own operations as a priority target which has been verified by the Science Based Targets initiative.
- Woolworths Group main sources of scope 1 emissions include refrigerant gases, natural gas, transport fuel, stationary LPG and diesel for on-site backup generators. Scope 2 emissions include indirect emissions associated with electricity use. As Australia's largest food retailer, Woolworths Group estimates it uses around 1% of Australia's electricity¹¹, or approximately 2,652 GWh per year.¹² Given that Australia's electricity generation is dominated heavily by fossil fuels, comprised of 57% coal and 20% natural gas, reductions in energy use, represented by scope 2 emissions, may drive significant absolute impacts.
- Based on Sustainalytics internal research on scope 3 emissions of the food retail industry, it is estimated that scope 1 and 2 emissions represent approximately 10-30% of the Woolworths Group's total emissions, and the scope of the KPI is not viewed as highly applicable relative to the overall environmental impact.
- Sustainalytics notes that while the KPI covers a portion of the Group's carbon footprint, it does not include scope 3 emissions. Sustainalytics recognizes the importance of reducing scope 3 emissions, which represent a large majority of the Group's total emissions, and notes that Woolworths Group has adopted an SBTi-validated target to reduce its Scope 3 emissions from its own operations and supply chain by 19% by 2030, compared to a 2015 baseline. Currently the Group's scope 3 emissions are

⁸ SASB, "Food Retailers & Distributors. Sustainability Accounting Standard", (2018), at: [Food Retailers & Distributors \(sasb.org\)](https://www.sasb.org)

⁹ Woolworths Group, "Sustainability Report 2019", at: [195583_2019-sustainability-report.pdf \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/sustainability-report-2019)

¹⁰ Woolworths Group "Sustainability Plan 2025", at: [195860_sustainability-plan-2025.pdf \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/sustainability-plan-2025)

¹¹ Woolworths Group, "Sustainability Plan 2025", at: [195860_sustainability-plan-2025.pdf \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/sustainability-plan-2025)

¹² Australian Government Department of Industry, Science, Energy and Resources, "Australian Energy Statistics", (2021), at: [Australian Energy Statistics, Table O Electricity generation by fuel type 2019-20 and 2020 | energy.gov.au](https://www.energy.gov.au)

calculated from the categories of fuel consumption from logistics transport, business travel, home delivery services, trolley collections, waste and electricity usage. Additionally, Woolworths is engaging in improving data collection through engagement with supply chain actors for reducing carbon emissions.

KPI Characteristics

In its assessment of the KPI characteristics, Sustainalytics considers: (i) whether a clear and consistent methodology is used, (ii) whether the issuer follows an externally recognized definition, (iii) whether the KPIs are a direct measure of the performance of the issuer on the material environmental or social issue, and (iv) if applicable, whether the methodology can be benchmarked to an external contextual benchmark.¹³

Sustainalytics considers Woolworths' definition and methodology to calculate KPI performance to be clear and consistent as it is in accordance with the GHG Protocol Corporate Standard,¹⁴ a widely accepted industry standard that supports benchmarking against external standards and can be aligned with science-based targets and climate scenarios. Additionally, the KPI targets emissions reduction activities that are directly under the operational control of Woolworths, which Sustainalytics views as a direct measure of performance.

Overall Assessment

Sustainalytics overall considers the KPI – Absolute scope 1 and 2 GHG Emissions – to be Adequate, given that: (i) the KPI directly measures the carbon footprint from the Group's own operations through a clear and consistent methodology despite not including scope 3 emissions, and (ii) the target is SBTi aligned and verified.

Absolute Scope 1 and 2 GHG Emissions	Not Aligned	Adequate	Strong	Very strong
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Calibration of Sustainability Performance Targets (SPT)

Alignment with Woolworths' Sustainability Strategy

Woolworths has set the following SPT for its KPI:

- Reduction of absolute scope 1 and 2 GHG emissions in line with 1.5°C Paris Agreement scenario as verified by SBTi. Sustainalytics notes that the current SBTi verified reduction target for the Group is 63% reduction by 2030 compared to 2015 levels, which will need to be recalculated given a recent demerger.¹⁵ If the testing date is set prior to 2030, the 2030 GHG scope 1 and 2 emissions reduction target will be linear interpolation.

Sustainalytics considers the SPTs to be aligned with Woolworths' sustainability strategy (please refer to Section 2 for analysis of the credibility of Woolworths's sustainability strategy).

As part of its sustainability strategy, Woolworths is committed to reducing its absolute scope 1 and 2 emissions from its own operations by 63% by 2030 compared to the 2015 baseline, which is aligned with the 1.5°C scenario as verified by the SBTi. As of 2021, the Group had reduced its scope 1 and 2 emissions by 27% from 2015. The Group demonstrates commitment and progress to emissions reduction based on actions starting in 2007, aimed at reducing emissions from its stores, warehouses and offices. Moreover, in line with climate trajectories, Woolworths targets net-positive emissions for its own operations by 2050.¹⁶ To reach these objectives, the Group's related short-term climate goals include: (i) 100% green electricity by 2025, and (ii) achievement of Green Star certification at a minimum of the 4 Stars level for all new property developments, increase to the 5 Stars level by 2025.

¹³ External contextual benchmarks provide guidance on the alignment with ecological system boundaries. This criterion is not applied to social KPIs or impact areas for which such contextual benchmarks are not available.

¹⁴ Greenhouse Gas Protocol, "Corporate Standard", at: [Corporate Standard | Greenhouse Gas Protocol \(ghgprotocol.org\)](https://www.ghgprotocol.org/)

¹⁵ Given the recent demerger of Endeavour Group and also recent acquisitions (to the extent that they are material and applicable), Woolworths will need to rebase its GHG emissions target for the new scope of business, while remaining aligned with a SBTi 1.5°C trajectory, although a more recent baseline may be selected.

¹⁶ Woolworths Group, "Sustainability Plan 2025", at: https://www.woolworthsgroup.com.au/icms_docs/195860_sustainability-plan-2025.pdf

Strategy to Achieve the SPTs

Woolworths intends to achieve the SPT through the following strategy:

- Woolworths' goal to transition to 100% green electricity by 2025 is the main mechanism for the Group to achieve its scope 1 and 2 reduction targets. Other strategies include reducing refrigeration leakage and replacing existing systems with more environmentally friendly options. In addition, the development of properties with Green Star minimum standards will ensure that Woolworths' stores are more energy efficient and hence further contribute to the reduction of emissions.

Ambitiousness, Baseline and Benchmarks

To determine the ambitiousness of the SPTs, Sustainalytics considers: (i) whether the SPTs go beyond business-as-usual trajectory, (ii) how the SPTs compare to targets set by peers, and (iii) how the SPTs compare with science-based trajectories.¹⁷

Woolworths has continuously decreased its absolute scope 1 and 2 emissions, with historical performance demonstrating an average annual decline of 4.8% between 2015 and 2020. Achieving the SPT would imply an average annual reduction of approximately 4.2% between 2015 and 2030. Sustainalytics considers the SPT to be aligned with Woolworths' historical performance on scope 1 and 2 emissions reduction.

Woolworths' SPT is relatively strong with respect to scopes 1 and 2 in comparison with its peers, based on the analysis Sustainalytics has conducted on Woolworths' peer group, which included global food and staples retailers that are taking action on climate change as listed by SBTi. Among the companies in this sector committing to taking action against climate change, an estimated 42% have committed to emissions reduction targets aligned with a 1.5°C warming scenario¹⁸. According to Sustainalytics' analysis of Woolworths' regional peers, the Group is one of the leaders in the food and staples retailing sector, for having a climate target that is verified by SBTi to align with the 1.5°C warming scenario.

In the event of other significant corporate restructuring activities in the future such as acquisitions, divestitures, mergers, demergers, insourcing or outsourcing, Woolworths may recalculate the baseline of emissions for the KPI. Sustainalytics notes that given Woolworths' recent demerger from Endeavour Group, Woolworths Group will need to recalculate baseline emissions for the KPI. Woolworths has reported that any future calculations will be in line with limiting global warming to 1.5°C, which will be verified by SBTi.

Overall Assessment

Sustainalytics considers the SPTs to align with Woolworths Group's sustainability strategy and considers the SPT to be ambitious given its alignment with past performance, its alignment with targets set by global peers and leadership among regional peers, and alignment of the SPT to a trajectory approved by SBTi.

Reduction of absolute scope 1 and 2 GHG emissions by 63% by 2030 (KPI 1: Absolute scope 1 and 2 GHG Emissions)	Not Aligned	Moderately Ambitious	Ambitious	Highly Ambitious
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Bond Characteristics

Woolworths Group disclosed that bond issuances pertaining to the Framework will be subject to a penalty for not achieving the SPT on the observation date defined in the transaction documentation, which will result in a coupon step-up, premium payment or other penalty mechanisms. The step-up margin or amount of premium payment, as the case may be, will be specified in the relevant documentation of the specific transaction.

¹⁷ We refer here to contextual benchmarks, that indicate the alignment of targets with ecosystem boundaries.

¹⁸ For more information on the list of companies Sustainalytics has relied on, please see: <https://sciencebasedtargets.org/companies-taking-action?sector=Food%20and%20Staples%20Retailing&ambitionToggle=1#table>

Sustainalytics notes positively the condition that the SPT needs to be met to avoid any penalty, however, it does not opine on the adequacy of the penalty imposed for not achieving the set SPT.



Reporting

Woolworths commits to report on its performance on the KPI on an annual basis and expects to include the relevant figures in the Group's annual sustainability report and on the debt investor section of its website. Woolworths further commits to disclose other relevant information, such as: (i) up-to-date information on the KPI performance, (ii) baseline and calculation methodology where relevant, (iii) any recalculation of the baseline for the KPI, (iv) reassessments of the KPI or restatement of the SPT, enabling investors to monitor the level of ambition of the SPT. Woolworths' reporting commitments are aligned with market practice.



Verification

Woolworths commits to having an external verifier provide limited assurance on the published KPI performance figures for each fiscal year, which is aligned with the SLBP on verification.

Section 2: Assessment of Woolworths's Sustainability Strategy

Credibility of Woolworths Sustainability Strategy

Sustainalytics ESG rating considers Woolworths Group to be aligned with its sub-industry peers on environmental and social issues and considers the Group's management of risks to be strong. Woolworths Group has a Board Sustainability Committee which is responsible for overseeing group-level strategy, while the CEO and Executive Committee are accountable for overall implementation of the Group's sustainability strategy. Woolworths Group demonstrates a historical commitment to sustainability, annually reporting on the issue since 2005¹⁹ and implementing various sustainability strategies since 2017.²⁰ In 2019, Woolworths Group issued a Climate Bonds Initiative certified green bond to finance and refinance investments to make their supermarkets among the 15% lowest GHG emitting supermarkets in Australia.²¹ Woolworths most recent 2025 Sustainability Plan²² details its sustainability-related goals under three pillars: People, Planet and Product.

Regarding the Planet pillar, the Group has defined its goals as the following:²² (i) 100% green electricity by 2025, (ii) zero food waste to landfill by 2025, (iii) net-positive carbon emissions by 2050, and (iv) responsible stewardship of natural resources. The Group also specific goals under the Plant pillar to source 100% renewable electricity to power businesses by 2025 and aims to reduce 2030 emissions from operations by 63% compared to a 2015 baseline.²² This target was endorsed by the Science-Based Targets initiative.²³ Additionally, the Group aims to reduce Scope 3 emissions by 19% by 2030 compared to the same 2015 baseline.²⁴ Woolworths reported having reduced scope 1 and 2 emissions by 27% between 2015 and 2021.²⁴ Given the Group's alignment of environmental goals with the KPI in this Framework, the SLB will further support Woolworths's strategy.

Within the Group's Product pillar, Woolworths aims for 100% sustainable own brand packaging and 100% sustainable own brand sourcing.²² Woolworths' time bound goals include to halve the use of virgin plastic packaging by weight against a 2018 baseline by 2024 in Australia and New Zealand (against a 2020 baseline in New Zealand) and to achieve an average of 60% recycled content in own-brand packaging by 2025.²² The Group also aims for 100% sustainably sourced high impact commodities, such as tea and coffee, in their own-brand products. In the Group's 2020 Sustainability Report,²⁴ Woolworths outlines its Reducing Food Waste to Landfill Program and its Responsible Sourcing Policy, aimed at minimizing impact of its operations and supply chain on the

¹⁹ Woolworths Limited, "Corporate Social Responsibility Report" (2005), at:

https://www.woolworthsgroup.com.au/icms_docs/183823_Corporate_Responsibility_Report_2005.pdf

²⁰ Woolworths Group, "Corporate Responsibility Strategy 2020" (2020), at: [186036_woolworths-group-corporate-responsibility-strategy-2020.pdf](https://www.woolworthsgroup.com.au/186036_woolworths-group-corporate-responsibility-strategy-2020.pdf) ([woolworthsgroup.com.au](https://www.woolworthsgroup.com.au))

²¹ Climate Bonds Initiative, " ", (2019) at: [Woolworths Group | Climate Bonds Initiative](https://www.woolworthsgroup.com.au/186036_woolworths-group-corporate-responsibility-strategy-2020.pdf)

²² Woolworths Group, "Sustainability Plan 2025", at: [195860_sustainability-plan-2025.pdf](https://www.woolworthsgroup.com.au/195860_sustainability-plan-2025.pdf) ([woolworthsgroup.com.au](https://www.woolworthsgroup.com.au))

²³ Science Based Targets initiative, "About Us", at: [About Us - Science Based Targets](https://sciencebasedtargets.com/about-us)

²⁴ Woolworths Group, "2020 Sustainability Report" (2020), at: [195782_2020-sustainability-report.pdf](https://www.woolworthsgroup.com.au/195782_2020-sustainability-report.pdf) ([woolworthsgroup.com.au](https://www.woolworthsgroup.com.au))

environment. The People pillar aims for goals in diversity, inclusion, human rights governance, and health and safety. Group initiatives under People include mental well-being programmes, a Reconciliation Action Plan supporting Aboriginal and Torres Strait Islander employment and a Refugee Employment Program.²⁵

Sustainalytics considers Woolworths to have a strong sustainability strategy and considers that the SLBs will further support the Group's sustainability strategy.

Woolworths's Environmental and Social Risk Management

According to Sustainalytics ESG Risk Assessment, Woolworths Group's exposure to ESG risks is medium, similar to the sub-industry average. Overall, Sustainalytics notes that the ESG risk management of Woolworths is considered strong. Sustainalytics also recognizes that Woolworths Group's defined targets are impactful, however, achieving the SPTs bears environmental and social risks related to human rights risks, labour rights within the supply chain, business ethics, emissions, effluence and waste, and resource use.

In the following section, Sustainalytics comments on Woolworths Group's ability to mitigate such potential risks.

- The Woolworths Group's Risk Management Policy²⁶ outlines a framework by which the group manages risk, governance structures, roles, responsibilities, policies and entities covered by the policy. The Group has adopted the Three Lines of Defense model, which clarifies accountability for risk management across the group and outlines how any operation to be in breach of the policy is required to provide an explanation for non-compliance and an action plan for remediation.
- Woolworths Group is a signatory to the United Nations Global Compact which sets out core values in the areas of human rights, labour standards, the environment and anti-corruption. Within Woolworths Modern Slavery Statement²⁷, the Group has outlined key actions in 2020 to address emerging labour risks within the global supply chain, such as forced labour risk assessments and the strengthening of supplier contracts by including a clause on modern slavery legislation. The Group has also appointed a dedicated human rights manager to coordinate efforts to address modern slavery across operations and the supply chain.
- The Group's Responsible Sourcing Policy²⁸ is a commitment to respecting human rights of works in the upstream supply chain and to endorse the principles outlined within the UN Guiding Principles on Business and Human Rights. The standards outlined within this policy include business integrity, labour rights, fair and safe working conditions, and environmental compliance. The Group also has a Speak Up Policy outlined within the Group's code of conduct,²⁹ which acts as an independent external whistleblower service for anonymous reporting on risk and safety breaches, theft, fraud, corruption, bullying and harassment.
- The Group's commitment to employee health and safety is outlined within its Safety, Health and Wellbeing Policy,³⁰ which sets measurable objectives and targets to create a safe work environment free from injury and illness. The Group provides resources and applies risk management processes with an emphasis on elimination control to achieve higher standards through continuous improvement. Additionally, within the Group's code of conduct,²⁹ health and safety processes are outlined such as personal protective equipment, only using equipment that employees are trained and authorized to use and to address hazards and report incidents.
- Woolworths has been a signatory to the CGF Deforestation Resolution of 2010 which aims to achieve net-zero deforestation from sourcing commodities like palm oil, beef, timber, paper and board.³¹ Woolworths own brand coffee, tea, chocolate and sugar products are sustainably certified through Rainforest Alliance, UTZ, Fairtrade International or Bonsucro. Additionally, since 2015 Woolworths uses only 100% Roundtable for Sustainable Palm Oil in own-brand food products.
- In the Group's 2020 Sustainability Report,³² Woolworths outlines its Reducing Food Waste to Landfill Program and its Responsible Sourcing Policy,²⁸ both aimed at minimizing impact of its operations and supply chain on the environment, redirecting food waste from stores in Australia as donations or used for animal feed and recycling.³³ Additionally, the

²⁵ Woolworths Group, "2020 Sustainability Report" (2020), at: [195782_2020-sustainability-report.pdf \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/195782_2020-sustainability-report.pdf)

²⁶ Woolworths Group, "Risk Management Policy", (2020), at: [Group Risk Management Policy November 2017.pdf \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/Group%20Risk%20Management%20Policy%20November%202017.pdf)

²⁷ Woolworths Group, "Modern Slavery Statement 2020", at: [Modern Slavery Statement \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/Modern%20Slavery%20Statement)

²⁸ Woolworths Group, "Responsible Sourcing Policy", at: [189697_responsible-sourcing-policy.pdf \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/189697_responsible-sourcing-policy.pdf)

²⁹ Woolworths Group, "Code of Conduct", (2019) at: [Woolworths Group Code of Conduct 200219.pdf](https://www.woolworthsgroup.com.au/Woolworths%20Group_Code%20of%20Conduct%2020219.pdf)

³⁰ Woolworths Group, "Safety, Health and Wellbeing Policy", at: [Safety, Health and Wellbeing Policy 2019.pdf \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/Safety,%20Health%20and%20Wellbeing%20Policy%202019.pdf)

³¹ Woolworths Group, "Sustainable Forestry Products", at: [Sustainable forestry products - Woolworths Group](https://www.woolworthsgroup.com.au/Sustainable%20forestry%20products)

³² Woolworths Group, "2020 Sustainability Report" (2020), at: [195782_2020-sustainability-report.pdf \(woolworthsgroup.com.au\)](https://www.woolworthsgroup.com.au/195782_2020-sustainability-report.pdf)

³³ Woolworths Group, "Food Waste Reduction Roadmap For Woolworths", at: [woolworths.pdf \(fightfoodwastecrc.com.au\)](https://www.woolworths.com.au/fightfoodwastecrc.com.au)

Group is working towards improving the recyclability of packaging, both through using recycled materials for packaging and through recycling labelling on its own brand packaging.

Overall, Sustainalytics considers that Woolworths Group has strong management programmes and policies to mitigate risks that are material to the Group's sub-industry.

Section 3: Impact of the SPTs Chosen

The global food system is highly resource intensive, accounting for a third of global anthropogenic GHG emissions.³⁴ Agriculture and land-use change activities contribute account for 71% of food emissions, while emissions from retail, transport, consumption, fuel production and waste management remain a significant source of emissions responsible for 29% of total food emissions.³⁴ According to a study published by Nature Food, global food production increased by 40% between 1990 and 2015, when annual emissions from the food system rose by 12%. Despite a decrease in emissions from the agriculture sector in industrialized countries between 1990 and 2015, shares of emissions from post-production processes including retail, packaging and processing increased significantly by between 33% and 300% from 1990 to 2015.³⁴ Being part of the global food system, the retail industry is also associated to a number of negative externalities, including GHG emissions. A significant portion of a food retailer's environmental footprint comes from stores: lighting, heating, cooling, ventilation, refrigeration and food waste.³⁵ In retail, packaging, transportation and processing are increasingly energy intensive, so reducing scope 1 and 2 emissions in the industry can aid in meaningfully reducing post-production emissions from the food sector.

Australia is committed to its Nationally Determined Contribution (NDC) under the Paris Agreement since 2015.³⁶ The country has set a target to reduce its GHG emissions between 26% and 28% by 2030, compared to 2005 levels.³⁶ Woolworths ranks among the largest 25 retailers globally and is one of the largest retailers in Australia and New Zealand, making it an important player in achieving a low-carbon food system globally as well as in Australia and New Zealand.³⁷ Woolworths' commitment to reducing scope 3 supply chain emissions (see section 2) will create a cascading effect in reducing downstream emissions.

Sustainalytics is of the opinion that Woolworths' efforts to improve energy efficiency and the environmental performance of its buildings will positively contribute to the Group's sustainability goals and support the objectives of the Paris Agreement.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. The sustainability-linked bonds eventually issued under the Framework advance the following SDG goals and targets:

KPI	SDG	SDG Target
KPI 1: Absolute scope 1 and 2 Greenhouse GHG Emissions	7. Affordable and Clean Energy 9. Industry, Innovation and Infrastructure	7.3 By 2030, double the global rate of improvement in energy efficiency 9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

³⁴ Nature Food, "Food systems are responsible for a third of global anthropogenic GHG emissions", at: <https://www.nature.com/articles/s43016-021-00225-9>

³⁵ EU, "Measurement and reduction of carbon footprint of stores", (2011), at: <http://ec.europa.eu/environment/industry/retail/pdf/Issue%20Paper%206.pdf>

³⁶ Climate Action Tracker "Australia", at: <https://climateactiontracker.org/countries/australia/>

³⁷ The Sydney Morning Herald. "Wesfarmers, Woolworths among top 25 global retailers: Deloitte". At: <https://www.smh.com.au/business/companies/wesfarmers-woolworths-among-top-25-global-retailers-deloitte-20190211-p50wx.html>



Conclusion

Woolworths Group intends to issue Sustainability-Linked Bonds which will tie the coupon rate to the achievements of the following SPT:

- (1) KPI 1: Absolute scope 1 and 2 Greenhouse Gas (GHG) emissions: Percentage reduction of absolute scope 1 and 2 GHG emissions in line with 1.5°C Paris Agreement scenario as verified by SBTi

Sustainalytics considers the KPI chosen to be adequate its materiality, its relevance to the Woolworths Group business, and its ability to be assessed against external benchmarks, and the SPT to be ambitious based on performance against the Issuer's historical performance, as well as performance against its peers and external contextual benchmarks.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers Woolworths Group's SLB Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective of achievement of the SPT to be impactful.

Appendix 1: Sustainability-Linked Bonds - External Review Form

Section 1. Basic Information

Issuer name: Woolworths Group

Sustainability-Linked Bond ISIN:

Independent External Review provider's name for second party opinion pre-issuance (sections 2 & 3): Sustainalytics

Completion date of second party opinion pre-issuance: September 2, 2021

Independent External Review provider's name for post-issuance verification (section 4):

Completion date of post issuance verification:

At the launch of the bond, the structure is:

- ☒ a step-up structure
 ☒ a variable redemption structure

Section 2. Pre-Issuance Review

2-1 SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review:

- | | |
|--|--|
| ☒ assessed all the following elements (complete review) | ☐ only some of them (partial review): |
| ☒ Selection of Key Performance Indicators (KPIs) | ☒ Bond characteristics (acknowledgment of) |
| ☒ Calibration of Sustainability Performance Targets (SPTs) | ☒ Reporting |
| ☒ Verification | |
| ☒ and confirmed their alignment with the SLBP. | |

2-2 ROLE(S) OF INDEPENDENT EXTERNAL REVIEW PROVIDER

- | | |
|--|---|
| ☒ Second Party Opinion | ☐ Certification |
| ☐ Verification | ☐ Scoring/Rating |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

2-3 EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Woolworths Group intends to issue Sustainability-Linked Bonds which will tie the coupon rate to the achievements of the following SPT:



KPI 1: Absolute scope 1 and 2 Greenhouse Gas (GHG) emissions: Percentage reduction of absolute scope 1 and 2 GHG emissions in line with 1.5°C Paris Agreement scenario as verified by SBTi

Sustainalytics considers the KPI chosen to be adequate its materiality, its relevance to the Woolworths Group business, and its ability to be assessed against external benchmarks, and the SPT to be ambitious based on performance against the Issuer's historical performance, as well as performance against its peers and external contextual benchmarks.

Furthermore, Sustainalytics considers reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers Woolworths Group's SLB Framework to be in alignment with the five core components of the Sustainability-Linked Bond Principles 2020 and the prospective of achievement of the SPT to be impactful.

Section 3. Detailed pre-issuance review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

3-1 SELECTION OF KEY PERFORMANCE INDICATORS (KPIs)

Overall comment on the section (if applicable):

The Woolworths Group Sustainability Linked Bond Framework includes one KPI: Absolute scope 1 and 2 Greenhouse Gas Emissions. Sustainalytics considers the KPI to be adequate based on its materiality, its relevance to the Woolworths Group business and its ability to be assessed against external benchmarks.

List of selected KPIs:

- KPI 1: Absolute scope 1 and 2 Greenhouse Gas (GHG) Emissions reduction

Definition, Scope, and parameters

- | | |
|--|---|
| ☒ Clear definition of each selected KPIs | ☒ Clear calculation methodology |
| ☐ Other (please specify): | |

Relevance, robustness, and reliability of the selected KPIs

- | | |
|--|--|
| ☒ Credentials that the selected KPIs are relevant, core and material to the issuer's sustainability and business strategy. | ☒ Evidence that the KPIs are externally verifiable |
| ☒ Credentials that the KPIs are measurable or quantifiable on a consistent methodological basis | ☒ Evidence that the KPIs can be benchmarked |
| ☐ Other (please specify): | |

3-2 CALIBRATION OF SUSTAINABILITY PERFORMANCE TARGETS (SPTs)

Overall comment on the section (if applicable):

Sustainalytics considers the SPT – Scope 1 and 2 emissions reduction in line with the 1.5°C Paris Agreement scenario as verified by the Science Based Targets initiative (SBTi) – to be aligned with the Woolworths Group's sustainability strategy.

Sustainalytics further considers the SPT to be ambitious based on historical performance, as well as in comparison with peers and external contextual benchmarks.

Rationale and level of ambition

- | | |
|--|---|
| ☒ Evidence that the SPTs represent a material improvement | ☒ Credentials on the relevance and reliability of selected benchmarks and baselines |
| ☒ Evidence that SPTs are consistent with the issuer's sustainability and business strategy | ☒ Credentials that the SPTs are determined on a predefined timeline |
| | ☐ Other (please specify): |

Benchmarking approach

- | | |
|--|--|
| ☒ Issuer own performance | ☒ Issuer's peers |
| ☒ reference to the science | ☐ Other (please specify): |

Additional disclosure

- | | |
|--|--|
| ☒ potential recalculations or adjustments description | ☒ issuer's strategy to achieve description |
| ☐ identification of key factors that may affect the achievement of the SPTs | ☐ Other (please specify): |

3-3 BOND CHARACTERISTICS

Overall comment on the section (if applicable):

Woolworths Group will link the bond's structural characteristics to achievement of the SPT. Failure to achieve the SPT by the target date will trigger an adjustment to the coupon rate, premium payment or other applicable penalty mechanisms.

Financial impact:

- ☒ variation of the coupon
- ☐ ...
- ☒ Other (please specify): premium payment

Structural characteristic:

- ☐ ...
- ☐ ...
- ☐ Other (please specify):

3-4 REPORTING

Overall comment on the section (if applicable):

Reporting Woolworths Group commits to report on an annual basis on its performance on the KPI in its sustainability reports as well as on its website. Woolworths Group commits to disclose relevant information that affect KPI performance, such as KPI or

SPT reassessments and any adjustments to any baselines or KPI scope. These reporting commitments are aligned with the Sustainability-Linked Bond Principles 2020

Information reported:

- | | |
|--|---|
| ☒ performance of the selected KPIs | ☒ verification assurance report |
| ☒ level of ambition of the SPTs | ☐ Other (please specify): |

Frequency:

- | | |
|--|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other (please specify): | |

Means of Disclosure

- | | |
|---|---|
| ☐ Information published in financial report | ☐ Information published in sustainability report |
| ☒ Information published in ad hoc documents | ☐ Other (please specify): |
| ☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the "useful links" section.

Level of Assurance on Reporting

- | | |
|---|--|
| ☒ limited assurance | ☐ reasonable assurance |
| | ☐ Other (please specify): |

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

Section 4. Post-issuance verification

Overall comment on the section (if applicable):

Information reported:

- | | |
|---|--|
| ☒ limited assurance | ☐ reasonable assurance |
| | ☐ Other (please specify): |

Frequency:



- | | |
|--|--------------------------------------|
| ☒ Annual | ☐ Semi-annual |
| ☐ Other (please specify): | |

Material change:

- | | |
|--|--|
| ☐ Perimeter | ☐ KPI methodology |
| ☒ SPTs calibration | |



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For more information, visit www.sustainalytics.com

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