

Second-Party Opinion

Tesco Sustainability-Linked Bond



Evaluation Summary

Sustainalytics is of the opinion that the Tesco Sustainability-Linked Bond Framework aligns with the Sustainability-Linked Bond Principles 2020 and considers the KPI to be adequate and the SPTs to be ambitious and impactful. This assessment is based on the following:



Selection of Key Performance Indicators (KPIs) Tesco has selected total Scope 1 and 2 greenhouse gas emissions as the KPI for its Sustainability-Linked Bonds (SLB). Sustainalytics considers the KPI chosen to be relevant and material for Tesco. While Tesco has defined targets related to its Scope 3 emissions, these are not covered by the KPI. Sustainalytics is of the opinion that the KPI is adequate.



Calibration of Sustainability Performance Targets (SPTs) Tesco has established SPTs to reduce Scope 1 and 2 emissions by 60% by 2025 and 85% by 2030, which are in line with a trajectory to 100% by 2050. Sustainalytics considers the SPTs to be aligned with the issuer's sustainability strategy and to be ambitious based on their alignment with Tesco's approved Science Based Targets. The SPTs contribute to SDGs 7 and 9.



Bond Characteristics Tesco has disclosed that prior to issuing an SLB under this Framework, it will specify the relevant SPT for that instrument. Failure to achieve the SPT will result in an upwards coupon adjustment or penalty payment on the bond principal, as appropriate, with the amount specified in each of the bonds' offering documentation.



Reporting Tesco commits to reporting on its website performance related to the KPI. This information, subject to limited assurance, will be made available on an annual basis. Tesco also commits to include where relevant and feasible any adjustments to baseline, reassessment of KPI, or restatement of the SPTs. This is aligned with the SLB Principles.



Verification Tesco commits to having an independent and external verifier provide limited assurance on its KPI performance figures annually, as well as on its KPI performance against the SPT until after the KPI trigger event of a bond has been reached. The verification report provided will be made publicly available on Tesco's website. This is aligned with the SLB Principles on verification.

Evaluation date	December 31, 2020
Issuer Location	Hertfordshire, United Kingdom

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Introduction

Tesco PLC (“Tesco”, or the “Group”) is one of the world's leading food retailers. Founded in 1919, the Group currently has nearly 6,700 stores across the U.K. and Ireland and Central Europe. Tesco is multiformat, operating large format extra stores, supermarkets, convenience and neighbourhood stores as well as operating an online business. Apart from its core food retail business, Tesco also sells clothing and general merchandise, provides financial and telecommunication services and runs petrol filling stations. Headquartered in Hertfordshire, England, the Company employs over 350,000 people globally.

Under its Sustainability-Linked Bond Framework, Tesco intends to issue Sustainability-Linked Bonds (SLB) where the financial structure of each bond is tied to the achievement of one or both Sustainability Performance Targets (SPTs) for the selected Key Performance Indicator (KPI). The selected KPI refers to the Group's global Scope 1 and Scope 2 Greenhouse Gas (GHG) emissions.

Tesco has engaged Sustainalytics to review the SLB Framework and provide an opinion on the alignment of the framework with the Sustainability-Linked Bond Principles (SLBP).¹

Scope of work and limitations

Sustainalytics' Second-Party Opinion² reflects Sustainalytics' independent³ opinion on the alignment of the reviewed SLB Framework with the Sustainability Linked Bond Principles 2020, as administered by ICMA. As part of this engagement, Sustainalytics exchanged information with various members of Tesco'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. Tesco representatives have confirmed that:

- (1) They understand it is the sole responsibility of Tesco to ensure that the information provided is complete, accurate or 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 Bond and should be read in conjunction with the Bond Documents. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Tesco. Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Bond 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. The measurement and reporting of the KPIs is the responsibility of the Bond issuer. 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 Tesco has made available to Sustainalytics for the purpose of this Second-party Opinion.

¹ The Sustainability Linked Bond Principles (SLBP) were launched by ICMA in June 2020. They are administered by the ICMA and are available at: <https://www.icmaTesco.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

² The Second-Party Opinion is valid for 24 months starting from the evaluation date.

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' shallmarks is integrity, another is transparency.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Alignment of Tesco's Sustainability-Linked Bond Framework with the Sustainability-Linked Bond Principles.

Sustainalytics is of the opinion that the Sustainability-Linked Bond Framework aligns with the five core components of the Sustainability-Linked Bond Principles 2020 (SLBP). The KPI and SPTs used by Tesco are defined in Tables 1 and 2 below.

Table 1: KPI definitions

KPI	Definition
Scope 1 and 2 GHG Emissions	Group's Scope 1 and Scope 2 GHG emissions, measured in tonnes of carbon dioxide equivalent (tCO ₂ e). Scope 1 and Scope 2 emissions are reported by Tesco as per the GHG Protocol Corporate Standard. ⁴

Table 2: SPTs and Past Performance

KPI	2015-16 (baseline)	2017-18	2018-19	2019-20	SPT 2025	SPT 2030
Scope 1 and 2 GHG Emissions	2,292,227 tCO ₂ e	1,491,280 tCO ₂ e (35% reduction below baseline)	1,344,440 tCO ₂ e (41% reduction)	1,152,581 tCO ₂ e (50% reduction)	60% reduction below baseline	85% reduction below baseline

1) Selection of Key Performance Indicators (KPIs)

Definition and methodology of KPIs

- Tesco's Sustainability-Linked Bond Framework includes a single KPI: the Group's organization-wide Scope 1 and Scope 2 GHG emissions.
 - Tesco will measure its KPI in tonnes of carbon dioxide equivalent (tCO₂e).
 - Tesco uses the GHG Protocol Corporate Standard's definition of Scope 1 and Scope 2 emissions.
- Sustainalytics finds the definition to be clear, measurable and externally verifiable.

Relevance and Materiality of KPIs

- Sustainalytics considers GHG emissions as relevant and material issue for Tesco based on the following:
 - GHG emissions are a direct measure of Tesco's sustainability performance and climate alignment.
 - Sustainalytics assesses carbon emissions as a material ESG issue for companies, including Tesco, who operate in the 'Food Retail' subindustry. Further, the Sustainability Accounting Standard (SASB) also identifies air emissions and energy management as material topics to track and disclose by food retailers and distributors.⁵
 - Tesco's Scope 1 and 2 emissions account for approximately two thirds of total emissions from the Group's own operations.⁶
- Sustainalytics notes the following considerations while assessing the relevance and materiality of the selected KPI:
 - Sustainalytics notes that, while Tesco's KPI covers an important portion of its climate impacts, it does not include the Company's Scope 3 emissions. Sustainalytics recognizes the importance of reducing these Scope 3 emissions and notes that Tesco is actively working with its top 100 suppliers, who represent 80% of its cost of goods, to support them with their emission reduction goals. In

⁴ The GHG Protocol Corporate Standard defines Scope 1 and Scope 2 emissions as, "Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy." Read more: https://ghgprotocol.org/sites/default/files/standards_supporting/FAQ.pdf

⁵ Sustainability Accounting Standards Board, Food Retailers & Distributors, November 2018, at: https://www.sasb.org/wp-content/uploads/2018/11/Food_Retailers_Distributors_Standard_2018.pdf

⁶ Tesco bifurcates its Scope 3 emissions into (i) Scope 3 emissions from its own operations, pertaining to emissions from business travel and emissions from distribution arranged by Tesco but provided by third parties (ii) Scope 3 emissions from its supply chain.

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addition, Tesco has committed to Scope 3 GHG reduction for manufacturing and agricultural emissions, approved by the Science-Based Targets initiative (SBTi), of 17% by 2030 compared to 2015/16 baseline.

- Sustainalytics recognizes that, while Scope 3 emissions have not been included in Tesco's KPI, the Group's efforts to mitigate Scope 3 emissions can be considered to be an emerging best practice in the food retail sector. This opinion is based on Sustainalytics' assessment of the emission reduction targets of 13 of Tesco's peers.⁷ As per the assessment, only 30% of this peer group have either emission- or non-emission-based targets⁸ which aim to address Scope 3 emissions.
- Other material issues for food retailers include human rights and labour practices in the supply chain, food waste, environmental and social impacts of products, data privacy and product governance.

Ability to be benchmarked

Tesco will report on its Scope 1 and 2 emissions in line with the methodology of the GHG Protocol Corporate Standard. This approach is considered to be industry standard, and therefore supports benchmarking against external emission reduction trajectories and peer performance.

Overall assessment

Sustainalytics considers the definition of the KPI to be clear, highlighting the transparency around reporting quantitative emissions, and relevant to Tesco's sustainability performance. Overall, Sustainalytics is of the opinion that the selected KPI is adequate, noting that its Scope 3 emissions are not captured.

2) Calibration of Sustainability Performance Targets (SPTs)

Definition of SPTs

- Tesco has set the following SPTs for its KPI:
 - Reduce its Scope 1 and 2 emissions by 60% by 2025, from the 2015/16 baseline
 - Reduce its Scope 1 and 2 emissions by 85% by 2030, from the 2015/16 baseline

Alignment with issuer's sustainability strategy

- Sustainalytics considers the SPTs to be well aligned with Tesco's sustainability strategy (please refer to Section 2 for analysis of the credibility of Tesco's sustainability strategy).
 - Tesco's sustainability strategy recognizes that negative environmental impacts brought about as a consequence of climate change can result in substantial disruption of its supply chain, and has therefore made a commitment to reduce carbon emissions in its own operations by 35% by 2020, 60% by 2025, 85% by 2030 and 100% by 2050. This trajectory is reflected in the SPTs.
 - To achieve the set carbon reduction targets in its sustainability strategy, Tesco has committed to sourcing 100% of the Group's electricity needs from renewable sources by 2030 and to reducing its transport emissions through the use of alternate fuels, route optimization, the installation of electric vehicle charging points, and engagement with major suppliers to encourage them to reduce their emissions. . This commitment is supported by Tesco's participation as signatory to RE100 and EV100.⁹

Strategy to achieve the SPTs

- Tesco intends to achieve the SPTs through the following strategy:
 - The Issuer has disclosed that it will reduce its Scope 1 and 2 emissions by prioritizing the sources which contribute the largest share. As of the baseline year, grid electricity made up the majority of such emissions, followed by refrigerant gases, heating, and distribution. Considering this, Tesco's efforts to procure renewable energy via power purchasing agreements (PPAs) will play a large role in its overall strategy to achieve its SPTs, accompanied by reducing demand through efficiency at its facilities and engaging with partners to achieve savings.

Ambitiousness, Baseline and Benchmarks

- Tesco's selection of the 2015/16 baseline is aligned with the Company's pre-existing Science-Based Targets (SBT) trajectory.

⁷ Tesco has a market capitalization of about USD 26 billion and has been classified by Sustainalytics as a 'food retail' company, Its peers were therefore, selected from companies that fall into the 'food-retail' sub-industry with market capitalization between USD 16-36 billion.

⁸ Emissions-based targets refer to overall quantitative reductions, while non-emission-based targets include initiatives such as supplier engagement rate or the provision of support to suppliers to set their own emission reduction targets.

⁹ The Climate Group, RE100: https://www.theclimategroup.org/about_re100 and EV100: <https://www.theclimategroup.org/ev100>.

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- In the event of material changes to the Group, such as acquisitions or divestments, Tesco will not adjust its overall percentage reduction targets but will instead recalculate its baseline in line with its carbon footprint recalculation policy.¹⁰ Any re-baselining undertaken will be independently assured.
- Overall, Sustainalytics considers the SPTs to be ambitious, based on the following:
 - The SPTs are aligned with an approved SBT trajectory including SBTi approved 2025 target and SBTi methodologically aligned 2030 target. Sustainalytics further highlights that Tesco's Scope 1 and 2 target is considered by the SBTi to be aligned with the more ambitious 1.5 degree warming scenario.¹¹ Tesco is one of only 15 companies in the Food and Staples Retailing sector committed to SBT targets.

Overall Assessment

Sustainalytics considers Tesco's SPTs to be consistent with its overall sustainability strategy and considers its strategy to achieve the SPTs to be credible. Sustainalytics views the SPTs to be ambitious, highlighting the alignment of the SPTs to a trajectory approved by the SBTi.

3) Bond characteristics

Prior to issuing any sustainability-linked instrument, Tesco will select one or both of the pre-defined SPT(s), taking into account the tenor of the financing. As both SPTs are aligned with an approved SBT trajectory, Sustainalytics considers this approach to be credible and aligned with market expectations.

Tesco will incur a penalty should it fail to achieve its SPT(s), which may take the form of either an upwards adjustment to the coupon rate or a penalty payment on the premium amount. The relevant KPI(s), SPT(s), as well as coupon adjustment or the penalty amount will be specified in each of the bonds' offering documentation. The terms of each bond will be binary, in that either the SPT(s) are achieved or not.¹² Sustainalytics views this structure to be aligned with market expectations.

4) Reporting

Tesco commits to reporting on its website performance related to the KPI, namely its Scope 1 and 2 emissions. This information, subject to limited assurance, will be made available on an annual basis. Tesco also commits to include where relevant and feasible qualitative or quantitative support pertaining to the performance of KPI, any adjustments to baseline, reassessment of the KPI, or restatement of the SPTs. Sustainalytics finds this to be in alignment with the SLB Principles.

5) Verification

Tesco commits to having an independent and external verifier provide limited assurance on the published KPI performance figures annually, until after the KPI trigger date of a bond has been reached (2025 or 2030 depending on the selected SPT). The verification report provided will be made publicly available on Tesco's website. This is aligned with the SLB Principles on verification.

Alignment with Sustainability Linked Bond Principles 2020

Sustainalytics has determined that Tesco's SLB Framework aligns with the five core components of the Sustainability Linked Bond Principles (2020).

¹⁰ Tesco, Sustainability, Our Carbon Footprint Recalculation Policy, Accessed on December 2020, at: <https://www.tescopl.com/sustainability/publications/policies/downloads/recalculation-policy/>

¹¹ Tesco has communicated to Sustainalytics that the Group having re-baselines its emission figures to reflect disinvestment of its Asia and Poland business, is still in alignment with the SBTi's 1.5 degree warming scenario.

¹² Tesco has communicated that it will notify its investors of the Group's performance on the relevant SPT within 135 days after the deadline specified in last day of the relevant bond documentation (the "Step Up Notification Deadline")."

Section 2: Assessment of Tesco's Sustainability Strategy

Credibility of Tesco's sustainability strategy

Sustainalytics is of the opinion that Tesco's sustainability strategy, outlined in its 'Little Helps Plan', is credible. The sustainability strategy comprises four pillars: "People" relating to its commitment towards its employees and its supply chain; "Product" seeks to ensure that the Group serves its customers with affordable, healthy, sustainable products; "Planet" pertains to its commitment to protecting the natural environment; and "Places" involves supporting communities where it operates.¹³

Tesco's "Planet" pillar is most relevant to its Framework and covers four main areas – climate change, agriculture, marine and tackling deforestation. In the area of climate change Tesco has made strong commitments, aiming to become a net-zero business by 2050 (and net-zero by 2035 in the UK, its largest market), source 100% of electricity from renewable sources by 2030, as well as reduce supply chain carbon emissions by 35% at its food manufacturing/production sites and by 15% in agriculture by 2030 compared to 2015 baseline.¹⁴ Tesco reported in 2019-2020 that it had reduced its emissions by 37% as compared to its 2015 baseline, sourced 68% of its electricity from renewables, and reduced its UK supply chain emissions by 12%.¹⁵ Tesco is also in the process of engaging with its top 100 suppliers to encourage them to report on their emission reduction plans.¹⁶ Under the other three themes, commitments include to sustainability source all the wild fish it procures, sustainable source agriculture products and achieve net zero deforestation in its sourcing of raw materials.¹⁷ The Group is a signatory to the Taskforce on Climate-related Financial Disclosures¹⁸ and the RE100,¹⁹ has partnered with several sustainable food producing organizations such as Sustainable Fisheries Partnership²⁰, established the Tesco Sustainable Farming Group in 2007 and the Global Tuna Alliance in 2019,²¹ and is a member of the Palm Oil Transparency Coalition and Informal Working Group of the Taskforce for Nature-related Financial Disclosure (TNFD).²² Overall, Sustainalytics considers that the targets set and progress made towards their achievement, along with the participation in multi-stakeholder initiatives, are indicative of strong sustainability performance.

Sustainalytics is of the opinion that the Group has ambitious climate related commitments and that its Sustainability Linked-Bond Framework will enable Tesco to further the Group's action on its key environmental priorities.

Tesco's environmental and social risk management

Sustainalytics' ESG Risk Rating assessment places Tesco's ESG risk exposure moderately above the average for the food retail sub-industry. Despite the slightly elevated exposure, Sustainalytics has assessed Tesco's management of ESG risk to be strong, underpinned by the establishment of several policies that address ESG issues as well as the implementation of companywide corporate responsibility strategy. Sustainalytics also recognizes that while Tesco's defined targets are impactful and its ESG risk management strong, there are certain environmental and social risks to which food retailers may generally be exposed which, if not well-managed, can inhibit sustainability performance. These risks include overall human rights risks, risks pertaining to labour rights specifically within its supply-chain, business ethics, emission effluents and waste, and sourcing products responsibly.

¹³ Tesco, Little Helps Plan, 2019-2020, at: <https://www.tescopl.com/sustainability/publications/reports-and-presentations/>

¹⁴ Tesco, Little Helps Plan, 2019-2020, at: <https://www.tescopl.com/sustainability/publications/reports-and-presentations/>

¹⁵ Tesco, Little Helps Plan, 2019-2020, at: <https://www.tescopl.com/sustainability/publications/reports-and-presentations/>. Tesco has communicated to Sustainalytics that the stated emission reduction figures were prior to the baseline being restated with the disposal its Asia and Poland businesses.

¹⁶ Tesco, Little Helps Plan, 2019-2020, at: <https://www.tescopl.com/sustainability/publications/reports-and-presentations/>

¹⁷ Tesco, Little Helps Plan, 2019-2020, at: <https://www.tescopl.com/sustainability/publications/reports-and-presentations/>

¹⁸ Task Force on Climate-related Financial Disclosures (TCFD) develops recommendations for climate-related financial risk disclosures for use by companies, banks, and investors in providing information to stakeholders. Read more at: <https://www.fsb-tcf.org/>

¹⁹ RE100 is a global initiative bringing together the world's largest businesses committed to 100% renewable electricity. Read more at: <https://www.there100.org/>

²⁰ Sustainable Fisheries Partnership is dedicated to delivering healthy marine and aquatic ecosystems and a secure seafood supply through the creation of a responsible seafood economy. Read more at: <https://www.sustainablefish.org/>

²¹ Global Tuna Alliance is 'An independent group of retailers and supply-chain companies, working to ensure that tuna ultimately meets the highest standards of environmental performance and social responsibility'. Read more at: <https://www.globaltunaalliance.com/>

²² The Palm Oil Transparency Coalition consists of 'businesses working together in a pre-competitive coalition to remove deforestation and exploitation from the palm oil production sector.' Read more at: <https://www.palmoiltransparency.org/>

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Sustainalytics is of the opinion that Tesco is able to manage and mitigate potential risks through implementation of the following policies and actions:

- Tesco is committed to upholding the United Nations Universal Declaration of Human Rights and the International Labour Organization Core Conventions on labour standards, working hours and health and safety for workers. The Group is a member of the UN Global Compact²³ through which it seeks to align its strategies and operations with sustainable and socially responsible policies in the area of human rights, labour, environment and anti-corruption.²⁴ Tesco aims to integrate human rights within its operations by making it a key part of its risk assessment framework and its corporate strategy.²⁵ The Group's position statement on promoting human rights outlines its approach to respecting and supporting human rights and includes its commitments towards promoting inclusivity and equality among its employees, working with suppliers and other stakeholder groups to identify and address human rights issues etc.²⁶ Tesco is a member of the Consumer Goods Forum²⁷ and a founding member of the Ethical Trading Initiative.²⁸
- Based on its sector and the geographical extent of its procurement, Tesco is highly exposed to the risk of violation of human rights and labour rights in its supply chain and faces several controversies in these areas.²⁹ Tesco has established several policies and checks to mitigate human and labour rights violations. Under its Human Rights Strategy Tesco identifies and addresses important topics along its supply chain such as forced labour, worker representation, decent wages and sustainable livelihood, and gender equality.³⁰ Tesco has identified six product supply chains – bananas, rice, cocoa, coffee, tea and clothing factories - where it prioritizes to ensure employed workers earn decent wages as well as support small scale farmers to become more resilient.³¹ Tesco has outlined a detailed approach for its own label food suppliers and non-food grocery suppliers, supplying to its UK and Ireland operations (which account for 78% of its sales). Under this, Tesco outlines requirements for ethical audits and where it expects suppliers to take additional steps to protect workers in its end-to-end supply chains.³²
- Tesco's Code of Business Conduct (the "Code") lists the rules as well as good conduct that it expects its employees to adhere to. The Code lists out the Group's laws, policies and expectations pertaining to fair competition, sanctions and export control, brands and intellectual property, respect, dignity and fair treatment of its stakeholders, accounting and money laundering, data privacy etc. The Group has established what is known as a 'Protector Line' which allows its employees and suppliers to raise concerns regarding misconduct at work.³³
- Tesco supports a circular economy and is working with different organizations to set up waste collection and recycling facilities.³⁴ Tesco is a signatory of Courtauld 2025, a voluntary agreement that brings together organizations across the food system to make food production and consumption more sustainable.³⁵ The Group is also working towards the UN SDG goal 12.3 of 'halving food waste by 2030' and has also established a 'Packaging Preferred Materials & Formats Guidelines 2020' for its UK operations.^{36, 37}
- To ensure products are sourced sustainably and ethically, Tesco has a responsible sourcing policy for various products such as – beef, seafood, palm oil, soy, and timber. As a part of its 'multi-

²³ United Nations, Global Compact, at: <https://www.unglobalcompact.org/>

²⁴ Tesco PLC, Sustainability, Promoting human rights at Tesco, April 2019, at: <https://www.tescopl.com/sustainability/publications/policies/downloads/human-rights-policy/>

²⁵ Tesco PLC, Sustainability, Our approach to human rights, May 2020, at: <https://www.tescopl.com/sustainability/publications/policies/downloads/our-approach-to-human-rights/>

²⁶ Tesco PLC, Sustainability, Promoting human rights at Tesco, April 2019, at: <https://www.tescopl.com/sustainability/publications/policies/downloads/human-rights-policy/>

²⁷ <https://www.theconsumergoodsforum.com/who-we-are/overview/>

²⁸ <https://www.ethicaltrade.org/>

²⁹ Tesco and its direct suppliers have been associated with several human and labour rights violations within their supply chains.

³⁰ Tesco PLC, Sustainability, Sustainable Livelihoods – supply chain strategy, April 2020, at: <https://www.tescopl.com/sustainability/publications/policies/downloads/human-rights-policy/>

³¹ Tesco PLC, Sustainability, Sustainable Livelihoods – supply chain strategy, April 2020, at: <https://www.tescopl.com/sustainability/publications/policies/downloads/human-rights-policy/>

³² Tesco PLC, Human Rights requirements for food and grocery non-food suppliers, August 2020, at: [file:///C:/Users/winni/Downloads/60585v10en-human-rights-requirements-for-food-and-grocery-non-food-suppliers-oct-2020%20\(1\).pdf](file:///C:/Users/winni/Downloads/60585v10en-human-rights-requirements-for-food-and-grocery-non-food-suppliers-oct-2020%20(1).pdf)

³³ Tesco Plc, About, How we do business, Accessed in November 2020, at: <https://www.tescopl.com/about/how-we-do-business/>

³⁴ Tesco Plc, Sustainability, Recovery and Recycling, Accessed in November 2020, at: <https://www.tescopl.com/sustainability/product/packaging/recovery-and-recycling/>

³⁵ Tesco Plc, Sustainability, Our approach to managing waste from our UK operations, January 2020, at: <https://www.tescopl.com/sustainability/publications/policies/downloads/our-approach-to-managing-waste-from-our-uk-operations/>

³⁶ Tesco Plc, Sustainability, Packaging Preferred Materials & Formats Guidelines 2020, at: <file:///C:/Users/winni/Downloads/preferred-materials-formats-listing-april-2020.pdf>

³⁷ Tesco Plc, Sustainability, Food Waste, Accessed in January 2021, at: <https://www.tescopl.com/sustainability/product/food-waste/>

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stakeholder initiative for responsible sourcing' Tesco has set up as well as joined several sustainable and ethical trade initiatives such as – the Ethical Tea Partnership, the Better Cotton Initiative, the Confederation of British Industry, the Cool Farm Alliance, the Food Industry Intelligence Network, and the Global Coffee Platform.³⁸

Sustainalytics is of the opinion that Tesco has appropriate management programs and policies in place that seek to mitigate its ESG risks.

Section 3: Impact of the SPTs chosen

The retail industry brings about a number of positive socio-economic benefits. The Food Industry Association estimates that in 2018 supermarkets alone accounted for approximately USD 701 billion in sales and created about 4.8 million jobs.³⁹ However, the retail industry is also associated with a number of negative environmental externalities, including GHG emissions. It is estimated that over 80% of an average retail supermarket's sales comes from food products which includes fresh produce, dairy, meat, groceries and baked goods.⁴⁰ The global food system is highly resource-intensive and accounts for almost a third of global GHG emissions.⁴¹ While the production of food crops and livestock accounts for a major proportion of emissions (82%), the post-production processes such as retailing, processing, packaging, and distribution account for 18% of emissions.

Tesco ranks among the top 10 retailers globally in terms of sales.⁴² Therefore, lowering its Scope 1 and 2 emissions (which accounted for about 72% of its own operation GHG emissions) can help meaningfully reduce the post-production emissions of the food sector. In addition, the Group's commitment to reduce Scope 3 supply chain emissions (see section 2) will create a cascading effect in reducing downstream emissions. Sustainalytics is of the opinion that Tesco's efforts to improve energy efficiency and increase renewable energy in its electricity mix will positively contribute to the company's sustainability goals and support the Paris Climate goals.

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. This sustainability linked bond advances the following SDG goals and targets:

KPI	SDG	SDG target
Scope 1 and 2 GHG Emissions	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix 7.3 By 2030, double the global rate of improvement in energy efficiency
	9. Industry, innovation and infrastructure	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 acting in accordance with their respective capabilities

Conclusion

Tesco intends to issue Sustainability-Linked Bonds, which will tie the financial structure of the bond to the achievements of either of the following SPTs:

³⁸ Tesco Plc, Sustainability, Tesco and multi-stakeholder initiatives for responsible sourcing, September 2020, at:

<https://www.tescopl.com/sustainability/publications/policies/downloads/multi-stakeholder-initiatives/>

³⁹ The Food Industry Association, Supermarket Facts, Accessed in November 2020, at: <https://www.fmi.org/our-research/supermarket-facts>

⁴⁰ Forbes, What Product Categories Generate Most Volume In A Grocery Store?, August 2013, at:

<https://www.forbes.com/sites/quora/2013/08/07/what-product-categories-generate-most-volume-in-a-grocery-store/?sh=3738ee903d32>

⁴¹ J. Poore and T. Nemecek, Reducing food's environmental impacts through producers and consumers, Science 360, 987–992 (2018), June 2018, at:

<https://science.sciencemag.org/content/sci/360/6392/987.full.pdf>

⁴² Business Insider, The 10 largest grocery chains in the world by sales, September 2019, at: <https://www.businessinsider.com/walmart-costco-7-eleven-kroger-lidl-biggest-grocery-chains-world-2019-9>

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- I) Reduce the Group Scope 1 and 2 GHG Emissions by 60% by 2025 with respect to a 2015/16 baseline;
- II) Reduce the Group Scope 1 and 2 GHG Emissions by 85% by 2030 with respect to a 2015/16 baseline.

Sustainalytics performed a review of the SLB Framework and considers the KPI to be adequate based on their clarity and alignment with Tesco's sustainability strategy, noting that while Tesco has in place strategies and targets to reduce Scope 3 emissions, these are not captured within the KPI described in the SLB Framework. Sustainalytics additionally views the SPTs to be ambitious, highlighting their alignment to the SBT trajectory and the clearly defined baseline. Furthermore, Sustainalytics considers the bond characteristics and reporting and verification commitments to be aligned with market expectations.

Based on the above, Sustainalytics considers Tesco's Sustainability-Linked Bond Framework to be in alignment with the five core components of the SLBP and the prospective of achievement of the SPTs to be impactful.

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