



ACCOUNTING FOR SUSTAINABILITY

SHARING PROGRESS:
**A COLLECTION OF SAINSBURY'S
PRACTICAL EXAMPLES**



THE PRINCE OF WALES'S
CHARITABLE FUND

Sainsbury's



FOREWORD

In an increasingly connected world, connected business cases are fundamental to business decision making. For us as a retailer, acknowledging that for an increasing number of customers every £1 they spend with us is a vote for the kind of world they want to see is hugely important. That means that our business case must connect the communities we serve with the communities we source from, wherever they may be in the world.

It is for this reason that we have worked closely with the Prince's Accounting for Sustainability project for over 12 years, where our Director of Sainsbury's Brand, Judith Batchelar – the sponsor of this practical example project – serves as a member of the Executive Board and as Chair of the Communications Group. During this time, Sainsbury's has made progress in many areas of sustainability, such as meeting carbon targets and reducing food waste, packaging, energy, water use and deforestation, to name a few.

The Finance team are crucial to this progress. Finance professionals have vast experience in addressing risk, identifying opportunities, transforming complex data into useful information and understanding how organizations create value. It is crucial to work cross-functionally to truly understand, and respond to the financial impacts of social and environmental factors.

Another key role that the Finance team can play is to provide the decision makers with timely, relevant and robust information to ensure that the decisions being made at all levels impact our business and our stakeholders in the best way possible.

We have much more to do but, through the guiding principles of integrated thinking and influencing globally through the United Nations' Sustainable Development Goals (SDGs) and acting locally, we are able to understand what long-term value really means, and measure and report on it.

Nonetheless, this area is fast moving, which means that collaboration is key. For this reason, we wanted to share our successes and show how our colleagues, using finance and accounting skills, have supported execution of our sustainable strategy, and so we have produced this collection of past and present practical examples. These represent our current best practice, but we want sustainability to become our 'business as usual', and we continue to work towards that goal.

We have been inspired by stories of other companies' past successes and hope that these accounts of our approach will help others to take action of their own.

We recognize that our progress represents a step on the journey, but it is a journey on which we want others to join us. Through healthy competition, we can work towards a sustainable economy to the benefit of all society.



MIKE COUPE

GROUP CHIEF EXECUTIVE OFFICER,
SAINSBURY'S
CHAIR OF SUSTAINABILITY
PILLAR, CONSUMER GOODS
FORUM

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WHO WE ARE

WE ARE SAINSBURY'S

Sainsbury's is one of the UK's leading retailers across food, clothing, general merchandize and financial services. We employ over 178,000 colleagues and we source from over 70 countries, working with thousands of suppliers and tens of thousands of farmers to offer our customers the products they love. The scale of our business means we can make an important contribution to sustainable development in the UK and internationally.

OUR APPROACH

Our Sustainability Plan is structured around our values and is our guide for building a more sustainable future. A lot has changed since we launched the plan in 2011. Our robust sustainability governance framework allows us to adapt to the changing needs of our business and the world around us, so that our Sustainability Plan continues to generate positive impact where it is most needed and at the speed and scale required.

OUR VALUES MAKE US DIFFERENT

Our core values are integral to how we do business and they enable us to drive lasting, positive change in communities across the UK and overseas. They help us to build trust with our stakeholders, reduce operating costs, mitigate risks and attract and retain talent.

178,000
colleagues

28m
customer
transactions
every week

70+
countries
where we
source our
products

Sainsbury's

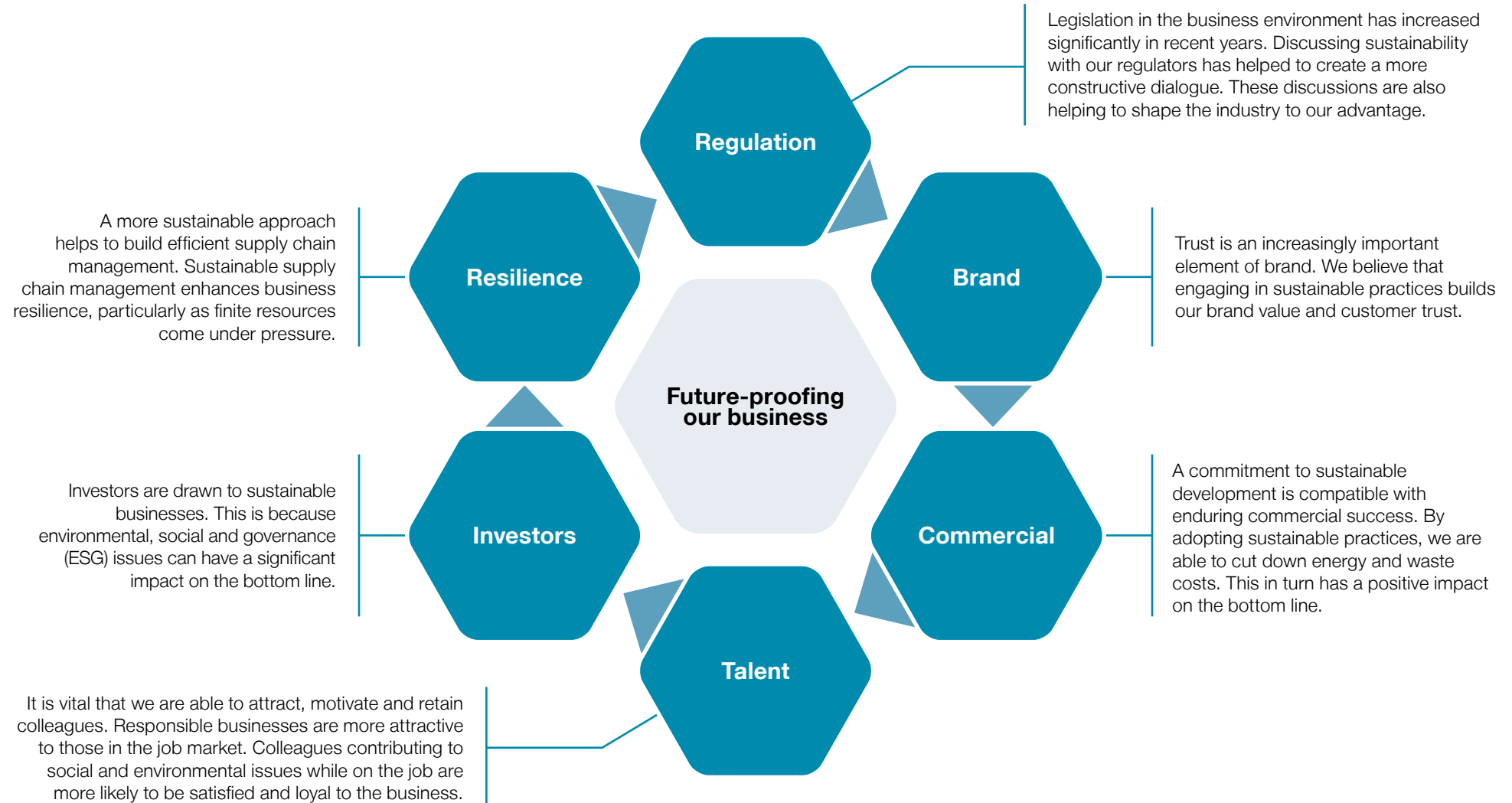
OUR VISION

is to be the most trusted retailer, where people love to work and shop.

OUR VALUES

Our values are to drive competitive differentiation, build brand trust and customer loyalty as well as making us a more efficient and resilient business.

WHY SUSTAINABILITY IS IMPORTANT TO US



OUR APPROACH TO SUSTAINABILITY

PRIORITIZED AREAS

We take an integrated and holistic approach to prioritizing our sustainability areas. We select our sustainability projects using our initiative prioritization framework. The framework considers our potential impact on sustainability, stakeholders and value creation. Successful prioritization relies on being aware of the linkages of the following three aspects.

Total impact – The scale of total societal, environmental and economic impact we can have across the Group's operations, given our level of influence.

Full business value – A comprehensive view of the business value that our sustainability-related activities can realize.

Systems thinking – An understanding of the interdependencies across sustainability activities. This ensures that our teams focus on the vital issues.

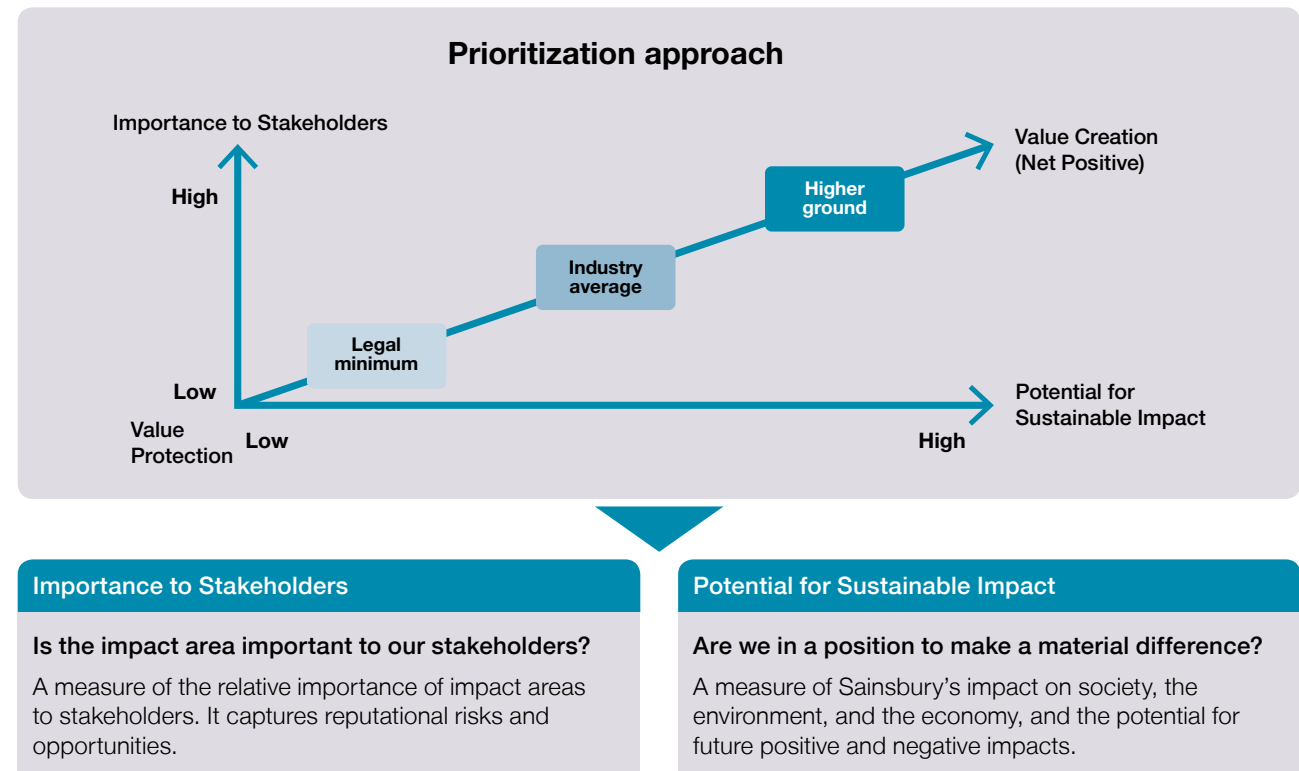
HOW DO WE DO IT?

We capture the value of sustainability in terms of total impact. We do this by identifying the links between sustainability and full business value. Then we try to understand how sustainability activities can contribute to those value drivers. This is about choosing the areas that are material to us, where we can make a transformational difference, and where we can find an advantage that enables sustainable growth. Such an approach is key to alignment between the complex and changing external environment and our internal resources, competence and capacity for value creation.

APPLYING THE FRAMEWORK

Our sustainability projects can be broken down into three broad categories:

- Higher ground 'flagship' sustainability activities that maximize total impact and value creation
- Middle ground 'credible' activities, where our competitive position is maintained
- Legal minimum activities, deprioritized wherever possible





SUSTAINABILITY AND THE ROLE OF FINANCE

Various teams within Sainsbury's implement inspiring projects that deal with complex social and environmental challenges. Finance colleagues are playing an important role within these projects in various capacities. This means stepping out of traditional roles and integrating sustainability considerations into the heart of finance culture, processes and practices.

THE TRADITIONAL ROLE OF FINANCE

The functions of a Finance department typically include financial planning, budgeting and verifying. Sainsbury's is no exception. Finance works with other departments responsible for driving and delivering our core values: promoting health, responsible sourcing, and respect for the environment, colleagues and community. In general, Finance performs the following roles as a business partner to various teams across the business:

- Helping the teams with budgeting, forecasting and monitoring spend
- Maintaining financial control of cost centres
- Providing financial data and analysis for business decision making
- Supporting with project appraisals as and when required

SUSTAINABILITY-SPECIFIC ROLE OF FINANCE

Being the steward of long-term value creation, Finance performs specific roles in developing the business case for our sustainability commitments. These include:

- Developing business cases for environmental projects (e.g. the Greenest Grocer project)
- Developing methodologies for measuring and assessing the impact against sustainability key performance indicators (KPIs)
- Verifying internal and external sustainability reporting

Developing business cases for every project can take time, however, it is essential if we are to ensure these projects create value for our business. More and more projects are integrating the protection or improvement of social, human or natural capital. Finance has an important role in developing these 'connected' business cases for material sustainability projects. The techniques used will be familiar to all finance professionals, for example:

- Cost-benefit analysis
- Capital project appraisal
- Financial data interpretation and analysis
- Cost modelling

THE EVOLVING ROLE OF FINANCE

The Finance team is now considered as one of the key strategic enablers under the new governance structure adopted in 2018. We know it is important to embed sustainability within the Finance function's culture. We are gradually changing our policies and processes to do so. The evolving role of Finance is linked to that of our technology and data analytics teams. This drives our ability to 'measure what matters' and embed sustainability into our business as usual.

THE PRINCE'S ACCOUNTING FOR SUSTAINABILITY PROJECT (A4S)

ABOUT A4S

The Prince's Accounting for Sustainability Project (A4S) was established by HRH The Prince of Wales in 2004. A4S aims to make sustainable decision making business as usual.

A4S'S AIMS

- Inspire finance leaders to adopt sustainable and resilient business models
- Transform financial decision-making to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues
- Scale up action across the global finance and accounting community

➔ www.accountingforsustainability.org

SAINSBURY'S AND A4S

Sainsbury's joined the A4S project in 2006. We recognized social and environmental challenges such as climate change, and their effect on our business. The aim was to build effective decision-making tools that create long-term positive impacts. John Rogers, our Chief Financial Officer (CFO) at the time, joined the A4S Chief Financial Officer Leadership Network in 2013. Now, as CEO of Sainsbury's Argos, he sits on the A4S Advisory Council. The CFO Leadership Network focuses on the role CFOs can play to create sustainable business models and embed social and environmental risk and opportunity into strategy and decision making. The Network has published guides to help the finance community address the practical issues of integrating sustainability into their processes and decisions. As shown in the table, the guides are split into four main themes. This booklet has used these themes as a structure for presenting our practical examples.

LEAD THE WAY

Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Executive Management*
- Finance Culture
- Incentivizing Action*

TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Integrated Management Reporting*
- Capex

MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting

ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance
- Implementing the TCFD recommendations

* Coming soon

SAINSBURY'S PRACTICAL EXAMPLES

This booklet has been split into four sections. The themes from the A4S Essential Guide series have been used as a structure to present the Sainsbury's practical examples. This booklet shows how Sainsbury's are leading the way, transforming decisions, measuring what matters and engaging with investors on sustainable finance. The A4S Essential Guide Series can be accessed via www.accountingforsustainability.org/guides

LEAD THE WAY

Developing a strategic response to macro sustainability trends

- **Becoming energy self-sufficient:** the first retail outlet in the UK to do so
- **Assessing and minimizing impacts** of unforeseen flood risks in our stores

TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision-making

- **Defining the measures and metrics** required to evaluate and assess performance
- **Integrating sustainability** into our governance
- **Using simple and visual integrated management reporting**
- **Measuring and reporting food loss and waste**
- **Utilizing a big data approach** to streamline our existing supply chain
- **Sustainable fishing:** the next frontier of big data analysis

MEASURE WHAT MATTERS

Developing measurement and valuation tools

- **Assessing human capital** in our Greenest Grocer Programme
- **Measuring and mitigating modern slavery risks** in our business and supply chains

ACCESS FINANCE

Engaging with finance providers on the drivers of sustainability value

- **Financing our activities** with green loans

LEAD THE WAY

Becoming energy self-sufficient: the first retail outlet in the UK to do so

WHAT?

We developed the first store to be powered entirely by our unsold food. A quarter of our unsold food that is not suitable for donation to good causes is used as animal feed, with the remainder being sent for anaerobic digestion. Of this, the majority is backhauled to depot before being sent to the UK's largest anaerobic digestion plant, run by Biffa in Cannock, Staffordshire. This facility turns food into bio-methane gas, which is then used to generate electricity. A 1.5km cable has been installed linking the plant to one of our nearby superstores. This allows us to receive electricity directly from the plant. Sainsbury's is the first business to make use of this link-up technology. As a result, this has closed the loop in a way that has never been done before.

HOW?

We have a long-standing working relationship with our waste partners Biffa. We have been using this partnership to make advances in waste management.

Our Cannock site is near to Biffa's anaerobic digestion plant in Cannock, making it the ideal candidate for the first link-up of this kind.

WHY?

We send no food waste to landfill and are always looking for new ways of reusing and recycling. We want to make the best possible use of the valuable resources that we generate through these processes.

The approach takes food that once could only have been sent to landfill and turns it into something of value. When we developed the project, our analysis suggested that the 2010 price of energy could double by 2020, driven by wholesale energy price increases and environmental levies applied through electricity pricing. Our approach also enhances security of supply. The Cannock power link is a small but pioneering contribution to decarbonizing the grid and means that this store will receive a guaranteed low cost and sustainable supply of renewable energy for the foreseeable future.

WHAT'S NEXT?

We will continue to work with our partners and suppliers to cut our operational costs. We are working to put our valuable resources to best possible use. We also work with our suppliers to ensure that they have access to the latest technologies. This will reduce waste in our supply chain and the environmental impact of our suppliers' operations.

KEY THEMES

Managing future uncertainty
Energy efficiency

KEY BUSINESS BENEFITS

Cost saving
Low carbon emissions
Positive use of food waste



The Cannock power link is a small but pioneering contribution to decarbonizing the grid and means that this store will receive a guaranteed low cost and sustainable supply of renewable energy for the foreseeable future.

LEAD THE WAY

Assessing and minimizing impacts of unforeseen flood risks in our stores

WHAT?

Intense flooding has become more frequent in the UK owing to climate change. With many business locations nationwide, we needed to become more vigilant to deal with the challenges posed. We have developed a comprehensive flood-risk assessment tool. The tool allows rapid identification and continual assessment of flood risks at our sites. Along with this proactive response to evolving flood risks, we also have invested in long-term flood mitigation to protect high risk stores.

WHY?

Some of our sites were severely affected by flooding in 2015. We incurred financial losses resulting from business discontinuity. We also suffered damage to our stock and infrastructure. Historical flood information was inadequate for assessing flooding risk to our critical assets. The spread of our geographical locations continues to pose different levels of risk of flooding, from negligible to very high, from rivers, seas and surface water. As a result, management of flood risk demands a detailed understanding of the risk to individual locations. Rapid identification and continual assessment of dynamic flood situations as they evolve is key.

HOW?

We launched the Guardian data modelling application for our stores in 2016. Guardian was developed in collaboration with Stonehaven Technology. It is a bespoke management information system that uses a range of verified critical data, including:

- Historic flood information
- Historic and 'live' weather data and patterns, e.g. rainfall measurements
- River gauge outputs and measurements
- Tidal/seaborne buoy data
- Weather forecasting up to 72 hours in advance from 103 UK weather stations
- Flood warning information issued by the Environment Agency (UK)
- Information produced by social media



KEY THEMES

Managing future uncertainty
Physical climate risk

KEY BUSINESS BENEFITS

Risk mitigation
Cost saving
Business continuity

THE KEY FEATURES OF THE APPLICATION

Geospatial mapping of business locations – The Guardian system contains the latitude and longitude of all business locations. This includes every store, store support centre, depot, petrol filling station and 'click and collect' site. Such specific geopositioning data allows for better accuracy of flood location and threat level. For example, Guardian shows whether the flooding may be specific to a corner of a car park, service road or access route into the store premises.

A flood warning system – The system includes a real-time flood warning system. In line with the current Environment Agency protocols, it highlights three levels of flood risks by site location:

1. Flood alert: be aware (an automated email alert is sent to each store location)
2. Flood warning: preparations required (an automated email and SMS alert is sent to each store location)
3. Severe flood warning: threat to property and life (an automated email and SMS alert is sent to each store location)

The Facilities Management Help Desk has responsibility for extracting and publishing the data twice a day. In addition, each Regional/Zonal Build Environment Manager and Operational Excellence Manager has access to the Guardian system. This enables them to view the 'at risk' locations in their region/zone.

LEAD THE WAY

Assessing and minimizing impacts of unforeseen flood risks in our stores

RISK MITIGATION PLAN: FROM ASSESSMENT TO MANAGEMENT

The tool has enabled us to make informed and timely decisions to minimize the impacts of flooding. Several action plans are already in place. These range from long-term flood mitigation investment to enabling sites' response to evolving flood risks. Some examples of these action plans are described below.

Vulnerability ranking reports:

Guardian generates an ordered list according to each site's vulnerability to flooding. Many site-specific factors are taken into consideration while generating this report. These include the flood risk value (provided by Guardian), number of parking spaces and schedule of planned preventative maintenance. This report is useful for emergency, temporary or long-term mitigation planning.

Flood emergency plans:

A site that passes a risk threshold is put under a flood emergency plan. This ensures that business continuity is threatened as little as possible. Upon receiving the automated flood alert message from the system, the Facilities Manager follows the processes from the flood emergency plans to protect the site. These include the use of sandbags and/or installation of flood barriers.

Temporary mitigations:

We provided temporary mitigation in the form of 'Floodsax' to the 65 riskiest locations. We also trained the technicians responsible for these stores to deploy temporary flood defence systems. Facility Management (FM) has a service contract to maintain the surface water drainage channels in car parks and petrol filling stations.

Long term mitigations:

We have made a capital investment in the sites that are at continuous high risk of flooding, for example, removable flood barriers to protect our stock and limit property damage in case of flood events.

ROLE OF FINANCE

The Finance team actively worked with a cross-functional team (including Property, Facilities Management and Insurance teams) to:

- Conduct the financial appraisals for long-term flood mitigation options using standard appraisal techniques (e.g. NPV/gross investment)
- Arrange the required capital allocations
- Conduct post-implementation reviews

The long-term flood mitigation investments were considered for 12 stores. The financial appraisal clearly identified the following issues:

- The scope of the business case for all the identified stores
- Key risks, such as withdrawal of insurance or increase in premiums
- Cost of resources required throughout the business to complete the project
- Positive impact on the business, e.g. reduction in property/stock damage and interruption to store trading, as well as protection of insurance cover and current excess values
- Detailed breakdown of the expected benefits to customers and colleagues
- Other accounting considerations, such as lease accounting implications
- Landlord consent, i.e. licence from landlords to implement the proposals

The financial appraisal also took into consideration a number of key sustainability impacts. The most material factors, such as operational carbon emissions, waste and water, were considered.

TRANSFORM YOUR DECISIONS

Defining the measures and metrics required to evaluate and assess performance

At Sainsbury's our strategy is underpinned by five values. These are at the core of our business and incorporate our sustainability objectives. Our values play an important role in our long-term strategy for growth and value creation for our customers, suppliers, colleagues and shareholders.

We have split our long-term targets and commitments into milestones to enable us to manage progress better. We ensured that our reporting incorporated all sustainability aspects of our activity in monetary and non-monetary terms.

We also wanted our reports to take into account the way that our executive team supports the achievement of our strategic objectives. We defined the right measures and metrics required and considered whether these are quantifiable. We also assessed ease of collating the data required. This helped to ensure that we can evaluate and assess our performance appropriately.

We are continuously refining the measurement process to improve the accuracy of our reporting. It is important to maintain a flexible approach to KPIs as our understanding of complex sustainability issues improves. It is crucial that we make continuous progress and are able to update KPIs to reflect this.

Our Values



Living healthier lives



Sourcing with integrity



Making a positive difference to our community



Respect for our environment



A great place to work

KEY THEMES

Strategic planning, budgeting and forecasting
Determine data requirements for setting strategic priorities and monitoring progress

KEY BUSINESS BENEFITS






Accurately measures and reports our progress
Facilitates development of new milestones and management of our progress in a better way



TRANSFORM YOUR DECISIONS

Defining the measures and metrics required to evaluate and assess performance

The following table shows examples of monetary and non-monetary measures we used:

 Health	 Sourcing	 Community	 Environmental	 Colleague
<ul style="list-style-type: none">• Healthy products sold, as a proportion of total sales volume• Percentage of red traffic-light labels on own-brand products• Percentage of products that have an appropriate nutrition claim on pack• Percentage increase in sales volume of low alcohol wine (against a 2010/11 baseline)• Total investment in our Active Kids scheme	<ul style="list-style-type: none">• Value of fairly traded sales• Number of R&D projects (participation either as a project lead or partner)• Value of investment in projects involving Sainsbury's in British farming• Proportion of sales from an independently verified higher animal health and welfare outcome source• Reduction in own-brand packaging since 2005• Percentage of sales of wild-caught and farmed seafood that are independently certified as sustainable	<ul style="list-style-type: none">• Percentage of stores reducing food waste by supporting their Local Charity of the Year partner through awareness-raising, fundraising and volunteering• Total annual charitable investment generated across all programmes• Increase in scale and innovation of our support for national charity partners	<ul style="list-style-type: none">• Percentage of Sainsbury's-managed recycling facilities in all available sites• Absolute and relative greenhouse gas (GHG) emissions reduction• Absolute and relative water reduction• Number of stores using natural refrigeration• Percentage reduction in electricity as a result of our colleague engagement programme	<ul style="list-style-type: none">• Colleague reward versus National Living Wage• Number of apprentices trained• Number of colleagues employed through our 'You Can' scheme since 2008• Increase in diversity of our workforce across race and gender• Percentage of women on our Operating Board and workforce



"Sustainability builds brand trust and customer loyalty as well as making us a more efficient and resilient business."

**MIKE COUPE, CHIEF EXECUTIVE OFFICER,
SAINSBURY'S**



TRANSFORM YOUR DECISIONS

Integrating sustainability into our governance

WHAT?

Achieving our strategic goals requires strong governance. Our governance model reinforces the integration of sustainability into our business. In 2018, we reviewed and refreshed the governance of our Sustainability Plan to join up our thinking across the entire business. The new structure:

- Clarifies and defines mandates at each level of governance
- Ensures that sustainability-related activities are signed off by senior executives
- Ensures that the rationale is fully challenged and understood
- Ensures that sustainability-related activities are at the core of business decisions

WHY?

The mandate of each governance body in the new structure has a distinct purpose and clarity of roles and accountabilities. An improved governance structure helps us to ensure that the Group is constantly focusing effort on areas of greatest impact. It allows us to be more agile amid changing dynamic and emerging issues. The new governance structure is supporting us in building trust and being a sustainable retailer, fit for the future.

HOW?

Our Corporate Responsibility and Sustainability Committee (CR&S) is a Board-level body chaired by a non-executive director. The Committee's principal role is to oversee our performance against the 20x20 Sustainability Plan. This holds the Operating Board to account for defining the Group Sustainability Plan. The Committee meets twice each year and discusses strategy and progress across each of our values. The Committee also receives regular updates on stakeholder insights on issues relating to our Sustainability Plan. This is to ensure that we are responding in a flexible way to upcoming issues. The Sustainability Committee is supported by the Operating Board, and by a set of five Value Management Groups (VMGs), for each of our Group values.

Each VMG is chaired by a senior executive in the business. The VMGs have responsibility for implementing our sustainability activities and reviewing proposals. The refreshed approach to selecting VMG members creates a consistent process across all our values. It also ensures that all key business functions have a full view of activities and the strategy, as well as accountability for progress. The wide range of colleagues attending each VMG ensures that:

- Targets are not monitored in silos
- Activities are embedded in the business
- There is fair challenge to new proposals

In our governance structure, each VMG is supported by Finance to help evaluate, identify and prioritize issues that are material to the business.

KEY THEMES

Strategic planning, budgeting and forecasting
Defining decision making authority, delegations and process

KEY BUSINESS BENEFITS

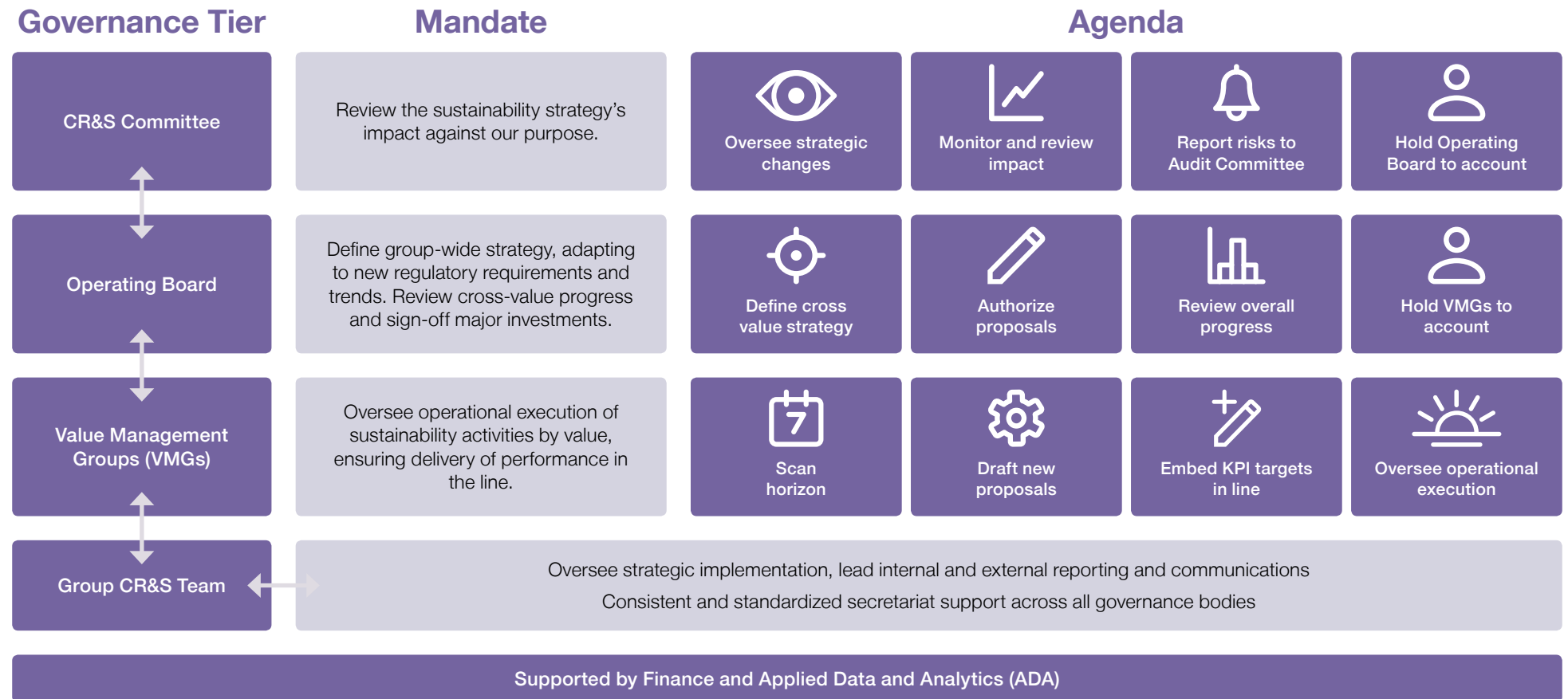
A set process to identify and focus on material sustainability issues
Greater agility



TRANSFORM YOUR DECISIONS

Integrating sustainability into our governance

The diagram depicts the current CR&S governance structure at Sainsbury's. The CR&S Committee's principal role is to review our sustainability strategy for alignment with Sainsbury's brand and oversee the work of the Operating Board. Senior Directors in the business have responsibility for each of our five values. Each VMG is supported by Finance to help evaluate, identify and prioritize issues that are material to the business.



TRANSFORM YOUR DECISIONS

Using simple and visual integrated management reporting

'Respect for the Environment' is one of the five core values that underpin our business. This is all about doing the right thing by enhancing operational efficiency, which is good for both business and the environment. Part of this programme is a focus on reducing the operational carbon by 30% by 2020 versus a 2005/06 baseline. A key work stream that focuses on this commitment is looking at refurbishing stores to enable them to use less energy. This has a positive impact on both the environment and the profit and loss account.

Sitting behind the implementation of this programme are key management reports. The reports increase the ability of the public limited company (PLC) and the Operating Board to make quick, accurate decisions about future developments. We deliver these reports under the usual governance of Investment Board papers. The reports discuss store energy performance both during the works and after they have taken place, measuring the energy savings against targets. Savings are reported and reviewed in the same manner as other key store metrics, such as sales and waste. To enhance decision making there are three cuts of data: a store level one, a contractor summary and a works type summary. These enable performance management of both stores and contractors, with both being held accountable for their performance.

Our summary of the different options available is key in decision making because it provides a view on the return on investment associated with each choice. This analysis is then used to influence future decisions about the level of investment for more stores.

A key benefit of the reports is that the Operations and Investment Boards have been able to make decisions more quickly about future works. This has enabled more savings to be realized as changes can be implemented on time rather than having to be discussed in detail. Annual performance is also used to assess the level of investment for the next financial year. This enables the level of capital required to be forecast, thereby enhancing the budgeting process.

KEY THEMES

Strategic planning, budgeting and forecasting
Transparent integrated management reporting/
reporting frameworks

KEY BUSINESS BENEFIT

Quick and accurate decision making about future
developments

30%

Absolute operational
carbon reduction by

2020

(versus a 2005/06
baseline)

TOP TIPS

Agree board-level accountabilities. Ensure that the governance structure and processes allow for balanced decision making and speedy escalation.

Ensure integrated management reporting is simple and visual. It needs to present a clear 'line of sight' through the business from front-line operations right up to the Board.

Align and communicate company-wide targets and incentives. This helps to achieve effective cross-business working.

TRANSFORM YOUR DECISIONS

Measuring and reporting food loss and waste

WHAT?

We have developed a robust methodology for measuring and reporting our operational food waste by weight. The new approach allows us to analyse unsold food at a product level in near real time. Before this tool we relied on retrospective collection and validation of food waste data. Applying net weight and a consistent unit of measure automatically excludes external factors, such as packaging weight, that can misrepresent the actual waste weight. We have aligned our terminology to the Food Loss and Waste Accounting and Reporting (FLW) Standard. From financial year 2016/17 onwards, all stock keeping units (SKUs)* with disposals are defined following the new methodology. We have seen a significant reduction in food waste as a result of this process.

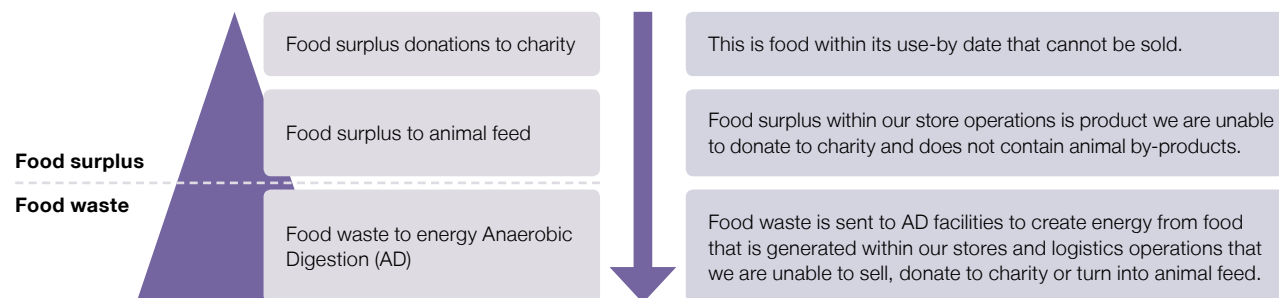
*A stock keeping unit (or SKU) is a number assigned to a product by a retail store to identify the price, product options and manufacturer of the merchandise.

WHY?

As a part of our 'Respect for the Environment' value, we have already achieved our aim of zero food waste to landfill since 2013. We are also committed to reducing waste and putting it to positive use in our business. Following the food waste hierarchy, we donate surplus food to charities. Any food unsuitable for human consumption is either turned into animal feed or sent to anaerobic digestion facilities to generate energy.

Achieving Triple Win: The new approach gives us a better understanding of why and where food waste is generated. Our improved understanding and visibility allow us to take timely and appropriate measures to reduce food waste. Reducing food waste achieves a triple win for us. It helps us meet our business objectives and achieve both social and environmental goals.

Sainsbury's Food Waste Hierarchy



KEY THEMES

Management information

Waste reduction

KEY BENEFITS

BUSINESS BENEFITS

- Minimizes costs to our business – for suppliers as well as customers
- Increases production efficiency
- Improves company performance and brand recognition
- Manages social expectations of reducing waste
- Secures social licence to operate
- Creates long-term business value creation

SOCIAL BENEFITS

- Creates opportunities for redistribution of surplus food to those in need
- Reduces food expenditures
- Ensures greater food security and sustainable consumption
- Helps to achieve UN SDG target 12.3 on food loss and waste

ENVIRONMENTAL BENEFITS

- Exerts less pressure on land and natural resources
- Reduces impact on environment (e.g. water use, deforestation)
- Reduces emissions of greenhouse gases
- Preserves environment and natural resources
- Facilitates measuring and reporting food loss and waste

TRANSFORM YOUR DECISIONS

Measuring and reporting food loss and waste

HOW?

The Finance team was the business owner of the project. They actively worked with Commercial Operations and Applied Data and Analytics (ADA) over a nine-month period. Together they reviewed the existing food waste data management systems then developed a new robust methodology for measuring and reporting on food loss and waste by weight. In light of the new methodology, the following key activities were undertaken:

- We recorded disposal data at store level and turned it into meaningful food waste reporting by applying net weight and a consistent unit of measurement
- A portal was built to generate standardized reports
- Applying a consistent unit of measurement, the commercial operations team:
 - Reviewed each SKU in scope and allocated a net disposal weight to all the SKUs
 - Marked each SKU as a food or non-food metric in line with the FLW Standard
 - Prepared a list of unique and exceptional SKUs to be excluded while measuring food waste
 - Assigned disposal codes

Portal development: ADA developed the new food loss and waste reporting portal with continuous input from Finance and Commercial Operations. The portal allows us to cut the data in many ways: for example using the trading hierarchy (category, subcategory down to SKU), organizational hierarchy (region, store) and across different time periods.

ROLE OF FINANCE

Data cleansing:

Finance reconciled waste data records to ensure that the data was error free. Reconciling was particularly useful in explaining the differences. It also helped us avoid common problems such as double counting. Finance communicated all discrepancies identified to the project teams. Differences were reviewed, explained and resolved by taking appropriate corrective actions.

Data standardization:

Finance also reviewed and verified the accuracy of net disposal weight and unit of measurement allocated to all the SKUs. The team also verified the list of exceptional and unique SKUs without disposals, and consolidated these in a Review Data Quality Report.

An audit trail of the data quality verification process was also created for future reference.

Quality and integrity assurance:





Finance's role continues now that the project has been initiated. Ensuring data quality through cleansing and standardization is a dynamic process as new SKUs are added on a continuous basis. Aligned with the new methodology, Finance is now responsible for ensuring the data quality as well as data integrity of food waste measuring and reporting.

Finance generates independent reports of all the food-waste SKUs by applying the new methodology. The results are then compared with the outputs generated by the food waste portal. This assists in the appropriation of the reports and explaining further discrepancies. Data integrity is also achieved by comparing the year-on-year reports generated by the portal, which can also reveal inaccuracies. These results are also compared with supply chain food waste reports for a further sense check. In doing so, Finance ensures that a standardized system is used to track, measure and report our progress against food waste targets.

TRANSFORM YOUR DECISIONS

Measuring and reporting food loss and waste

The table shows how the portal contributes towards effective business decision making.

Improved measuring and reporting features of the portal		Business Benefits
	Accurate and live data rather than retrospective collection and verification	<ul style="list-style-type: none">• Near real-time decision making and problem solving
	Fine-grained analysis, for example, the ability to drill into specific categories, SKUs, time frames, regions and stores	<ul style="list-style-type: none">• Efficient stock management• Granular-level decision making
	No risk of external factors distorting the weight data, for example, water or other waste included in the weighbridge data	<ul style="list-style-type: none">• Confident and transparent reporting
	Ability to create standardized reports	<ul style="list-style-type: none">• Flexible reporting• Internal information sharing

TRANSFORM YOUR DECISIONS

Utilizing a big data approach to streamline our existing supply chain

KEY THEMES

Strategic planning, budgeting and forecasting
Opportunities, risks and challenges of implementing a big data approach

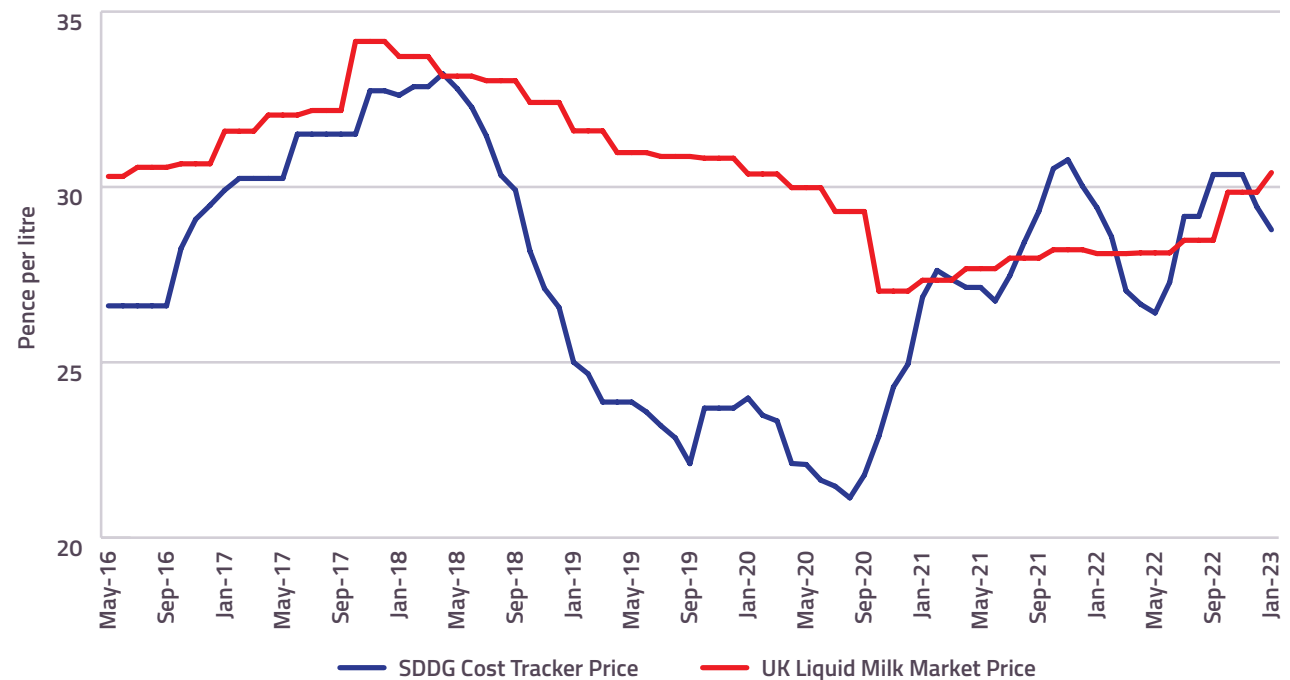
KEY BUSINESS BENEFIT

Quick and accurate decision making

THE MODEL

Our Cost of Production (COP) model aims to protect dairy farm businesses from market volatility. This is both with respect to the price paid for their milk and the major input costs to the farms. The model moves dairy pricing away from standard market pricing to a financially open book, cost-based approach. It is based on data independently collected from over 200 Sainsbury's Dairy Development Group (SDDG) farms. Developing the COP model took 18 months' work with the SDDG farmers and an independent dairy accounting specialist. In March 2012, 86% of the SDDG voted in favour of adopting the COP model. Every SDDG farm provides financial data that is then compiled into an average pence per litre for the group. All costs apart from the 3Fs (feed, fuel and fertilizer) are fixed for 12 months. On a quarterly basis, the 3Fs are adjusted to account for the actual market fluctuations.

The COP model has served to reduce price volatility for SDDG members. Since May 2012, the variance in market price has been 12.09 pence per litre versus a COP variance of 7.12 pence per litre.



TRANSFORM YOUR DECISIONS

Utilizing a big data approach to streamline our existing supply chain

THE ROLE OF BIG DATA

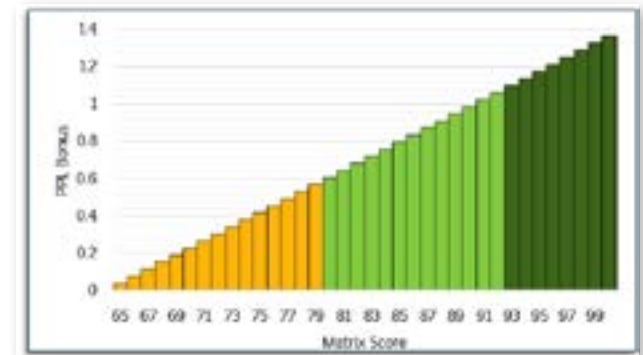
As well as collating financial data, we collect a significant amount of data on herd health and efficiency. We give each of the farms incentives to drive continual improvement using our 'Herd Health and Efficiency Matrix'. The matrix scores farms using a 100-point system. Submitted scores and declarations are subject to independent audit. The matrix scores are then used in rewarding excellence: the greater the score, the greater the farm's bonus. Data is also collected to support our Bovine Viral Diarrhoea (BVD) Control Scheme, aimed at eradicating BVD from our herds. This covers 250 farms, 20,000 head of cattle and the results of over 2,500 blood samples. The data collected evidences that although our cows now produce more milk, they are healthier.



Herd Health & Efficiency Matrix		Score			
		65-70	71-75	76-80	81-85
A. Health & Welfare	1. Mortality	Red	Orange	Green	Dark Green
	2. Morbidity	Red	Orange	Green	Dark Green
	3. Clinical Cases	Red	Orange	Green	Dark Green
	4. Veterinary Costs	Red	Orange	Green	Dark Green
B. Efficiency	5. Milk Yield	Red	Orange	Green	Dark Green
	6. Fertility	Red	Orange	Green	Dark Green
	7. Culling Rate	Red	Orange	Green	Dark Green
	8. Feed Efficiency	Red	Orange	Green	Dark Green
C. BVD Control Scheme	9. BVD Status	Red	Orange	Green	Dark Green
	10. BVD Testing	Red	Orange	Green	Dark Green
	11. BVD Vaccination	Red	Orange	Green	Dark Green
	12. BVD Control	Red	Orange	Green	Dark Green

Data is gathered using the 'Herd Health and Efficiency Matrix' which scores farms using a 100 point system.

The greater the score, the greater the farm's bonus.



TRANSFORM YOUR DECISIONS

Utilizing a big data approach to streamline our existing supply chain

FINANCE TEAM INVOLVEMENT

The Finance and Commercial teams have led the COP initiative working with the agriculture team at Sainsbury's. The agriculture team are responsible for day-to-day interaction with farmers.

The SDDG was set up to ringfence a secure supply of British milk for Sainsbury's. There has been a contraction in the British dairy industry, with large numbers of farmers going out of business. There was therefore a clear commercial imperative to safeguard milk supplies in the UK market. The challenge and opportunity was to give our dairy farmers the stability and confidence to invest in the future of their businesses and protect them from market volatility. In doing so, we have ensured consistent, resilient milk supplies while also ensuring a sustainable future for the SDDG farmers. The implications that implementing the COP model have had for our business and the SDDG farmers are significant.

We have decoupled our price negotiation from the market and linked our costs to a different set of volatile inputs beyond our control. Farmers have also decoupled their price negotiation from the market. This required strong buy-in from the Operating Board at Sainsbury's and our SDDG farmers. It was the quality of the financial model (including its data, governance and the processes) that enabled us to establish confidence and trust within and across the businesses involved. The approach was further supported by the independence of those involved: the independence of our Finance team, internally, and the independent nature of the external dairy accounting specialist. They worked closely with SDDG farmers and our Commercial, Technical and Agriculture teams throughout the process.

THE BENEFITS

The COP model serves to strengthen the long-term commitment we have made to the SDDG. This is because it guarantees to cover the average costs of production, using data provided by all SDDG members. The model also has a business margin element to cover family labour and depreciation. We recognize that for our farmers the most important part of sustainability is financial sustainability, which this model now secures. Financial certainty gives our farmers the confidence to invest in farm buildings, handling equipment and proactive herd health planning with their vet.

Between July 2018 and November 2018 our COP price was below the market milk price. Farmers have accepted this because it is based on data that is derived from their own businesses. The model and its data and governance encourage trust.

These investments have already resulted in improvements to cow health and welfare that, in turn, are leading to increased production efficiencies and more resilient farm businesses for the future.



TRANSFORM YOUR DECISIONS

Sustainable fishing: the next frontier of big data analysis

WHAT?

We are committed to sourcing fish responsibly and protecting marine biodiversity. We recognize that this is an area where technology and big data can play a significant detective role. Using novel sources of data, advanced technology and data analytics, we can now verify the legality and the fishing method of our canned tuna at the point of capture. This is a pioneering initiative which allows third-party access to, and analysis of, sensitive data sets in a way that has not been done before.

WHY?

The EU Commission estimates the global scale of illegal, unreported and unregulated (IUU) fishing practices at €10bn every year. This is roughly 19% of all reported catches. Most traceability systems do not provide absolute visibility to the point of capture. Instead they give an imprecise value across a broad ocean area. The responsibility for verifying the legitimacy of marine fishing is ultimately devolved to government and law enforcement authorities; however, there is little or no market visibility of this verification. As a leading food retailer, we realized the need to ensure sustainable sourcing policy while meeting our volume requirements in a cost effective manner.

Canned tuna is an important component of our seafood portfolio, representing around 9% of fish sales. In 2016, we identified significant commercial opportunity in sourcing 'purse seine' (i.e. net) caught tuna. The opportunity was

available if we fished exclusively in free schools of fish in line with our sourcing policy requirements. As the information relating to the verification of fishing activity is not in the public domain, it was difficult to verify independently the legality or method of catch. Using advanced technology and big data analytics has improved our supply chain compliance risk assessment. This allows us to mitigate impacts of any potential non-compliance before the catch enters our supply chain. By encouraging responsible fishing practices in our supply chain, we are contributing towards minimizing negative impacts. This helps to reduce overfishing and bycatch (i.e. unintentional catching) of non-target species, including sharks and turtles. In doing so, we are able to:

Secure future sourcing

Broaden and manage our supply chain opportunities delivering improved availability and productivity thus more secure sourcing

Build strong customer trust

Ensure sustainable supplies of healthy protein and provide assurance to our customers that our products are sourced responsibly

Create long term business value

Offer ethical and sustainable seafood products that help to generate higher revenues and secure greater market share in the long run

Benefit species and environment

Minimize potential negative impacts of fishing and contribute towards maintaining healthier fish stocks and ecosystems capable of providing a growing population with healthy protein

Develop sustainable fishing communities

Create greater fishing opportunity, sustained income and improved prosperity for the fishing communities

KEY THEMES

Management information

Utilizing advanced technology and big data analysis to make more informed decisions

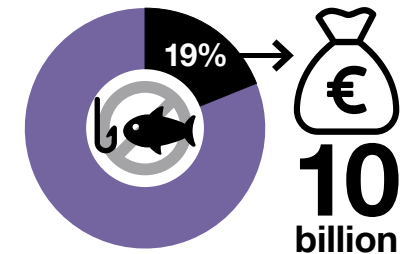
KEY BUSINESS BENEFITS

Stronger consumer trust

Higher revenues

Greater market share

Illegal, unreported and unregulated fishing practices



TRANSFORM YOUR DECISIONS

Sustainable fishing: The next frontier of big data analysis

HOW?

In 2017 we started working with OceanMind. OceanMind is the not-for-profit division of the Satellite Applications Catapult. By working together, we have been able to validate independently the source, legality and fishing method, for example, we interrogated tuna vessel activity using satellite data within the Western Central Pacific Ocean.

Data sources

Bespoke, integrated machine learning algorithms analyse and correlate a wide variety of data sources, including:

- Vessel Monitoring System (VMS) data
- Automatic Identification System (AIS) data
- Fishing vessels' log books
- Vessel fishing authorizations, oceanographics and geospatial data
- Other proprietary and commercially sensitive data used by expert fisheries analysts to identify any potential high-risk activity for further investigation

How it works

- Earth observation satellites track fishing vessels around the world by using automatic location communicators. Vessels can even be detected when the signal is switched off.
- OceanMind fisheries data experts then compare this data with other data sets (e.g. fishing vessel licence information). This can identify the vessel's home port's licensed activities, access authorizations, and the

method of fishing it is supposed to use. OceanMind also verifies and confirms whether our suppliers avoid using Fishing Aggregation Devices (FAD). The use of FADs can lead to the undesirable capture of non-target species (including juvenile tuna) and other marine life.

- OceanMind cross references information supplied by the tuna suppliers with data sets specific to each vessel. This verifies the legality of each catch and the fishing

method at the point of capture. It does this by using complex algorithms. It can then report fishing behaviour that is not as expected.

- A documented risk assessment report is generated for every vessel/trip where fish are proposed for supply for Sainsbury's products.



TRANSFORM YOUR DECISIONS

Sustainable fishing: The next frontier of big data analysis

KEY LEARNINGS/TOP TIPS

Collaboration is crucial:

We are committed to collaboration based on open dialogue, transparency and respect. This collaboration is the first of its kind, with information exchanges and analyses that are unprecedented. This was crucial as this project requires accessing and sharing sensitive data. The success of this initiative largely depends on:

- Establishing a common understanding among all the partners to achieve the desired outcomes
- Ensuring open exchange of views (e.g. open discussion, and challenging processes, timescales and outcomes)
- Embedding a formal feedback process that provides the opportunity to learn and adjust the model when and as required

Use novel sources of data to support sustainability goals:

Using satellite data and data analytics, we can 'look' at the ships and boats that are catching fish for Sainsbury's. The project has given us assurance to date that all fish supplied to Sainsbury's are legal and captured through FAD-free methods.

ROLE OF FINANCE

Finance played a leading role in:

- Tuna value chain analysis (VCA)
- Supplier tendering/selection process
- Understanding the cost of demonstrable policy compliance for our business

The VCA evaluated the end-to-end supply chain processes required to deliver canned tuna to the market. Finance modelled this to examine current cost drivers and opportunities. The opportunity considered was the improvement of the commerciality of canned tuna. This involved working across functions to gather cost and quantity inputs and details of the process. This provided an understanding of cost drivers and factors affecting the makeup of the cost. Feasible options were then financially modelled to find the potential increases in volume, sales and profit. We then presented these financial benefits, together with non-financial benefits, to a Steering Committee.

WHAT'S NEXT?

Having started working with OceanMind in 2017, verified FAD-free tuna now represents 90% of our canned tuna offer. This in turn represents approximately 9% of Sainsbury's total fish sale. Our vision is to obtain independent verification of legal capture for all wild caught fish we sell. The OceanMind project has proved the concept for this model.

As active members of the Global Dialogue on Seafood Traceability, we are working to develop a global specification for digital seafood-traceability systems. We want systems to be designed to provide assurance of environmental and social sustainability, from point of capture through to final pack. Organizational tools such as OceanMind will be key in verifying legality and responsibility at the point of capture. This will change the face of the seafood industry, allowing adopters to prove legality in supply chains. Through wider industry adoption this can end IUU fishing activities. This will result in accurate stock data, healthier fish stocks and improved livelihoods for those involved in catching and processing. We are also investigating where a similar approach could apply in other Sainsbury's supply chains, for example, soy and palm oil.

MEASURE WHAT MATTERS

Assessing human capital in our Greenest Grocer Programme

WHAT?

Sainsbury's Greenest Grocer initiative is a behaviour change programme. It focuses on reducing energy use, waste contamination and water use in stores. This shows the human capital dependency to deliver environmental improvements. The programme covers all 1,400 stores and their colleagues. It encourages colleagues to take responsibility for tackling the company's environmental impact through simple changes to their daily actions.

WHY?

At Sainsbury's, 'Respect for the Environment' is one of the five core values underpinning our business. For us, it combines doing the right thing with enhancing operational efficiency. We recognized that we can achieve simple energy savings in stores through behaviour change. This highlights the interdependence between human and natural capitals.

HOW?

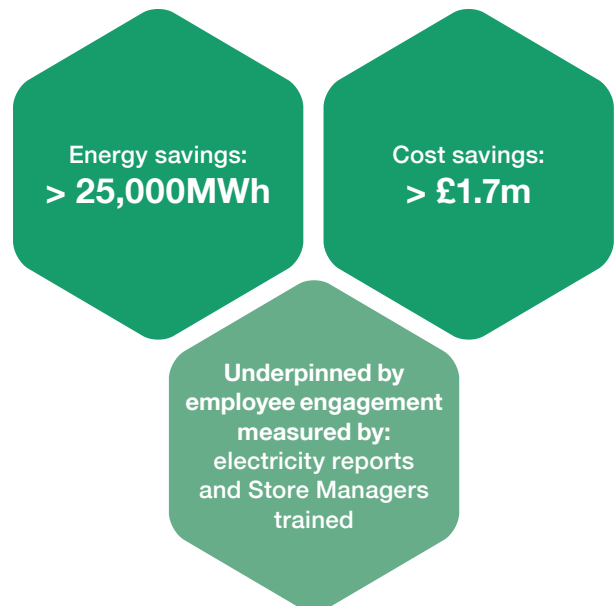
Once we proved the business case through a series of pilots, we rolled out the first large-scale Greenest Grocer Programme. We rolled this out to all Store Managers nationwide from May to September 2016. We took each Store Manager through a six-week energy engagement plan with a series of interactive training and sharing sessions. This helped them understand the opportunities for saving and ways of engaging colleagues. We gave Store Managers a Greenest Grocer Guide and a set of store materials (posters, stickers and activities). This helped them to engage colleagues and make energy saving interactive. The programme led to a £1.7 million reduction in electricity use in under a year. It has also further enhanced colleague ownership of one of our core business objectives. Since then, we have run many smaller Greenest Grocer programmes across all stores with specific focuses, such as reducing waste contamination.

KEY THEMES

Social and human capital accounting
Employee engagement

KEY BUSINESS BENEFITS

Reducing the cost base
Greater colleague awareness of sustainability issues



MEASURE WHAT MATTERS

Assessing human capital in our Greenest Grocer Programme

BUSINESS BENEFITS	MATRICES AND INFORMATION SOURCES	IMPACT / DEPENDENCY	LINKS TO OTHER CAPITALS
<ul style="list-style-type: none">• Cost savings• Increased employee engagement• Greater colleague awareness of sustainability issues	<ul style="list-style-type: none">• Energy savings <i>Source: internal energy system</i>• Cost savings <i>Source: internal finance system</i>• Employee engagement <i>Source: store system</i>	<p>IMPACT Reduced energy consumption Reduced waste contamination</p> <p>DEPENDENCY<ul style="list-style-type: none">• Employee engagement</p>	<p>NATURAL CAPITAL Reduced energy consumption and thus emissions</p> <p>FINANCIAL CAPITAL Reduced energy costs, programme cost</p>

MEASURE WHAT MATTERS

Assessing human capital in our Greenest Grocer Programme

HOW?

We wanted to give Store Managers the knowledge and tools to engage their colleagues. To do this we ran a six-week engagement plan on energy savings in store. We also ran interactive best-practice workshops and shared a series of guidance materials (posters, stickers and activities). This helped to support Store Managers in embedding behaviours in stores. Throughout the six-week engagement, we supported Store Managers with weekly regional calls, reports on electricity use and peer-to-peer knowledge sharing. We knew these were key to encouraging colleagues to take ownership of the programme. We made sure that we used existing structures and channels. This helped create a motivating employee engagement campaign. Five Store Managers, passionate about energy, were seconded to present the sessions in the programme. They drew on their store experience and enthusiasm for energy saving. Having a credible messenger deliver the training meant that messages resonated with Store Managers. As a result, the Store Managers were then more enthused with putting behaviours into practice.

We have continued to use Store Managers, and other leaders in stores, to communicate messages to all colleagues on energy and waste. We have built on the original programme's success. Using guidance materials, communication channels, social media and even gamification has helped to do this.



MEASURE WHAT MATTERS

Assessing human capital in our Greenest Grocer Programme

Challenges

How did we overcome them?

Competing business priorities

Energy has not always been high on the agenda, so we used graphics and adapted language to make the issues visible. This helped to make the message tangible and meaningful to colleagues. For example, describing energy savings as loaves of bread baked rather than talking of kilowatt hours saved. This made the savings more relevant to everyday experience.

Scale of engagement

Training 2,344 Store Managers and engaging colleagues in stores across the UK is a demanding task. To tackle this challenge we organized regional training sessions. We also enlisted a volunteer network of Greenest Grocer Leads to be our champions on the ground.

Maintaining engagement

Since launch, the Greenest Grocer Programme has been a new and exciting campaign. The challenge now is to maintain the momentum so that new behaviours become standard practice. Through celebrating the success achieved, we aim to inspire action and keep the programme fresh.

MEASURE WHAT MATTERS

Measuring and mitigating modern slavery risks in our business and supply chains

KEY THEMES

Social and human capital accounting
Supply chain risk

KEY BUSINESS BENEFITS

Proactive identification of modern slavery risks
More responsive and resilient global supply chain

WHAT?

We are committed to protecting vulnerable workers in our business and supply chains. As a multi-product, multi-channel business with fast delivery networks, this can be complex. In response, we have developed a robust Modern Slavery Risk Assessment Tool. The tool analyses risks with the latest data analytics and modelling approaches. This allows us to identify risks to multiple tiers at an unprecedented level of detail and create action plans specific to each context and business unit.

WHY?

In combating modern slavery, there are many challenges to identifying risks and taking action. The major concerns are the complexity of our supply chains and the lack of detailed data across the chain at the lowest tier. Our Assessment Tool is designed to deal with these challenges. It enhances our capacity for proactively identifying supply chain vulnerabilities and allocating resources to tackle modern slavery risks where there is most need.

Proactive management of modern slavery pays: As well as regulatory and ethical motives, the strong business case for managing modern slavery risks lies in helping to realize our vision of becoming the most trusted retailer. It helps us to:

- Build a more responsive and resilient global supply chain
- Gain customer loyalty as consumers are demanding higher ethical standards
- Improve our brand recognition
- Create a competitive advantage in the marketplace
- Attract and retain talent
- Improve investor confidence
- Ensure long-term organizational growth, new revenue opportunities and greater company value creation

HOW?

Planning and requirements

- Engaging with external data analytics experts
- Creating a cross-functional steering group to create understanding of Sainsbury's needs and remit
- Selecting preliminary data sources for the Assessment Tool
- Presenting modern slavery risks for each business units using Tableau – an interactive data visualization software

Designing and prototyping

- Finalizing data sources through compiling expenditure, location and product/service data from business units (e.g. Sainsbury's Argos, Sainsbury's Bank and Procurement, Food Commercial)
- Building a mock-up of outputs

Developing a tool

- Developing a functional tool through:
- Iterative testing of assumptions and incorporation of new rules and suggestions
 - Economic location modelling to fill gaps and unknowns in the dataset across supply chain tiers
 - A modern slavery risk index and scoring based on research and subject matter expertise

Deploying

- Deploying a risk-assessment diagnostic dashboard
- Identifying high-risk entities to research further, and determining context-appropriate activities

Maintaining

- Annually refreshing the tool to incorporate:
- Updated data from Sainsbury's
 - Updated sources of modern slavery risk indicators

MEASURE WHAT MATTERS

Measuring and mitigating modern slavery risks in our business and supply chains

KEY LEARNINGS

Unfolding both the known and unknown: The Assessment Tool confirmed some of our assumptions about modern slavery risk. More importantly, it also exposed new areas of risk. The tool:

- Confirmed the high-risk status of meat, fish and produce. We continue to reinforce our actions and increase due diligence for these product categories.
- Indicated the need to give more careful attention to specific products. These included cooked and continental meats, as well as bananas, citrus fruits, apples, peas and beans.
- Identified potential high-risk products and sectors that were not previously included in our due diligence. These include wines, some baby products, canned and packaged goods, and ready meals.

A risk known is a risk managed: We have partnered with Verité, a human rights not-for-profit organization, to interpret and respond to the results of the tool. Verité provided feedback on the tool and the action framework. This included suggestions on our due diligence framework and on best practices in managing modern slavery risk. We now aim to develop a robust approach to modern slavery and consult with other external stakeholders where appropriate.



This map illustrates some of the ingredients creating risk for a selection of high-risk products identified by our Modern Slavery Risk Assessment Tool. The ingredients and products shown in the map are examples and show the level of detail the tool is able to incorporate in its analysis.

MEASURE WHAT MATTERS

Measuring and mitigating modern slavery risks in our business and supply chains

ROLE OF FINANCE

Mapping of global supply chain spend:

We further analysed data that is used in our existing financial processes, such as procurement and supplier management data. We analysed this data against a comprehensive visual map of our global supply chain spend. The financial data sources include:

- Cost of goods sold (COGS) report
- Supplier product management system/report

To generate a full picture, the data set was supplemented where needed with the modelled data based on industry information.

Materiality of sourcing:

We quantified our spend (sales, COGS) and further categorized the spend against product/service and geography (e.g. country and region). This helps us to identify clearly the source and materiality of our purchase. Combining sourcing location information with the purchase data provides a hierarchical view of our spend. Financial analysis of the COGS data, on the other hand, informs the materiality of our purchases. The knowledge of the actual cost of a particular raw material/product paid to the supplier helps to determine our dependence on the supply chain. This helps us to identify, assess and dig deeper into a high-risk supply chain.

NEXT STEPS

Broader embedding: The Assessment Tool is a great way of visualizing our supply chains and sourcing. We can use it for other purposes, such as analysing our sourcing from the EU, our spend on particular groups of products or services, or determining how important a particular raw material is to us. The tool also allows a simple way of substituting one risk domain for another. As a trial, we are assessing other risks, such as deforestation, water and greenhouse gas emissions for the Sainsbury's Argos supply chain.

Further refinement: As we get more data on the components and ingredients in our product supply chains, the tool will become more accurate and specialized. We acknowledge the need to gather more information on the flow and providers of labour in our supply chains. This is crucial for eliminating the risk of forced labour. There are industry initiatives (e.g. Issara Institute, Food Network for Ethical Trade) seeking to map recruitment flows and trends around the globe. The future versions of the tool will embed relevant industry information.

From Challenges to Opportunities

Improving our own data

Projects are already under way to improve the quality and consistency of component and ingredient-level information across Sainsbury's Group.

Including new business units

Since designing the tool, we have acquired Argos. We have incorporated Argos data into the latest version of the tool.

Evolving data sets

Information about incidences and indicators of modern slavery are constantly evolving. We refresh the tool each year, to incorporate updated data and risk indicators. This ensures that our modern slavery risk management approach is up to date with global and industry trends.

ACCESS FINANCE

Financing our activities with green loans

KEY THEMES

Debt finance
Green loans

KEY BUSINESS BENEFIT

Signaling long-term strategy to the markets

WHAT?

In 2014 Sainsbury's became an early adopter of sustainable finance by agreeing a £200 million corporate 'green' loan to invest in carbon reduction and sustainability projects. While green bonds are now increasingly issued by institutions to support environmental and sustainable initiatives, this was the first time that a commercial loan had been structured to do the same.

'Project Graphite' is an integral part of our 20x20 Plan, whereby we invested in:

- On-site renewable energy projects related to photovoltaics
- Biomass boilers
- Ground source heat pumps
- LED lighting and other energy-efficient initiatives.

The project was run by a cross-functional team involving engineering, finance, facilities management, project managers, procurement and planners.

WHY?

We saw an opportunity to align our environmental commitments and performance with our loan procurement. We wanted to signal to the markets our long-term strategy as well as to work with partners Lloyds Bank and Rabobank on developing the first commercial loan structured on Green Bond Principles.

HOW?

An external provider performed a benchmark assessment of our environmental policies and performance to illustrate the alignment with the overall objectives of the green loan and to outline our commitment to continuous environmental performance.

The proceeds were managed by our Group treasury as part of its liquidity operations. Funding was assigned to eligible assets, i.e. projects and capital expenditures that meet the eligibility criteria, over a two-to-three-year period.

The key activities undertaken with the proceeds during the financial year 2017/18 were as follows:

- Energy efficiency and LED lighting replacement in 49 stores
- Energy efficiency and LED lighting in 12 stores during a refit, three new supermarkets and 22 new convenience stores
- Combined heat and power plants in one existing supermarket and two new supermarkets
- Refrigeration system gas replaced by natural refrigerant (carbon dioxide) in 29 stores

“

“This £200 million green loan demonstrates our commitment and leadership in carbon reduction and sustainability, and shows the value we attach to environmental improvements.”

**JOHN ROGERS, CHIEF EXECUTIVE OFFICER OF SAINSBURY'S
ARGOS (SPEAKING IN HIS FORMER ROLE AS SAINSBURY'S CFO)**

”



WHAT'S NEXT FOR US?

Social and environmental issues are becoming more and more complex, interconnected and business critical. They are increasingly interwoven in our day-to-day decision making. So far, our Finance colleagues have provided complementary skills to support the execution of our sustainability strategy, as showcased in this booklet. This has meant that the involvement of the Finance team has been more central to some projects than others.

In an increasing wave of regulations, as well as customer demands for us to make the sustainable choice the easy one, we want to be more innovative to turn these challenges into opportunities. We can achieve this by proactively measuring and reporting on what matters to us and to our broader stakeholders. We have already moved beyond the cost-mitigation approach of managing the reputational risks of non-compliance. We are now embracing a more holistic approach to decision making using connected business cases – ones which clearly demonstrate how we can maximize value across financial, social and environmental dimensions of performance. This enables us to focus on projects that take into consideration their long-term value creation for our stakeholders as well as the value to the business.

We will be refocusing our efforts and sharing our new priority areas and vision for 2030 in early 2020. In this vision, the Finance team has a vital role to play. With robust technical skills, sound ethical judgement, and the ability to provide the information and insight necessary, our Finance colleagues will be central to the future of our organization.



ACKNOWLEDGEMENTS

SAINSBURY'S TEAM

Project Sponsor

- Judith Batchelar, Director of Sainsbury's Brand

Sainsbury's Brand Finance Team

- Shakera Siddiky, Post-graduate Finance Intern
- Alex Howes, Trading & Supply Chain Senior Finance Analyst
- Tom Stuart, Sainsbury's Brand Finance Manager

CR&S Team

- Stephanie Velez, Sustainable Sourcing Manager

Environment Team

- David Merefield, Senior Energy and Carbon Manager
- Amy Blackwell, Group Engagement & Operational Water Manager, Energy & Carbon

Agriculture Team

- Ally Dingwall, Aquaculture and Fisheries Manager
- Jo Lawrence, Agriculture Manager

Facilities Management Team

- Danny Malyon, Head of FM & Risk
- Robin Tinto, Operational Excellence Manager

A4S TEAM

- Jessica Fries, Executive Chairman
- Helen Slinger, Executive Director
- Elizabeth Ace, Network Manager, CFO Leadership Network Europe
- Luke McLaughlin, Sustainability and Accounting Manager
- Jamie Stewart, Communications Manager



ACCOUNTING FOR SUSTAINABILITY

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info@a4s.org



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