PIONEERING SPIRIT

WHEN UNILEVER ISSUED ITS INAUGURAL STERLING GREEN SUSTAINABILITY BOND IN MARCH 2014, IT WAS A FIRST FOR THE CAPITAL MARKETS. STEVE WEINER EXPLAINS WHY

On 19 March 2014, Unilever issued its first-ever green sustainability bond. The four-and-three-quarter-year bond raised £250m on the London market and had a coupon of 2%.

Its proceeds will be used to fund six projects that align with the principles of the Unilever Sustainable Living Plan (USLP). This plan, which was set out by our CEO Paul Polman in 2010, represents Unilever's commitment to making our business operations more sustainable and also encouraging our customers to live more sustainable lives.

Background to the bond

Unilever has an ambition to double the size of our business while reducing our environmental impact and increasing our positive social impact. As part of this, we have three big sustainability goals that we want to achieve. These are to help more than one billion people to improve their health and wellbeing; to halve the environmental footprint of our products; and to source 100% of our agricultural raw materials sustainably while enhancing the livelihood of people across our value chain. Since these are big goals, Unilever needs everyone

ILLUSTRATION: ANDREW BAKER/IKON IMAGES

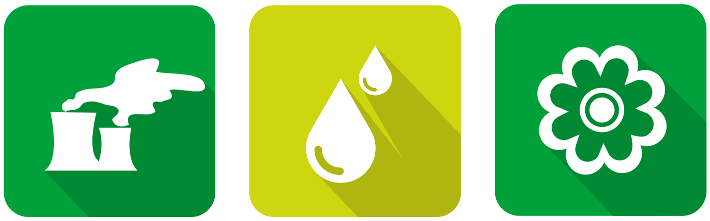
within its workforce – including finance – to pull together in order to achieve them.

Jean-Marc Huët, Unilever's CFO, has set Unilever's finance team the ambitious target of being the best finance team in the fast-moving consumer goods industry. So within treasury, we started to think about how we could create best practice. We are an innovative treasury team – in March 2011, for example, Unilever became the first European company to issue a dim sum bond in Hong Kong. So although sustainability does not obviously sit within treasury's domain, we wanted to find ways to underpin sustainability through our activities. Issuing a green bond was one means of doing this – and we were the first fast-moving consumer goods company to do so.

The history of green bonds dates back to 2007/8, when the European Investment Bank and the World Bank launched the first green bonds as a way to raise funds for projects tackling climate change. Subsequently, multilateral development banks continued to issue green bonds, mostly in relatively small sizes. In 2013, there were a couple of significant developments. Firstly, the International Finance Corporation issued the first billion-dollar benchmark-sized bond. Secondly, energy company EDF raised €1.4bn through a green bond to fund some of its renewable energy projects. This bond followed the guidelines that were subsequently enshrined as the so-called Green Bond Principles in January 2014. (See box – Green Bond Principles, on page 45.) These included transparency around use of proceeds, a clear process for the management of proceeds once they come into treasury, a defined framework for project selection and regular reporting so that investors know how their money is being used.

We followed the issuance of green bonds by EDF and industrial gas company Air Liquide with interest and discussed how we could launch a green bond of our own – one that would effectively create a new market in high-quality, low-risk corporate bonds that were not necessarily used to finance renewable energy. Morgan Stanley had previously approached us about the feasibility of doing a green bond, what investor appetite for such a bond was likely to be, and how we could help the green bond marketplace evolve to include issuers other than multilateral development banks and renewable energy providers.

After doing some homework on the feasibility of a green bond, Unilever's executive committee gave us approval to go ahead with it in December 2013. We appointed Morgan Stanley as our green sustainability bond adviser bank and hired leading environmental consultancy DNV GL to help us to set the criteria for our green bond. We also worked with our supply chain, supply chain finance team and sustainability team to identify suitable projects within the business that met the criteria for receiving the proceeds of a green bond. We looked for projects that would contribute to us reducing our greenhouse gas emissions, water consumption and waste – all key metrics within our USLP, and so directly impacting our sustainability purpose. We wanted a handful of sizeable projects rather than a string of small ones since that would be more manageable for tracking purposes and we preferred projects that had already been approved so that we could spend the money quickly, ideally within the next 18 months. We wanted to raise £250m through the green bond since that was the sum that the group's funding strategy required, and to be conservative, we selected projects with a combined value that significantly exceeded £250m. We decided to issue in sterling because we like to achieve a good balance between our euro, dollar and sterling debt and sterling made sense for us at the time.



HOW THE SIX PROJECTS WERE SELECTED

The criteria for selecting projects were based on three principles:

GREENHOUSE GAS EMISSIONS
The design of the project will result in an operational reduction in CO_2 emissions from energy of 50% for new factories and 30% for retrofitted factories.

WATER
The design of the project will result in operational reductions of water used of 50% for new factories and 30% for retrofitted factories.

WASTE
The design of the project will result in waste generation reductions of 50% for new factories and 30% for retrofitted factories. The operational phase of the project will result in sending zero non-hazardous waste to landfill.

The intended projects in which the proceeds of the bond will be invested include a laundry liquid detergent factory in Johannesburg, South Africa; a laundry powder facility in Sichuan, China; a home and personal care factory in Selcuklu-Konya, Turkey; and the expansion of a spreads factory in Kansas, US.

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The bond is launched

By February 2014, we had come up with a framework for our green bond and we planned to launch it the following month. So, in early March, we brought along three other banks as book runners alongside Morgan Stanley. These were Citi, Deutsche Bank and Santander. On Thursday 13 March, we announced that we would be running an investor road show for the bond – the first investor road show that we had held in 15 years – on Monday 17 and Tuesday 18 March. The two-day road show consisted of breakfast meetings with investors in London and Edinburgh, along with international conference calls. A cross-functional team from Unilever met investors at the road show. The team included representatives from our investor relations, supply chain, sustainability and treasury functions. Our banks worked closely with us at this time, giving guidance on pricing and collating, and doing due diligence on investor demand.

The green bond attracted strong interest from a wide range of investors. Besides our regular investors, many socially responsible investors came forward, including several that do not usually buy sterling bonds, but were attracted by the green angle.

Some of the large US money managers sent senior representatives to the road show to try to better understand the market with a view to setting up their own socially responsible investment (SRI) funds. Overall, more than 60% of the transaction went to investors that manage funds with an SRI focus, including a number that were first-time buyers of the Unilever name.

From a legal perspective, there was no difference between a regular Unilever bond and a Unilever green sustainability bond. Our green bond has the same covenants, guarantees and paybacks as one of our regular bonds and it is also backed by Unilever's strong A+/A1 (Standard & Poor's/Moody's) credit ratings. There was no additional covenant linked to the green sustainability aspects of the bond.

What happens next?

The £250m in funding that was raised through the green bond is kept in a dedicated portfolio within Unilever's treasury system. It will then be transferred to the countries where the six projects are taking place and the money will be tracked throughout so that investors have the comfort of knowing that the money is being used for its intended purposes. The Unilever green sustainability bond followed the Green Bond Principles. We will report annually on the use of proceeds and the project progress against the agreed criteria.

Meanwhile, we hope that we have paved the way for other corporates to follow in our footsteps and issue green bonds of their own. Part of our objective in issuing the bond was to push the boundaries and help to create a new market. We think we have done this since there is already considerable interest in green bonds from among our peers. And we are greatly encouraged by these words from Navindu Katugampola, executive director for green bonds at Morgan Stanley: "Unilever redefined what a green bond is and illustrated a road map for other potential issuers. By following the Unilever example, corporates can issue green bonds to reduce their carbon footprint, improve their environmental impact and drive their sustainability commitment."

GREEN BOND PRINCIPLES

The green bond principles were issued by a group of leading international banks in January 2014. Here is a summary of the principles:

- Proceeds have to be exclusively applied towards new and existing green projects. For example, projects may relate to renewable energy, energy efficiency, sustainable waste management, sustainable land use, biodiversity conservation, clean transportation and/or clean water.
- **Issuers of green bonds should outline the decision-making process that they have followed to determine the eligibility of a project that is to receive green bond proceeds.**
- The issuer should hold the net proceeds of green bonds separately from other funds and track how they are used to ensure that they are used on appropriate projects.
- **The issuer should report at least annually on the specific investments made from the green bond proceeds and ideally measure performance indicators such as reductions in greenhouse gas emissions.**

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IS A GREEN BOND RIGHT FOR YOUR BUSINESS?

It is important for companies to take their environmental responsibilities seriously. Furthermore, sustainability makes business sense because it can increase sales, reduce costs and diminish risk. Therefore, any company that emits greenhouse gases or waste, or consumes energy or water, could potentially issue a green bond.

"A green bond should be a cost-effective way for an environmentally responsible business to borrow money," says Marcus Hiseman, MD at Morgan Stanley. "Because you have a traditional investor base, but also socially responsible investors. That creates a wider investor pool and therefore price tension."

He adds that companies with a lower credit profile than Unilever would find there is investor appetite for them to issue green bonds since some investors are looking for higher-yielding credits. "I believe there's a big demand for this across the credit spectrum," he says.

But companies need to have credible ideas in terms of what projects they are proposing as sustainable. Also, the whole business needs to buy in to the concept of the green bond – treasury can't do it alone.

Steve Weiner is senior vice president finance – group treasurer, tax and pensions at Unilever

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