

Co-operating for a Fairer World - Co-op Annual Report & Accounts for 2021

Continuing to be fairer for our members and communities, fairer for our colleagues and fairer for the planet

2021 in brief

- **Group revenue £11.2bn**
Up 3% on 2019 (2019: £10.9bn, 2020: £11.5bn)
- **Group profit before tax (continuing*) £57m****
2019: £24m (2020: £127m)
- **Group underlying loss before tax*** -£32m**
2019: £35m profit (2020: £100m profit)
- **£72.8m** in extra costs responding to Covid-19 and the supply chain crisis

- Since 2016, together we've raised **£100m** for local communities, causes and charity partners
- **£4.5m** raised in 2021 by our members, colleagues and customers for our national charity partners Mind, SAMH (Scottish Association for Mental Health) and Inspire, taking the total to £7m raised since 2019.
- **517,000** new members recruited in 2021; more than 2019 (470k) and 2020 (445k). 38.8% of new members aged 35 and under, well above our target for younger members
- **100% own brand packaging recyclability achieved**, in line with the roll out of our new soft plastics recycling programme and our 10-Point Climate Plan
- **£20.7m** shared with members through member rewards. **£10m** in total saved by redeeming digital offers
- **33,000 frontline colleagues** moved to the Real Living Wage, where pay wasn't already at that level
- **266,738 unique members** joined in with Co-op **578,583 times**; 50% up on 2020
- **More than 1m members** selected a Local Community Fund cause to support in the last round of funding

* The profit on discontinued operations of £13m (2020: £5m) relating to the sale of our insurance underwriting business is shown below profit before tax. ** Our profit before tax includes a one-off gain of £99m following the settlement of the Group Relief Creditor owed to the Co-operative Bank PLC. *** Refer to Note 1 of our financial statements for a definition of group underlying loss before tax. Further details on the Group's alternative performance measures (APMs) are given in the jargon buster section on page 217.

Co-operating for a Fairer World

We're a consumer owned co-operative running an ethically responsible business. Our Vision is '*Co-operating for a Fairer World.*'

Every day we champion a better way of doing business for you and your community by offering a range of products and services which create value for our Co-op members and their communities.

When you spend at Co-op it does good for you, your local community and communities across the country and around the world.

It's what we do.

Our Co-op is the UK's largest consumer co-operative, with more than four million active members and a presence in every postal area in the country.

We're a major food retailer and wholesaler; we're the largest funerals provider in the UK; a major provider of regulated consumer legal services, particularly probate and wills, and a major provider of life planning and insurance products. Our group also includes Co-op Power: the UK's biggest energy buying co-operative.

Our businesses are all UK-based and our main support centre is in Manchester.

Since 1844 the co-operative movement has promoted organisations with a clear social purpose and our Co-op continues that tradition. A stronger Co-op means stronger communities; we're here to create value for our members and the communities in which we trade and can only do this by running a successful business.

How we run our business is important to us. We set ourselves high standards for responsible retailing and service. And, we have a responsibility to be a campaigning business, speaking out on the issues that matter to our members.

By offering great products and services we grow our customer base, our membership and the positive Co-op impact and value we can bring to wider society.

For more information on our responsible business performance in 2021, please see our Co-operate Report on www.co-operative.coop

Chair's introduction

"We will work tirelessly to ensure we build upon our co-operative history while remaining future focused and inclusive, meeting the needs of our members and the diverse communities in which they live and work, and delivering on our Co-op Purpose and Vision."

No-one could deny the impact that Covid has had nationally and internationally, changing lives and changing our communities beyond recognition in many cases.

For some, however, the winds are changing. The risk of Covid remains globally, but the shadow it's cast across the UK has begun to shift, as measures and precautions adjust.

Before our Co-op starts to consider our future role, I want to take a moment to celebrate the extraordinary efforts and loyalty of our 60,000 colleagues since March 2020, particularly those on the frontline. They have kept our nation fed and helped so many say goodbye to loved ones, extending the hand of co-operation where it has been needed most.

I'd also like to take a moment to thank those leaders who have supported our Co-op teams through these times, which have continued to be both challenging and exceptional. At the helm throughout has been our CEO Steve Murrells and it was fitting that he was awarded a CBE in the New Year Honours List. Steve will formally step down at our 2022 AGM and we thank him for the ten years he's served with our Co-op. Shirine Khoury-Haq is our Interim CEO. Shirine is an excellent and well respected leader, and the Board and I look forward to working closely with her.

As we reflect on what we achieved during last year and outline our intentions for the coming 12 months, we must not lose sight of the commercial challenges we faced in to during the second half of last year, and the need for us to take decisive action in strengthening our financial position further as we head into 2022. We must also be mindful of the bigger picture and opportunity for our Co-op to make a meaningful difference in the years ahead. The last couple of years have exposed even more the inequalities that exist within society and we must play our part in helping the nation recover and redress the balance.

As a business so closely connected to our members and our communities, and with a Purpose that extends beyond maximising profit, we can and must make our presence felt even more strongly going forwards. Co-operation - within the UK, but also with our overseas partners - remains as powerful and as important as ever, and it needs to adapt, so that we can meet the needs of our members and communities in a modern and diverse UK. There are people and causes who need our help even more than before, and they cannot be left behind. Our Vision of '*Co-operating for a Fairer World*' has never been more relevant. It has been guiding our actions throughout the pandemic and it will continue to do so into 2022 and beyond.

As much as we'll stand firm by our communities and support their recovery from the last 24 months, we'll also keep pace with the future and the issues that are still unfolding and mean the most to our members, making their voice heard when it comes to issues like climate change, diversity and inclusion and international developments. Diversity, as an area of focus in particular, is creating great perspective within our Co-op. I was very pleased to see our Diversity and Inclusion commitments published in 2020, and witness the continued hard work to meet those targets throughout 2021, although we're far from finished.

We'll also continue to adapt to developments in consumer behaviour, technology and convenience to make Co-op even more accessible, ensure it stays relevant and create sustainable value for those who depend upon what we do.

As Steve will outline in his report, we must further ensure the security and long-term commercial viability of our Co-op, so that it can continue to serve and support for many more

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centuries to come. As we highlighted within our Interim report, the second half of the year proved to be a very challenging one within our Food business, where the well-publicised supply chain issues affecting the sector significantly impacted upon our trading performance. It is important that we keep our eyes totally centred on our business performance; our investment aligned with activity that will drive our price and product proposition; and our innovation focused on enabling us to compete and win within our chosen markets. 2022 is likely to be another testing year, but one we should face into with confidence and belief.

As always, I'd like to thank our Board and our Council for their continued commitment and dedication.

With everything we've achieved over the last year, the ability of our leaders and the diligence of our colleagues, we continue to be confident in reaching our objectives and performing in circumstances that remain unpredictable after an unprecedented two years. We will work tirelessly to ensure we build upon our co-operative history, while remaining future focused and inclusive, meeting the needs of our members and the diverse communities in which they live and work, and delivering on our Co-op Purpose and Vision.



Allan Leighton

Chair, The Co-op Group

Report from the President of the National Members' Council

"Our members owning our Co-op is where our difference starts, but its power and impact lies in us all working together, to use our platform and voice to make amazing things happen."

I'm delighted and excited to introduce myself as the new President of our National Members' Council, leading 100 passionate and amazing Co-op members in being a voice for the communities we serve, whilst championing members' needs and ensuring our Values are at the heart of our business. It's an honour to be continuing and building upon the great work of Nick Crofts, who held the role of President for six years before me, and I'd like to say a big 'thank you' to everyone who voted for me.

I first stood for Council in 2018, keen to get our members in London involved in our co-operative way of doing things. Day-to-day, I am the Deputy Leader of Greenwich Council in South East London. I'm proud of where I live and care about the wellbeing of those who also call Greenwich home, so I work hard to improve our community and share best practice with others – all of which made me feel like I could contribute a lot to Co-op's plans and be an advocate for our ethos.

We've made a lot of progress during my time on Council to develop our relationships with our Board and teams around the business, helping us to influence areas of difference and input into plans on behalf of our members. For example, we now regularly meet with directors in breakout groups to raise questions and share our views and ideas as part of our Council meetings. I want to see us continue to go from strength to strength with this, but also do more to make our new members feel like they're part of a movement they want to get involved with when they join our Co-op, which is why I chose to stand for President.

Since my election in July, I've hit the ground running and had a busy few months getting to grips with my new role, channelling my passions into priorities. In the summer, we opened our 50th Community Fridge on the Lancaster West housing estate in North Kensington, right in the shadow of Grenfell Tower, as part of our partnership with Hubbub; I was thrilled to be there for such a big milestone. Council members have been helping to shape our community plans, so it was great to meet with teams on the ground who are providing better access to food and empowering communities to tackle food waste.

Supporting our members with taking individual and collective action to save our planet is a big focus for Council. We were all thrilled when our 10-Point Climate Plan and campaign for climate justice launched, as we had called for more action - like bringing forward our 2050 net zero target to as soon as practically possible - to be taken at our 2020 AGM. It was fantastic to see our Co-op26 messaging in stores during COP26, offering simple yet effective tips to members and customers and letting our difference take centre stage. Our stores are the perfect platforms for providing sustainable solutions and I enjoyed learning about one of our zero-emission cargo bike delivery trials when I visited our Old Street store in Islington, London.

In November, Co-op Chair Allan Leighton and I hosted a dinner for some of our fellow presidents and chairs from co-ops around the UK in 1 Angel Square's Foodology Kitchen, in Manchester. As I mentioned earlier, I'm really keen to see us develop a thriving, active movement - working together to promote and champion co-operation is vital for this. Our dinner was a great way to get to know each other and discuss challenges and opportunities, so I'm hoping that this is the start of better collaboration between us. I'm excited to see everyone again soon.

Our Co-op has played a leading role in creating lasting change on major societal issues over the years. We want to create a fairer world - the pandemic and challenges people are facing have highlighted the inequalities that sadly still exist all around us. I was extremely pleased by the announcement of our Commitments to Racial Equality & Inclusion and, as Council

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President, I want to see our Council become more representative of the people in our communities, so that members from any background feel heard and included. I'm very proud to be our first black female President and, while we've made important progress, there's still lots to do to evolve our culture and processes - this will remain a top priority for me.

2022 will be my first full year as President and there's plenty to work on and look forward to. In 2021, we brought our Co-operative Member Education, Training & Information communications plan to life with some fantastic Join In opportunities to help our members play their full part in our Co-op and learn about our difference. In celebration of Black History Month, we held an event with the Co-operative Heritage Trust - I loved having the chance to talk to members about the steps we're taking to become anti-racist in all we do, and it was great to get their views on how we can tackle systemic issues together.

I'm so pleased members are keen to get involved with our activities and there's lots more to come this year, so keep an eye out for emails and information on how to sign up. While Join In is helping us to connect with members from all over the UK, our Member Pioneers are integral to us taking our democracy to a local level in our communities. Council members are now paired with Member Pioneer Co-ordinators for where they live, which will make a massive difference to how we gain the views of members in our constituencies and keep them involved in our Co-op. I can't wait to start thinking about what we can do in Greenwich, where I call home, and the rest of London.

Thank you for reading my first report as Council President. It's hard to put into words how much this role means to me, but I hope that my belief in co-operation and my determination to help it succeed, as a way of living and working, shines through in my update.

A massive 'thank you' to Council and its committees, Senate, Vice Presidents, Lesley Reznicek and Jenny de Villiers, our Council Secretariat team, our Board and Executive, colleagues around our businesses and, of course, our members for your continued support and commitment to a better way of doing business.

I also want to take this opportunity to say a special 'thank you' to Steve Murrells for his dedication and leadership over the last ten years. His focus on our Values and Vision for creating a fairer world have played a big part in how we demonstrate our difference with real purpose for our members and communities. I was particularly proud that he was the first UK retail CEO to publicly condemn the murder of George Floyd and speak truthfully about what must be done to create an inclusive Co-op and tackle inequalities.

Steve regularly attended Council meetings and his open and honest approach, plus a shared passion for our Co-op, helped us fulfil our roles and build better relationships with the Board, Executive and senior leaders. I'm looking forward to continuing this success with Shirine Khoury-Haq and would like to congratulate her on her new position as Interim Group CEO.

Our members owning our Co-op is where our difference starts, but its power and impact lies in us all working together, to use our platform and voice to make amazing things happen. Please read Council's 2021 Annual Statement on page 114 to find out more about all the ways you can participate and how we've worked for our members over the past 12 months.



Denise Scott-McDonald

President, National Members' Council

Chief Executive's overview

"The pandemic has highlighted the need for strong and purpose-led businesses to play their part in helping to tackle the acute social, environmental and economic challenges which we face locally, nationally and internationally."

Time, I believe, will show that 2021 was an important and defining year for our Co-op. A year where our Vision and Purpose shone brightly; a year where our colleagues continued to do what matters most for our members and their communities; a year where we developed our strategic priorities for the future. It was a year, however, where we had to face into some significant trading challenges, especially within our Food business, to dig deep and start the work to build an even stronger Co-op for the future.

The arrival of the Omicron variant, in the latter part of the year, was a stark reminder that Covid, generally, is with us for the foreseeable future. It's a sobering thought when you consider the devastating impact Covid has had over the past two years, claiming millions of lives globally and affecting billions more people. I'm proud and humbled by the contribution made by over 60,000 colleagues in support of our members, customers and wider communities, including the teams who have kept Co-op Academies running so valiantly.

There is no doubt that Covid has accelerated the move to online shopping, but there can equally be no doubt that it has also accelerated a decline in wellbeing, with an increase in people seeking out support for mental health problems. A vibrant, local shopping experience provides so much more than just trade and economic value for a community - it provides a means of connecting and strengthening ties amongst people. As our nation looks to recover from the crisis, it is imperative that the wider role and purpose of shops is not forgotten or misconstrued.

The pandemic has highlighted the need for strong and purpose-led businesses to play their part in helping to tackle the acute social, environmental and economic challenges which we face locally, nationally and internationally – and we've seen, and will no doubt continue to see, these challenges exacerbated in 2022, by developments in Eastern Europe.

It is clear we are facing into a highly uncertain economic climate, where rising prices in particular are placing a real challenge on both consumer spending but also on corporate costs and expenditure. We cannot shy away from this reality and it is important that, during 2022, we take the action needed to strengthen our underlying financial position.

Over the past seven years, we have invested over £2.5 billion pounds of capital expenditure in rebuilding and maintaining our Co-op and Co-op is now well placed to consolidate this investment through our Food, Power and Life Services (Funeralcare, Legal Services and Insurance) businesses. As a consumer Co-op, they provide the fuel to power our Vision and we are excited about their prospects to make a continued, genuine impact for the benefit of more than four million active members.

It is the inherent strength of our Co-op that meant, despite the trading challenges – including the supply chain crisis in H2 and the pandemic - and their impact on our financial performance, we faced in the second half of the year, and we were still able to make headway in four key areas that make a meaningful difference to the lives of our members and communities:

- **Supporting our communities:** In 2021, we celebrated that together, since 2016, we've raised £100 million for local communities, causes and charity partners. See the 'Fairer for our members and communities' section for everything our Co-op achieved in the locations we serve.
- **Fairer Access to Education and Employment for Young People:** We launched Cooplevyshare.co.uk in 2021 - an online platform bringing businesses together to

create new apprenticeships for candidates from under-represented groups, who may routinely be overlooked or discriminated against. We also joined a new £5.2m investment, giving more than 6,000 young people an opportunity to make their communities fairer and safer. There's more detail on page 20.

- **Diversity and inclusion:** I was delighted to see our colleague networks breathe life into a rich calendar of celebrations and significant landmarks for different cultures. These groups remain key to shaping how we become actively anti-racist, as do our diversity and inclusion commitments, helping us achieve true inclusivity and respect the diversity within our Co-op. For more detail, including our first English as a Second Language offering for colleagues, see page 24.
- **Climate change:** I made a point of attending COP26 in Glasgow in October to emphasise that climate action needs to be accessible and inclusive in order to make the difference that's so desperately needed. Co-op has its own 10-Point Climate Plan, which underpins our own mission to be a net zero business before 2040. More information is available in the 'Fairer for our planet' section of this report.

Commercially speaking, 2021 has reinforced our belief that we are in the right markets, where our Co-op difference can be felt and where sustainable value can be created then shared. In Food, we now have four routes to market: through our existing 2,500+ stores, but also through our growing ecommerce, wholesale and franchise operations. In Life Services, our Funeralcare business is transforming itself at pace, while our Insurance and Legal Services businesses are well placed to expand in a capital-light way.

While our trading performance was challenging in the second half of the year, it shouldn't overshadow the progress that our Co-op has made over the past five years. However, it remains the case that we are operating in a highly volatile environment, where the decisions we take now will have even greater significance for our Co-op in the year ahead.

Fundamental to our ongoing success as the UK's largest co-op is the role played by our 60,000 colleagues - our move to align pay for more than 33,000 frontline colleagues to the Real Living Wage, where pay wasn't already at that level, was a clear acknowledgment of this. We invested £19.7m on an annualised basis, aligning frontline colleagues' pay with the Real Living Wage.

Financial overview

Overall our total revenue was down 3% year-on-year to £11.2bn (2020: £11.5bn). This reduction was due primarily to the one-off nature of 2020, during which full lockdown measures led to marked changes in customer behaviour and shopping habits, especially during those times where restaurants and pubs were completely closed. Also, like many retailers, 2021 sales were impacted by challenges across global supply chains and our distribution network, as a further result of the pandemic.

It makes a meaningful year-on-year comparison difficult - comparing our most recent results to those from 2019 can therefore provide more meaningful insight. On that basis, total Co-op revenue is up by 2.6% from £10.9bn (2021: £11.2bn, 2020: £11.5bn), buoyed by a two year like-for-like sales increase (excluding fuel) in our Food business of 3.3% and the turnover of our insurance marketing and distribution business, following the sale of our underwriting operation in December 2020.

There are some other significant items within our figures this year that also make a simple year-on-year comparison more complicated, including a one-off gain of £99m. This is generated from an early settlement of a liability agreed at £48m against a historic liability of

£147m, owed to Co-operative Bank PLC. Further details on this are available in the 'Our financial performance' section.

Our profit before tax of £57 million is down £70 million from the £127 million last year, but up from 2019 (£24m). Our underlying operating profit in 2021 was £100 million (2020: £235 million, 2019: £173 million) and we saw an underlying loss before tax of £32m compared to a £100m profit in 2020 (2019: £35m profit). A tax charge of £25 million meant we recorded an overall profit of £32m from continuing operations in 2021 (2020: £72m and 2019: £49m).

Costs and key investments

To put these figures into context, we continued to incur costs as a result of Covid in 2021, including safety measures across our estates and other expenses, which totalled £29.8m. The supply chain in H2 also cost our Co-op a total of £43m, driven by lost sales opportunities. We returned £15.5m in furlough support from 2020 – we did not receive any further furlough support in 2021. We received £20m of benefit from rates relief in Q1 whilst the impact of the pandemic was still at its height and then declined the business rate exemption after Q1.

Primarily, our financial performance reflects a year of planned investment in line with our business goals and Vision. The underlying strength of our Co-op enabled us to execute a programme of strategic spending across key initiatives, including:

- £19.7m invested on annualised basis aligning frontline colleagues' pay with the Real Living Wage.
- £140m invested in our Food store estate, including opening 50 new stores; 87 store refits; 25 relocations and 15 store extensions, bringing us closer to our customers.
- £38.6m invested in Biggleswade depot, a key part of our Food infrastructure, opening in 2022.
- £8m invested in reducing prices for funerals, at a time where families across our whole country needed it most.
- £3.6m invested in developing ecommerce within our Food business, which has seen our group become available to 55% of the UK population as a result.

Offering great value is important for our members and customers, so we launched our Honest Value range in Food stores across Q4 2020 & Q1 2021, investing £8.7m across 102 products. We also invested in 94 GRO lines, committing £1.1m to align product prices within our vegan range to meat-based equivalents, removing barriers for members and customers interested in pursuing a meaningful lifestyle change.

Additionally we absorbed supplier inflation on key lines in protein and dairy, protecting our prices and customer offer.

This level of investment did contribute to our net debt increasing to £920 million by the end of the year. Whilst this level remains within our existing debt and banking facilities, we have clear plans in place to reduce this significantly over the coming three years, as we expand upon our capital-light routes to market within both our Food and Life Services businesses and maximise the potential of investments made in 2021.

Business unit updates

• Food

- Online services available to more than 55% of the population
Available in 1,600 stores, in 450+ locations by the end of 2021.
- 50 stores opened, 87 refitted, 25 relocated and 15 extended
In retail, we opened 50 more stores, refitted 87, relocated 25 and extended 15. We also opened 22 franchise stores, including our first ever service station store in Cornwall.
- 546 new stores being serviced by Nisa
546 new stores being serviced by Nisa, thanks to great account wins during 2020.

We continued to trade across our four routes to market - retail, wholesale, franchise and ecommerce - adapting to meet the changing needs of our members and customers. We were not immune to the challenges felt across the industry, with Covid-19 and supply chain disruption having a significant impact throughout the year. At the same time, we were also going through a major transformation programme to upgrade our commercial, ranging and supply chain systems to our SAP software solutions, making the second half of the year a very challenging period, which had some effect on availability. Despite the inevitable disruption, the implementation was successfully completed and we are looking forward to making the most out of our new tools in 2022.

In 2020, we experienced a peak in trading, triggered by the first wave of the pandemic, so, inevitably, this makes for a difficult year-on-year comparison, with total sales of £9.1bn in 2021 versus £9.3bn in 2020 across our Food and Wholesale segments. However, we can see a strong underlying demand with our two year like-for-like growth reaching 3.3% in Food (excluding fuel) and more than 9% in Wholesale, demonstrating our continued strength in the fiercely competitive retail market.

A year of investment

In 2021, we continued to invest in our colleagues and our supporting infrastructure in order to unlock our future growth ambitions.

In April, we aligned pay for over 33,000 frontline colleagues with the Real Living Wage, where it wasn't already. Then, later in July, we moved our stores to a three-tier management structure as part of our Fit for Future programme. We created new roles to retain talent, gave colleagues protected terms and were able to offer alternative positions to all colleagues affected.

In the second half of the year, we completed the roll out of our new SAP software solutions to improve ranging, stock holding, demand forecasting and availability in our Co-op stores, and our teams are adapting well to new ways of working.

We've also invested in our logistics network to further support availability and future growth. We ended 2021 on track to open our newest and biggest regional depot in Biggleswade in January 2022, which will handle over two million cases of frozen, ambient and fresh products a week. We also announced our plans to construct a new facility alongside our Newhouse depot in North Lanarkshire. Due to be completed in H2 2022, the new facility will allow us to upgrade part of the existing depot as well as strengthen our core logistics operation in Scotland.

All of this sets us up well for our next phase of growth.

Strengthening our four routes to market

As well as investing in our infrastructure, we have continued to invest in our physical estate and expand our reach through capital-light routes to market.

In retail, we opened 50 new stores in 2021, which takes us to 500 new stores opened over the last five years.

We've continued our focus on expanding our franchise operation with 22 new stores in 2021, taking us to a total of 36. We now have a nationwide presence by opening our first franchise in Scotland, as well as our first ever service station store in Cornwall. Our university partnership continued to grow too and we now service over 200k students with ten in-campus and off-campus stores. We were also really proud to have been named 'Emerging Franchisor of the Year' at the British Franchise Association awards, signalling our strong entry into this market.

Trading in Co-op Wholesale has been strong and in line with our Retail business. During 2021, we recruited 546 new stores to be serviced by Nisa and launched our refreshed Nisa Reward Scheme. As stated in our interim report, our like-for-like sales versus 2020 reflect the end of a supply agreement with McColl's Retail Group and the new customs and regulatory measures adversely impacting sales to retailers in the Republic of Ireland, following the EU exit.

In our online business, we've grown rapidly over 2021, more than doubling our revenues. In total, we delivered £200m worth of sales across our ecommerce website and through our partnerships with Amazon, Starship and Deliveroo, versus £70m in 2020 and £4m in 2019. Our online offer was available in 1,600 stores, in more than 450 locations by the end of 2021, available to over 55% of the population - our expansion efforts are the second largest online roll out globally.

In H2 we announced our trial with Amazon Prime. Prime customers in certain areas now have access to thousands of Co-op products with same-day delivery available for free for orders over £40, as part of the Prime membership. We are now successfully operating in five stores, with Amazon accounting for over 15% of these stores' sales and growing week-on-week. The trial is exceeding our expectations and we're looking forward to expanding the trial in 2022.

In 2021 we also launched a vending and micro-market solution in a wide range of locations including offices and hospitals, allowing customers to self-serve whenever is convenient for them. We look forward to significantly expanding this offer throughout 2022 and beyond.

Showcasing our Co-op Values through our products and services

Showcasing our Co-op Values through our products and services is still our point of difference.

In 2021 we really turned up the dial on how we partner with our suppliers on diversity and inclusion. After success with a pilot group, we rolled out our 'Endless Inclusion Hub' to all suppliers and are currently onboarding them to the site, to ensure we're integrating diversity and inclusion into all of our supplier partnerships.

We also launched Apiary, our supplier incubator scheme with a true purpose-led Co-op difference. We've focused on finding suppliers who give back to their local communities, and who are owned by women or entrepreneurs from ethnic minority communities. We'll be supporting them with mentoring and guidance, and together we hope to broaden the range of products in our stores to ensure that they truly reflect the communities that we serve.

As well as our ongoing price investments in 2021, we launched a series of new products to our everyday low price 'Honest Value' range. It now has around twice as many products as it did when we launched in 2020.

In 2021, we launched our 10-Point Climate Plan, making significant commitments to address the urgent issue of climate change. We announced that we'll be the world's first food retailer to produce carbon neutral own brand food and drink within five years. Also, we have a big focus on developing plans with our suppliers to reduce the environmental footprint associated with the products we sell, as this makes up 90% of our carbon footprint at Co-op.

In H2 we reached our target of making 100% of our own brand packing recyclable. This was achieved through the roll out of our soft plastics recycling scheme, enabling customers to easily recycle soft plastics through our in store units. We also reduced our plastic use even further by removing bags for life and rolled out our compostable carrier bags in their place.

As part of our pledge to make lower carbon choices easier for customers we were the first retailer to price match our plant-based GRO range against equivalent meat products. During the COP26 conference we also ran a two week marketing campaign with the aim of educating members and customers on how to make choices that are fairer for the planet.

- **Funeralcare**

- We remain market leaders across at need funerals, helping 90,731 families say their best goodbye to a loved one in 2021
This is slightly down on 2020 due to the lower death rate and a number of strategic branch closures in the year.
- We supported 44,751 clients in planning for a funeral in 2021, through our funeral planning business
- Our customer satisfaction score was 99.3%
Our professional and dedicated colleagues pride themselves on providing exceptional quality of care for the bereaved and deceased. Quality of care is the number one driver of client choice and our client satisfaction score reached a new high of 99.3% in September. 95% of client surveys returned (26,000) included a compliment.

While the UK experienced a further peak of Covid in Q1 2021, we have seen fewer deaths than in 2020, as the vaccination programme continues with its successful roll out.

As restrictions lifted, our clients were able to opt for fuller funeral services and, as such, our average revenue increased for 2021. However, it remains lower than 2019 due to our continued investment in price across our funeral options. We also made a series of strategic branch closures over the year.

Our funeral planning business remains strong and, in 2021, we supported 44,751 clients with their funeral planning needs; an increase of 5% on 2020.

All of this coupled with exceptional quality of care, demonstrated by our customer satisfaction score, means that we remain market leaders in at need funerals.

We have developed collaborative and robust relationships across Government and with our relevant regulatory bodies, the CMA and the FCA. We achieved full compliance with all CMA requirements ahead of the September 2021 deadline and submitted our FCA application and Regulatory Business Plan in October 2021. The FCA application is the first step in the journey to regulation and is where we provide details about our business and processes in order to be considered for approval. As the leading provider of funeral plans in the UK, every year we are proud to help thousands of clients with their funeral planning requirements and provide full confidence in our Co-op brand and Values. We are confident that regulation will

raise standards across the sector and improve consumer confidence when purchasing a funeral plan.

Throughout the pandemic, our professional and dedicated teams have focused on caring for and supporting the nation's bereaved and deceased. Our performance has also been underpinned by the delivery of our bold and exciting Funeralcare strategy, which focuses on providing greater levels of personalisation, an improved digital offering for our clients and more sustainable choices across our funeral options, aligning to our Vision. We continue to offer more competitive prices to our members and clients and we have maintained prices since 2017.

Modern, diverse and inclusive in every way

Our aim is to offer the widest range of funeral options so everyone can have a unique and personal funeral, with fair and transparent pricing.

In 2021, we:

- Introduced new funeral options for our clients that are personal at every step of the way, including extending our African and Caribbean options to additional locations and trialling a new eco proposition.
- Launched a modern, diverse and inclusive rebrand, including a refresh of our marketing collateral, showcasing our inclusive funeral options on TV and radio.
- Reduced our prices, including the price of our direct cremations, making this increasingly popular option more affordable.
- Successfully launched a new direct cremation funeral plan in partnership with Memoria, a market leading private crematoria, as well as provided Funeral Benefit Options in partnership with the Post Office.

A true omni-channel approach to client engagement

Technology adoption has accelerated. However, our clients also want face-to-face support and contact at key points of their journey. We've combined digital innovation with investment in our physical estate to optimise client experience and choice when it matters most.

In 2021, we:

- Developed our online services enabling clients to see our full range of products, with full price transparency and the ability to start to plan a funeral online before visiting one of our branches.
- Introduced new ways to pay online, providing greater convenience for our clients whilst reducing time processing payments.
- Launched a new live web chat service for both funeral and funeral planning services.

More efficient ways of serving our clients

- To provide our clients with a caring and consistent experience whenever they need our support, we introduced a 'Best Arrangement' framework across all of our funeral homes.
- We invested in 1,600 new devices to help make the lives of our colleagues easier and to enable them to provide more seamless service and care to our clients.
- We introduced a new time and attendance technology platform across the business.
- We started to move towards a sustainable future across our large fleet of funeral vehicles. We are trialling Tesla and Nissan hearses with an ambition to be fully electric by 2030.

All of this couldn't have been achieved without our dedicated, caring and professional Funeralcare colleagues. This year we have built on our work to create a safe, diverse and inclusive environment. We've supported our colleague wellbeing with the development of our

Psychological First Aiders and we have rolled out inclusion training to all managers. We recognise the unique and pivotal role our teams have in dealing with grief and bereavement on a daily basis - our focus in 2021 and into the future is to provide exceptional care for our colleagues who are the heartbeat of our business.

- **Insurance**

2021 was an important year for Co-op Insurance. Although we have a proud history of over 150 years of offering insurance, this was the first full year of our new partnership and distribution business model. We're already starting to see the benefits of this capital-light and customer focused model and look forward to growing our market presence in the years ahead. Our Insurance business generated profits of £15m (2020: £2m loss) on sales of £34m (2020: £6m) in 2021, following the sale of our underwriting business to Markerstudy in December 2020 and the start of the related 13 year distribution agreement for Car and Home insurance.

Home and Car insurance both performed well, with 162,000 new customers coming to Co-op Insurance in the year.

Our new Car and Home partnership has allowed us to make a major investment in the customer experience for these buyers. Also, thanks to this same partnership, we have been able to bring on a number of UK insurers to help meet more of our member and customer needs. This saw improvements in our competitiveness, with better value prices being offered.

Travel insurance has had a mixed year. 2021 has seen a number of different travel restrictions and measures from both the UK and other countries - consumer confidence remained quite low as a result of many cancelled flights, restrictions to navigate and the added expense of private Covid tests. At the end of the year, we successfully launched a new series of Travel products in readiness for the market opening up.

We also made a major upgrade to our Pet insurance products and we look forward to a very exciting year ahead for our Pet offerings. The pandemic saw more people get pets and protect them with insurance during the year, and this led to a 20% increase in sales on 2020.

Our two Life insurance products, in partnership with Royal London, have performed in line with our expectations. We improved our Over-50s Life insurance product in February, as research showed the need to simplify the product as some of the benefits were hard for customers to understand.

We've seen a positive improvement in both quote completion and conversion on the Over-50s product following these changes. We also worked in partnership with Funeralcare, to create greater value, offering a Funeral Benefit Option (FBO) to Over-50s customers.

Our work on making communities safer in partnership with others moved on at pace in 2021. Our long standing relationship with Neighbourhood Watch broadened out with new activities, such as the launch of Student Watch: a new national initiative designed to improve student safety whilst on campus and away from home.

We also enhanced community spaces through the creation of a wonderful outdoor adventure play area on a Wildlife Trust site, and we continued our Neighbour of the year campaign for the fourth year. This year we introduced two new categories - 'Young Neighbour of the Year' and 'Community of the Year' - and once again, we were inundated with hundreds of wonderful examples of caring people who aimed to improve their communities by being good neighbours.

We're so proud that the impact this work has on communities was recognised with an external award, winning 'Best Community Initiative' at the Corp Comms Awards.

We further saw our insurance business do its bit for a fairer world with more than 103 million car insurance miles offset in 2021, through our car insurance climate partnership with Climate Care.

- **Legal Services**

2021 was a strong year for Co-op Legal Services. The business has continued to grow despite facing into several challenges and exiting the small claims personal injury market, following the sale of our insurance underwriting business to Markerstudy Group.

The work we've done to develop our products and practice areas this year has set us up well, and we're confident we'll continue to grow the business at a fast rate in 2022.

In 2021, Legal Services revenue increased by 3% compared to the previous year (this is a 9% increase, when you exclude revenues generated from discontinuing operations). Earnings before interest and tax increased by 28% year-on-year (a 93% increase excluding revenues generated from discontinuing operations).

In Probate, we increased our case numbers. In 2021, cases opened increased by 20% year-on-year to over 6,000 cases. For our clients, this meant we distributed in the region of £1bn of assets to Probate beneficiaries with over 1,000 charitable donations from clients and beneficiaries.

In Estate Planning, we have also grown our revenues by 11% year-on-year. We've co-operated with a number of charities to make a difference, with 2,000+ charity pledges in wills written.

The last two years have presented external market challenges related to Covid-19. Consumer buying behaviours have been disrupted with all consultations and advice moved to remote meetings. Partner relationships have also been impacted by changed consumer journeys. Co-op Legal Services adapted to this, re-engineering operating models to serve partners and support client needs within these new constraints. These changes have been successful and, this year, delivered improved commercial outcomes. They are also important strategic enablers for future growth.

To drive continued growth in the business, we have continued to invest in our digital capabilities and have launched new products and services, including a lasting power of attorney digital service and a digital probate administration service.

In 2021, a key focus for us when developing digital products has been inclusion and accessibility. Our aim is to make the law accessible to everyone.

To empower users to make informed decisions, regardless of their situation, we design tools with user insights in mind. We design and test our digital services with real users, from a range of heritage backgrounds and accessibility needs. This gives us confidence that our new services are intuitive, accessible and inclusive.

This has led us to create products with features such as:

- 24/7 access to legal services.
- A personalised list of tasks to complete, which highlights risks when managing the estate of someone who has died.

- Clear, structured guidance allowing customers to form clear, legally binding instructions for their attorneys. It provides security that their health, wellbeing and finances are being managed as they would wish.
- A free-to-use executor tool. Everyone can access initial bespoke guidance to understand their legal responsibilities when managing the estate of someone who has died.

We're working to be inclusive in all areas of our Legal Services business. Supporting vulnerable clients continues to be a real focus for us, and we're very proud that a recent internal audit awarded us a 'Good' rating for our work in this area. This rating gives us even more confidence that we've got the right governance and control framework in place, we have the right information available, and our colleagues know how to identify and support vulnerable clients in the right way.

We've continued our work building partnerships with B2B clients including charities and commercial businesses and, in 2021, we onboarded 19 new partners. We are delighted to have built new partnerships across several sectors with leading banks, leading financial services providers and market leading charities.

Co-operating for a Fairer World

We live in a world where:

- Individuals feel they are not listened to or respected.
- Institutions and leaders are not trusted.
- Communities feel disconnected and vulnerable.
- Corporate actions can be at odds with the sustainability of the planet.

The pandemic has cruelly shone a spotlight on the gaping inequalities which already existed in our country. As one of the world's oldest co-operatives, our leaders can and must find solutions that help to address them.

'Levelling up' and 'Build back better' have become key phrases within a post-Covid narrative, to help encourage Government, industry and other agencies to work together and fix the major challenges we are facing. The words equally chime with an aspiration to create a more equal playing field, where no-one and no local community feels isolated or left behind.

But the words and music must come together if these gaps are to be bridged and a fairer, more equitable society is established.

Our Purpose of doing business a better and different way is based upon a simple but compelling concept, which is to return the value back to our members and the communities in which they live. Our Vision of '*Co-operating for a Fairer World*' has never been so needed or relevant and, during the course of the year, we made significant progress in delivering against it.

Our Vision is based on three key and interconnecting areas of focus: 'Fairer for our members and communities', 'Fairer for our colleagues' and 'Fairer for our planet'.

Fairer for our members and communities

Membership, and the support this allows us to give to local communities, makes our Co-op what it is. Making life fairer for our members and communities sits firmly at the heart of delivering our Vision: '*Co-operating for a Fairer World*'.

During 2021 we've focused heavily on recruiting more active members, allowing our customers to unlock greater value for themselves and make a difference locally.

Member recruitment

517,000 new members joined us in 2021, more than 2019 (470,000) and 2020 (445,000) - we ended 2021 having achieved our target for active members, having also reactivated over 260,000 of our lapsed members.

Our three acquisition campaigns have proved popular, recruiting 130,000 of our new members this year.

And we're delighted to be attracting more younger members – more than 200,000 (38.8%) of our new members are aged 35 and under. This is above the 33% target we set ourselves, and more than double the percentage of young shoppers that are among total UK grocery shoppers, as reported by Kantar.

Engaging our members

The way our members engage with us digitally continues to grow, with over 1.1m signing into our app, and 966,000 selecting a digital offer at least once during 2021 (53% of which were new to offers) - more than 26m offers were selected. Members who redeemed offers saved a total of £10m, resulting in an average saving of £13.37 per member. And, following a targeted direct mail to non-app users, we saw Co-op app downloads grow to 54k: the highest weekly total we've seen since September 2020.

Our members are at the heart of our business and the decisions we make. And that means more than just joining in on developing our products and services. Our members also have a say on the issues we champion, the causes we highlight, the injustices we tackle and where we use our voice to help make a difference.

For example, more than 16,000 of our members have helped us to shape our three areas of community focus. This year we've taken that one step further and they've been collaborating with us to develop the work funded by our Community Partnerships Fund, so that they're not only generating the funds that benefit communities, but also having an active say in how and where those funds are spent.

Last year, our members made their voices heard like never before. Working with our Food teams, more than 100,000 members designed a range of more than 16 member exclusive products from popcorn and pizzas - these new products hit the shelves in 2022. They also helped our in store teams design how we talk about membership and community and created new product reviews to bring products to life for our customers and members.

Climate change has long been a big issue for Co-op members. In the summer, over 14,000 members downloaded resources to highlight our new plastic recycling hubs in stores, and joined in to shape our climate change policy and support our COP26 activity. Over 66,000 members joined our campaigns this year, from colleague safety to standing alongside Marcus Rashford in support of free school meals.

We work with members to help bring to life our unique co-operative structure. In 2021, we worked with our National Members' Council to develop a range of online quizzes and activities to help members better appreciate our Co-op. Over 21,000 joined in, with topics including co-ops around the world, diversity and our campaigning tradition.

Back in January, thousands of members helped us understand more about how to tackle racism as we launched our anti-racism commitments. Members asked us to help them celebrate festivals and events that were key to different cultures and faiths. We launched our first two member activities this year for Eid Ul Adha and Diwali with videos created by members and factsheets designed to help members learn more and participate.

Throughout the year, 266,738 unique members joined in with Co-op 578,583 times, which is 50% up on 2020.

Supporting and understanding our communities

Our Local Community Fund allows our members to support local projects they care about, through raising funds just by choosing Co-op. Since we launched the fund back in 2016, we've shared more than £84m to help local causes deliver over 25,000 community projects across the UK.

Selected causes receive a share of the financial support generated by our members when they shop at Co-op. So we're delighted that, during 2021, a record-breaking one million members selected a Local Community Fund cause in our final round. This is the highest level of cause selection we've ever seen in a single round.

During the pandemic, we've adapted our community strategy to support our local communities' needs, making sure the power of our Co-operative Values is supporting local communities where and when they need us the most, during these difficult and challenging times.

We know the pandemic hit many communities hard, and we wanted to step up and play our part in supporting where help was needed most. In May 2021, we issued a survey to local causes to understand the impact of the pandemic on projects being supported through the fund.

Over 3,000 causes responded (making it a 66% response rate) providing valuable insight into the challenges they were facing. As a result, we continued to allow greater flexibility in the use of grants to enable causes to adapt their projects in light of the pandemic.

And, as challenges remained ongoing in 2021, we injected funds into our interim April payout to allow funding to reach communities as early as possible.

Our Community Wellbeing Index – as well as feedback from our members, colleagues and causes - is critical in driving support to those communities that need it most and informing where we can make the most significant, meaningful difference. Available on <https://communitywellbeing.coop.co.uk>, it draws upon multiple data sources to determine the wellbeing of more than 28,000 UK communities. It helps us appreciate exactly what our communities need and acts as the backbone of what we do and what we plan to do, to deliver against our Vision. It also leads how we work with key groups, including local causes, charities and Co-op Academies, so that we can work together to see our communities recover and build new resilience. We have a new annual report that outlines the findings – please see our Co-operate Report for more information, available on www.co-operative.coop

Digital tools also help our communities connect. Co-operate (www.coop.co.uk/co-operate) is our online community centre which brings people together to make good things happen, empowering them to co-operate for a fairer world. 13,500 groups and activities on the platform are connecting with people across the UK. As of 2021, it now also offers a platform that helps us activate key projects for the benefit of our communities, including Hubbub, Peer Action Collective for young people, or the mental wellbeing support we have developed with Mind, SAMH and Inspire. More on these later in this report.

Raising funds together

Our Community Partnerships Fund is created by our members from money raised when they buy Co-op products and services, and it helps us tackle the big issues in society. After doubling support for communities through Co-op membership in 2020, this fund sits alongside the Local Community Fund, supporting thousands of local causes.

Since we launched the fund in September 2020, our members have raised £12.9m through their community reward - and generated £116,000 through donating their personal member rewards.

The fund has allowed us to work towards new projects with partners and even forge new relationships with like-minded organisations, interested in realising our Vision alongside our Co-op and making a difference to the lives of those in our communities who need it the most. In 2021, £4.8m was distributed from the fund, which included support for the Youth Endowment Fund and Hubbub, and a further £3.4m committed to support activity in 2022.

Our colleagues have been simply incredible throughout the pandemic. Not only have they stepped up and continued to play a vital role by feeding and supporting the nation, they've continued to support our work in communities.

Our innovative colleagues - including those on the frontline, working in the heart of our communities - found so many different routes to supporting others, whether that was fundraising, supporting charities in person, taking an active role in trusts or working closely with our Local Community Fund causes. During 2021 our colleagues, members and customers have raised over £4.5m for our national charity partners Mind, SAMH (Scottish Association for Mental Wellbeing) and Inspire, taking the total to £7m since 2019, to bring communities together to improve mental wellbeing.

Our three missions

Our community support continues to focus on three missions: Fairer Access to Food; Fairer Access to Mental Wellbeing Support and Fairer Access to Education and Employment for Young People.

- **Fairer Access to Food**

The need for emergency food support increased during the pandemic and, as the economic situation worsened, this need continued.

We know that many of the current food charity partnerships are serving communities in desperate need of immediate support. However, we also recognise that we need to move to ethical and sustainable relationships in the long term. We need to empower communities to manage access to food for their people, whether that's through providing meals for school children who need them, or offering the means to grow and enjoy fresh produce, as examples.

That's why during 2021 we focused on: making sure that food that is fit to eat is used well, through distribution networks and through local partners; building capacity to help local communities increase resilience and have control over their own food journeys; and campaigning for change to help level the playing field for fair access to food.

We have a strong long standing interest in reducing food waste from our Co-op. Our Foodshare programme shares surplus food with local community groups - 88% of stores now have a Foodshare partner, with 28% of our Food stores' surplus food shared with these groups. Through our depot distribution network, we also continued to support FareShare by distributing 2.8 million meals in 2021.

We launched our Hubbub partnership in May, helping to double the size of the UK's Community Fridge Network from 100 to 200 locations. In December we announced a commitment to help the network expand to 500 locations, helping redistribute millions more meals by the end of 2023.

We're proud to have been one of the first retailers to confirm our participation in the End Child Food Poverty Taskforce convened by Marcus Rashford. The Taskforce campaigned for the Government to expand eligibility for the Free School Meal scheme to include every

child, extend the Holiday Activity and Food Programme to all areas in England, and increase the value of Healthy Start Vouchers to £4.25 per week - a cause for which our members also actively used their voice.

- **Fairer Access to Mental Wellbeing Support**

Of equal importance is fairer access to mental wellbeing support, and we've seen the need for this grow rapidly. It's well documented that the pandemic has had a significant impact on the mental wellbeing of the nation, with 65% of adults and 68% of young people reporting that their mental health has declined.¹

During 2021 we've continued our partnership with Mind, SAMH and Inspire to bring communities together to improve mental wellbeing. We're so proud that between our members, colleagues and customers, we've raised more than £4.5m for these three partners, taking the total to £7m raised since 2019.

And, as a result of our partnership, we've also been able to support over 8,000 people to increase their resilience and mental wellbeing - we now have more than 50 new services across the UK. We've signposted over 900,000 people to information, activity and support for mental wellbeing. Also, we were proud to add new insight on the vital role of community through our new research - '*Together Through Tough Times*' - and have been using this to call on governments to build community resilience into post pandemic policies. The *Together Through Tough Times* report can be found on www.co-operative.coop

- **Fairer Access to Education and Employment for Young People**

The nation's young people are at the heart of our support for communities. They're our future members and co-operators. Making sure that, through the power of co-operation, young people and their communities have fairer access to education and employment is incredibly important. We know that the impact of the pandemic will be felt for years to come. We want to be able to provide joined up, sustainable solutions that will make a difference to the lives of the next generation.

During 2021 we've been working hard to help young people be heard, make a difference and access opportunities.

We listened to around 5,000 young people from the UK, aged between 10-25, to understand how Covid had affected their lives, but also to share our findings with a wider audience as part of our '*Ghosted Generation*' report. Our findings defined a massive 'Hope Deficit' - 60% of those asked believed that the pandemic would leave them permanently disadvantaged. The *Ghosted Generation* report can be found on www.co-operative.coop

In October 2021 we launched the Peer Action Collective (PAC): a unique partnership with Youth Endowment Fund (YEF) and the #iwill Fund (a joint investment between The National Lottery Community Fund and Department for Digital, Culture, Media and Sport), investing £5.2 million to give 6,000 young people the chance to make their communities safer and fairer places to live. For more information, visit <https://peeractioncollective.com>

Together, through PAC, a ground breaking network of 120 paid peer researchers aged 16-25 will be created, who'll find out about young people's experiences and understand what they need. The programme supports them to work with other young people to take what they learn and turn it into action, whether that's finding routes to work, setting up much needed social facilities or helping instil greater mental wellbeing across young people in our communities.

¹ Mind (2021), Coronavirus: the consequences for mental health, July 2021

In February 2021, we also announced Cooplevyshare.co.uk – an opportunity for employers to come together and support apprenticeships for individuals from under-represented socio-economic groups. For more information, see the ‘Fairer for our Colleagues’ section on page 25.

Our Co-op Academies continue to go from strength to strength, educating over 17,000 young people across 27 northern academies by the end of 2021. They support our ambition to provide fair access to education, alongside other Co-op campaigns and commitments, such as Fairtrade and our sustainability commitments. We work in close partnership to deliver against our diversity and inclusion commitments, including the commitment to the development of an anti-racist curriculum.

We’ve developed activity to support Careers Education, Advice, Information and Guidance from Primary to Secondary to Post 16, including virtual work experience in partnership with a number of our suppliers. The Virtual Work Experience programme engaged more than 1,500 students, including those from Co-op Academies, during a five week period. 80 live sessions were available from 18 different sectors of Co-op, as well as 11 supplier sessions led by Kellogg’s, Microsoft, ITV, Marsh, and Mitie. This was complemented by physical work experience opportunities for students with special education needs and disabilities and those that may become ‘NEET’ (Not in Education, Employment or Training), helping to inspire and inform students who require additional support in preparation for the world of work.

Our programmes help students to develop key employability skills from Foundation Stage to Post 16 years. We’ve also maintained our commitment to delivering the Co-op Young Business Programme, which offers substantial work placements, including at our Co-op, for students at Connell (our only academy with a sixth form college) in their final year. This is the only programme of its kind in the UK with paid placements. It looks to develop the knowledge students gain in the workplace, build their employability skills and give them work readiness.

As part of our commitment to the Co-op Academies Trust, we also provide governance expertise from our business, which includes more than 80 Co-op colleagues who hold governor roles.

Where possible, our academies also support fair access to wellbeing and food, with a whole trust approach to mental wellbeing. Each academy must have the means to ensure mental wellbeing sits in equal priority to supporting the physical health of its students.

And we’re delighted to see our Co-op Academy Failsworth supporting fairer access to food, with the students running the academy’s own Community Fridge, accessible to the whole community.

Member Pioneers

We simply couldn’t achieve everything we do, including against these three missions, without our Member Pioneers. They make great things happen in our communities and work tirelessly with Co-operate, other Co-op colleagues, members and local causes to ensure they can all recover and build new resilience.

We reached 1,000 Member Pioneers and Member Pioneer Co-ordinators in 2021, based in communities across the whole of the UK. They bring our Co-op Vision to life by connecting key contacts in their communities and bringing people together to increase co-operation.

During 2021 our Member Pioneers invested over 100,000 hours in our UK communities, including 28,000 hours supporting our three missions and more than 20,000 hours supporting our Local Community Fund.

They engage with an average of 38,000 people a month and reach more than 6m through their social media channels.

Our Member Pioneers actively get involved and support our Co-op campaigns and initiatives including Hubbub Community Fridges and our partnership activity with Mind, SAMH and Inspire. During 2021, they also delivered more than 300 Live Local events across the UK, bringing key themes – such as Fairtrade, Sustainability and the launch of our soft plastics recycling – to some of our most important audiences: our members, customers, colleagues and community causes.

For more information, or to get involved, visit www.communityspirit.co.uk or, to find your nearest Member Pioneer Co-ordinator, visit www.coop.co.uk

Co-op Foundation

The Co-op Foundation is Co-op's charity and, during 2021, it continued to support delivery of our Vision: '*Co-operating for a Fairer World.*'

The Foundation awarded its largest single grant to date to Refugee Action in September. Its £250k flexible grant was agreed in less than a week to help the team respond to the Afghan refugee crisis, fund longer-term support services and raise the voices of people with lived experience of the asylum system.

The Foundation also provided flexible funding to help its community spaces partners overcome the long term impacts of Covid, with grants totalling £366,000. In addition, £296,000 was awarded from its Space to Connect partnership with Government to help partners expand their work boosting connections in communities.

This grant giving built on the Co-op Foundation's commitment to flexible funding that saw it join a community of funders committed to open and trusting grant making. This community is co-ordinated by the Institute for Voluntary Action Research and the Foundation made eight pledges, including committing to being open with partners, acting with urgency and being proportionate with reporting.

Also in 2021, Co-op Foundation ran year three of its 'Lonely Not Alone' campaign to tackle youth loneliness and improve youth mental wellbeing. Foundation research shows there are 1.9m chronically lonely young people in the UK. The campaign invited 10 to 25 year olds to share their stories of loneliness online to break down stigma. 3.1 million young people have now seen Lonely Not Alone and 97% have taken an action as a result.

The Foundation's partnership with Luminate continued through 2021 as it launched the second phase of its Federation programme. This is designed to help people use technology to speak out about inequality.

Fairer for our colleagues

Throughout 2021 our colleagues continued to make an amazing difference for customers, members and each other. They've all stepped up and delivered despite the extraordinary circumstances the pandemic continued to create. Our priority was to ensure their wellbeing was safeguarded and they were given all the support and information they needed.

Safer Colleagues, Safer Communities

Our focus on keeping colleagues safe and feeling safer will never stop. We continue to invest significantly in technology and training in our shops to tackle violence, abuse and shoplifting.

On top of the 250 stores that already have them, 300 more stores were provided with body worn cameras in 2021, to be used when a colleague feels threatened by aggressive or violent behaviour. We know from our data and research that shoplifting is a key trigger for aggression against colleagues so we've invested in things such as product protection tags and fitted all of our assisted service tills with security cameras.

We also invested in 50 more safety focus stores, taking us to 100 stores overall. These stores are those worst affected by crime, with 45% of all reporting coming from these shops. We've invested in additional security measures, such as shutters, special glazing on doors and windows, intelligent CCTV and improved intruder detection. We've also closely supported the teams in these stores and developed their skills in how to deal with specific challenges in their shops.

We've continued to campaign for better protection in law, working with MPs, unions and other retailers to get new legislation that increases the penalty given for violence towards a retail worker. In January 2021, the Scottish Parliament voted in favour of the Protection for Workers (Retail and Age-restricted Goods and Services) Bill, which creates a new statutory offence of assaulting, threatening or abusing a retail worker. We were also pleased that the Government has accepted the need for a change in law in England and we look forward to seeing that legislation put in place in the early part of 2022.

Colleague wellbeing

Colleague wellbeing is our number one priority, and the work we do to support colleagues is designed to ensure that they feel supported, as individuals. We're now in year two of the pandemic and we know this is impacting colleagues; helping to protect their wellbeing has been more important than ever.

Every month we share a #WellbeingWednesday Co-op Care newsletter with all colleagues. It supports their general wellbeing and gives them all the information they need to help them cope with any physical, mental and financial issues they have been facing during the pandemic.

We've done a lot of work to ensure our people policies are not only up to date, but also meet the needs of our colleagues, in line with our Co-operative Values.

There have been two major policy launches this year, the most recent being the launch of our new domestic violence policy. We know that the pandemic has brought more instances of domestic abuse and the policy is designed to help protect our colleagues as much as we can as their employer.

Our new pregnancy loss policy was developed with the Miscarriage Association and provides practical support for parents who experience pregnancy loss at any stage of pregnancy.

Through 2021 our approach to developing colleague wellbeing initiatives has continued to be based on insight and data directly from our colleagues:

- We've made our Headsmart mental health training available to all managers, to help them understand the importance of wellbeing, identify the signs of poor mental health and approach the issue.
- We've launched Wagestream to all colleagues, allowing thousands of them to access their earned pay between pay days and open a savings account paying 5% interest. Colleagues have told us Wagestream has reduced their stress levels and improved their finances.
- We've sent all our colleagues a wellbeing booklet and wallet card to show them all the support we have available in one place.

- We've launched a pilot of YuLife, which will incentivise colleagues for healthy behaviours. YuLife is an app that puts all Co-op benefits in one place and rewards colleagues for simple healthy activities, like walking and meditating, with YuCoin. YuCoin can be exchanged for vouchers from brands including Amazon, ASOS and Nike.
- We've continued our other partnerships to support physical, mental and financial wellbeing such as Smart Health, which provides all colleagues and their families with access to virtual GPs and support in areas such as mental health, complex medical cases, nutrition and fitness.
- Our wellbeing platform, provided by LifeWorks, has continued to grow in popularity, giving colleagues access to a range of self-help wellbeing resources. We're also continuing to partner with Stepchange, Neyber, Co-operative Credit Union and Keep Credit Union to bring quality financial wellbeing guidance to colleagues. We've created a wellbeing hub to help our leaders easily access all wellbeing content from one place to support their teams.
- During Mental Health Awareness Week, we ran 40 virtual events on numerous mental wellbeing topics, inviting partners such as Mind, SAMH and Inspire to host.

And for our office-based colleagues, our 'Working Well for Everyone' programme has continued to be there for colleagues who are hybrid working at home and in the office, offering flexibility and choice around how, where and when they work. We've also launched a new Hybrid Working Policy to give colleagues and leaders clarity around this.

Diversity and inclusion

Our diversity and inclusion strategy has seen continued increased focus this year, and we've explored what it really means for all our colleagues more than ever before. Our aim for colleagues is to create an inclusive culture where everyone has a sense of belonging and has a fair, equal chance to fulfil their potential.

Our key activities for 2021 focused on development, learning and delivering against our commitments to racial equality and inclusion, which we made in September 2020. We've made good progress and you can read a full update on www.coop.co.uk

- We've delivered over 3,000 inclusion learning opportunities alongside a more diverse range of activity through our Inclusion Calendar.
- We've ensured inclusion objectives are embedded in our individual and collective leadership goals this year with all our senior leaders striving to lead by example.
- We launched our Advancing Diverse Talent Programme, developed for ambitious colleagues from ethnic minority backgrounds, to furnish them with skills and techniques to draw upon, against barriers to development and progression.
- We've created a programme of learning that celebrates all facets of diversity, bringing Rosh Hashanah and Trans Awareness Week to the forefront. We have worked in a more intersectional way across our colleague networks, in support of understanding more about our colleagues and their lived experiences.
- We launched our first English as a Second Language offering for colleagues, having listened to feedback and ideas from our colleagues. We saw more than 400 people sign up.
- We've also translated policies into several different languages for the first time, starting with our new Domestic Abuse Policy.
- Our discovery groups and listening circles focused on areas such as how we celebrate cultural events, and accessibility to items needed for prayer and cultural practice.

- We've also been analysing our colleague data to understand how we can drive better decisions that support not only our most marginalised colleagues, but all of our colleagues. Our ongoing focus on data has seen us working alongside our leaders to understand the value of our colleague diversity information and its role in decision making. 65% of our 60,000 colleagues have shared their data with us.

Our colleague networks have been integral to our work, representing our diverse colleague base and helping us champion best practice. Our networks include Represent (for disabled colleagues); Aspire (women); Respect (LGBTQ+); Strive (young colleagues aged 18-30); Rise (ethnic diversity) and PACT (parents and carers). These networks have been heavily involved in how we've shaped our Inclusion Calendar of events and ensure our colleagues have been represented in the most authentic way.

We've taken the time to mark cultural and religious events and days throughout 2021, to recognise and celebrate the varying identities of our colleagues.

Fair pay and meaningful work

In early 2021, as part of our commitment to reward colleagues fairly, we aligned pay rates with the Real Living Wage. In 2021, all our Customer Team Members in our stores received a pay increase of 5.6%, with similar pay increases to other frontline roles across Co-op.

Our apprenticeship programme opens up a route to lifelong skills for our colleagues and communities. In May 2021, we launched Cooplevyshare.co.uk to support apprenticeships for individuals from lower socio-economic backgrounds, different ethnic minorities and other under-represented groups, working with other employers, including our suppliers, to bring together target funding of £15 million to create opportunities. By the end of 2021, the service now had 30 donating employers with £7.2m in the fund and 59 receiving organisations detailing potential apprenticeships. 442 matched apprentice opportunities had been confirmed, to a value of £4.06m.

In 2021, there were over 600 apprentices aged 16 to 70+ across 30 different programmes within our Co-op. We've created a Young Business Leaders programme with Connell Sixth Form College (a Co-op Academy) which offers a pathway into entry level Co-op apprenticeships.

Despite this being a very challenging year for our Funeralcare colleagues, 87 have achieved their full apprenticeship while, in Legal Services, we've recruited both Paralegal and Solicitor apprentices, as an alternative to a traditional university route.

In October, we began the recruitment of more than 300 LGV driver apprenticeships, in response to the driver crisis facing the nation, offering opportunities to those already working for Co-op, or those who were aspiring to. Within three months, apprentices will become fully operational drivers, with a starting salary of between £23,753.60 to £25,584.00, depending on location. By the end of 2021, we'd already recruited 56 of these apprentices.

For more information on our pensions and related investments, please see our Co-operate Report.

Transforming our leadership

To help us deliver our Vision we need leaders who are connected to it and motivated by our Purpose. By focusing on 'Leading Well for Everyone', our leadership development strategy - 'Leadershift' - supports our wellbeing, community and sustainability agendas. 700 leaders, across nearly 1,500 places accessed live content in 2021, and many others sought out related offline materials.

We also started leadership conversations around Race at Work, with an in-depth and impactful leadership programme for our Executive and their teams.

Our commitment to inclusion was evidenced in our recruitment of leaders, with 57% female hires and 36% of hires from diverse or under-represented backgrounds, including across ethnicity and sexuality.

Over 200 leaders participated in our fifth annual festival of learning and development – ‘Leadfest’ – which focused on innovation, exploring a range of techniques to facilitate conversations about our Co-op ways of working.

Fairer for our planet

It cannot be overstated: climate change is real and life threatening. The science is clear and indisputable. Tackling climate change has long been one of our priorities but now, more than ever, new ways of thinking and unprecedented co-operation will be needed.

2021 has been a hugely significant year for climate change and the world watched as the UK Government hosted the largest climate change conference ever, COP26.

And it was a significant year for us, as we published our important 10-Point Climate Plan. The plan serves as our blueprint for how we will play our part in addressing the climate emergency and is built on three principles, more details here:

1 Make long-term changes to how we do business We will be a net zero business by 2040, for our operations and for our products. 	2 Set clear short-term milestones We will reduce the impact of our operations by 50% and our products by 11%, both by 2025. 	3 Rapidly reduce carbon from our operations and products We will take clear, practical steps to reduce carbon from the running of our business and the products we sell.
10 Make our climate plan a priority Underpinning these goals, we are linking the pay of our Food CEO to achieving our carbon reduction targets. 	Ten-point climate plan Our plan is grounded by three principles: We'll follow the science in our target setting and decision making. Above all else we must rapidly reduce the carbon we put into the air. 	4 Compensate for our climate impact Our operations will be carbon neutral from 2021 and our own-brand products by 2025.
9 Co-operate for change at scale We will actively work together with others, sharing our plans and solutions, seeking to align rather than compete. 	 We'll work for a fair and just transition for people and planet. Solving the climate crisis can't come at the expense of those who can least afford it. We'll co-operate to drive systems change because we recognise that we are stronger and more effective when we work with others. 	5 Make lower carbon choices easier for customers We will support our customers and members to make lower carbon choices.
8 Campaign for climate action We will lobby and advocate with Government to press for the necessary systemic change. 	7 Help suppliers on the front line of the climate crisis We will support our producers (including Fairtrade) to adapt to climate change realities and to become more climate resilient. 	6 Direct our finance to reducing carbon We will align our finance, including carbon offsets and pension funds, to low carbon investments.

Our route to net zero by 2040

Our priority above anything else is to rapidly reduce our carbon emissions. We've been working closely to follow the guidance and recommendations of the Science Based Target initiative, which includes rapid carbon reduction aligned to keeping global warming to 1.5°C above pre-industrial temperatures in the short term. It also includes a long term goal of net zero emissions by 2040 and compensation for our emissions in the meantime through carbon neutrality, funding verified carbon offset projects.

Following an external audit of our 2021 greenhouse gas data, we are pleased to announce that we've met our 2025 science-based targets for direct emissions three years early. We targeted to reduce our emissions from running our business by 50% by 2025, compared to 2016 and, since 2016, we have reduced emissions by 50.9%. In line with our 10-Point Climate Plan, we will set out our next rolling science-based target in 2022.

To read more about our carbon footprint, see our Co-operate Report.

Climate justice for people and the planet

In 2021, we launched our 'Climate Justice for People and Planet' report that builds on our 10-Point Climate Plan. Coinciding with the report, we announced our strengthened relationship with Fairtrade Africa and the Fairtrade Foundation, which will see us support producers that are already experiencing the impact of climate change first hand and also those who will do in the future.

It's crucial that we ensure producers in low income countries receive adequate support to cover the cost of adapting to climate change and transitioning to low carbon production. We'll channel our current investment in individual projects into a strategic programme directed by 12 producer organisations in tea, coffee and flower supply chains in sub-Saharan Africa.

We also committed to spending in excess of 0.7% of pre-tax profit to international development projects, and encourage other retailers to follow. More detail is available in the Climate Justice Report, available at www.coop.co.uk/climate

Together we can make a difference to climate change

Co-operation is the only way we can realistically avert the worst impacts of this crisis. Over the last year, we have begun to move from an *organisational* approach towards a *systemic* approach, forming strategic partnerships, leading where we can, following where others are ahead and, once again, campaigning and lobbying for change.

In 2021, I chaired the British Retail Consortium Climate Action Roadmap Steering Group. Together, this group will continue to support industry and supply chains to reach net zero carbon emissions by 2040 and play a part in making things fairer for our planet.

We're supporting our customers and members to make lower carbon choices. From May 2021 we reduced the price of our plant-based GRO range to match the price of their meat and dairy-based counterparts.

During the two weeks of the COP26 conference, as part of some guerrilla marketing, we rebranded our stores to Co-op26 and also ran a campaign to educate customers to make lower carbon choices. As part of this, we announced our partnership with the global 'Count Us In' campaign, aiming to mobilise one billion people over the next decade in reducing carbon pollution and challenge leaders to deliver global systems change.

Finally, Co-op will focus its campaigning influence to drive improvements at a national and global level, collaborating with Government and other businesses to lead the change that we

need to make as an industry; all while developing easy ways for our customers and members to do good for themselves and the planet.

Reducing our impact through our businesses

The carbon emissions from running our business have continued to reduce at pace, driven by a combination of our Co-op using less energy, having greater control of refrigerant leaks, using less impactful refrigerant gases and there being more renewable energy in the UK grid. In the first half of 2021, our operations achieved carbon neutrality (i.e. where carbon emissions within a set boundary are balanced by action to reduce, avoid or remove emissions elsewhere), and we pledged to be the first supermarket to have carbon neutral own brand products by 2025.

On plastics, we took action to reduce our contribution to plastic pollution in the first half of the year. Back in 2007, we were the first retailer to launch certified compostable carrier bags and, in April, we rolled them out to all of our Food stores – removing all ‘bags for life’ in the process.

To support this, we launched our Bags to Rights report that calls for all single use carrier bags to be compostable, the price of reusable bags to increase (to encourage more than one use) and for it to be mandatory for all retailers to report on the sales of all plastic bags.

We also launched our new soft plastics recycling scheme, available in most Co-op shops. This final piece of the jigsaw allows us to reach 100% own brand packaging recyclability. For more information, see our Co-operate Report.

Co-op Insurance celebrated 15 years since it brought the first UK car insurance policy with carbon offsetting to the market. Every customer who purchases vehicle cover directly through Co-op Insurance sees ten percent of their motor carbon emissions offset through carbon mitigation schemes across the world, for the first year of their policy, at no extra cost. This includes rainforest protection projects in Sierra Leone, provision of safe drinking water in Kenya and stoves that use less fuel in India, Ghana and Kenya.

2021 also marked ten years of carbon neutrality for Co-op Funeralcare, across its operations. We only use wood certified by the Forest Stewardship Council in the coffins we manufacture and have developed a set of natural and eco funeral services and options. In Funeralcare, we've also committed to install electric vehicle charging points as standard across new and refitted care centres opening this year and beyond.

Creating an even stronger and more agile Co-op

Our Co-op exists to create value and give this back to our members and to the communities we serve. A stronger Co-op means stronger communities and, for this to happen, it's vital that we remain commercially successful and relevant within our core markets.

Against a backdrop of economic uncertainty, availability issues, inflation and continued volatility as a result of Covid, it had become even more apparent that we needed to consolidate upon the investment and progress we had made in prior years.

During the latter part of the year, we started to look at how we could create a more resilient, agile and sustainable business for the future.

As a result of this, we spent the last quarter of 2021 reviewing our strategy, our financial position and how we could achieve more with the resources that we have. The result of this work has enabled us to map a journey that will see us tighten our strategic areas of focus during the next three to four years.

Speaking on behalf of the Executive, during that time we're going to focus on how we can win commercially as a Co-op by:

- **Diversifying and developing our Food business** further in response to both consumer and market trends, whilst maintaining our convenience and community-led approach.

We'll do this by:

- Increasing investment into our ecommerce, franchise and wholesale business areas, whilst retaining our physical retail footprint across thousands of local communities.
- Continuing new product development - launching new products, which excite and delight our members and customers locally, whilst maintaining a sharp focus on price and promotional activity.

- **Developing our Life Services businesses** so that each area strengthens its own unique market position, but collectively delivers more commercial and member value in the years ahead. We'll do this by delivering a range of new Life Services propositions, securing more sales and generating more Co-op value through increasing B2B activity and exciting new partnerships.

To deliver upon our priority areas, we also need to significantly reduce our operating expenses and improve our core financial metrics, especially our net debt position in the years ahead.

We have a plan to achieve this by:

- Significantly reducing our operating expenses permanently by at least £50m in 2022, rising to £100m by 2023. This will allow us to increase efficiency and to provide the means to invest for profitable growth.
- Reducing and re-focusing our capital expenditure, allowing us to reduce our debt levels significantly.
- Fixing legacy technology areas, which will improve both resilience and efficiency as we move forward at pace with our planning and delivery.

Co-op is an incredible business with a compelling Vision and Purpose, which are both so relevant for the world we share and care about.

This is why Co-op leaders will continue to focus and invest in the things that matter most to colleagues, members and communities.

We'll use our technology and digital capabilities to carry on delivering the insight and propositions we need to create compelling Co-op products and services for our members and customers.

Our support for communities, diversity and inclusion and colleague safety initiatives remains unwavering and vitally underpins delivery of our Vision.

Leaders will continue bringing more consumers to our Co-op and then convert them into active members; building new generations of co-operators, co-operating together to help build a fairer world.

In the coming years, Co-op's business strategy will be focused even more tightly around delivering value in support of our Vision. It won't be easy and will require leaders to take brave and decisive action, but the prize is considerable and necessary, and will allow Co-op to help the country recover and build new resilience.

Co-operative Group Limited
Annual Report and Account 2021

And I wish my colleagues the very best on this exciting journey. I have had ten wonderful years at the Co-op and am very proud of all that we have achieved and how we've shown that a purpose-led organisation, focused on a strong Vision of fairness and Values can make such a difference. Thanks once again to our amazing colleagues, from me - we have been there for millions of members and customers when they have needed us the most.



Steve Murrells
CEO, The Co-op Group

Our financial performance

Summary of financial performance	2021	2020
	£m	£m
Revenue	11,151	11,472
<u>Underlying operating profit:</u>		
Food	156	350
Wholesale	7	6
Funeralcare	12	16
Legal	5	4
Insurance	15	(2)
Costs of supporting functions	(94)	(130)
Other	(1)	(9)
Total underlying operating profit (a)	100	235
Property revaluations, disposals and one-off items	(36)	(28)
Operating profit	64	207
Underlying interest (b)	(56)	(63)
Net underlying lease interest (c)	(76)	(72)
Net finance (cost) / income on funeral plans	(4)	28
Other non-underlying net interest	30	27
One-off gain on settlement of Group Relief Creditor**	99	-
Profit before tax	57	127
Tax	(25)	(55)
Discontinued operations	13	5
Profit for the year	45	77
Underlying (loss) / profit before tax (a)-(b)-(c) *	(32)	100

* Refer to Note 1 of our financial statements for a definition of underlying profit before tax. Further details on the Group's alternative performance measures (APMs) is given in the Jargon Buster section on page 217.

** The one-off gain of £99m relates to the settlement of the Group Relief Creditor owed to the Co-operative Bank PLC when a settlement of £48m was agreed in February 2021 against a liability of £147m. See Note 6 (Finance Income) for further details.

Our headline performance

Once again our full year results have been significantly impacted by the ongoing global pandemic - the challenging trading conditions that we have experienced this year are reflected in our relative financial performance with lower sales, profits and cash generation in comparison to the prior year. The varying stages of lockdown restrictions that have been in place over the last two years have strongly influenced customer behaviour and our ability to support and serve our members and communities. This means it is hard to make meaningful comparisons between the results for this year and those for last year.

The contrast is most significant in our Food and Wholesale businesses. Because of this, we have included some additional financial measures in our business performance commentary below that compares our most recent results to those in the equivalent period in 2019, which was not impacted by the pandemic. We've done this to try to provide our members with extra information that looks to get beyond the complicated comparative picture. We believe this gives our members further insight to help them assess the underlying performance of their Co-op against more appropriate comparatives, and is designed to supplement rather than replace our standard statutory reporting.

In the first half of 2020 we saw unprecedented levels of sales in our Food and Wholesale businesses as customers looked to shop closer to home at their local convenience store. In contrast, fuel sales were significantly down as we were all encouraged to stay at home and so didn't use our vehicles. In 2021 grocery sales have since fallen back from the unusual levels that were seen when the first national lockdown came into force, whereas fuel sales are up significantly in comparison following the easing of travel restrictions. Funeral volumes are also lower this year in comparison to the death rate that was experienced at the height of the pandemic in the prior year, although there are now fewer restrictions on the type of service we can offer - last year we could only deliver the most basic of funerals to our clients.

Total Group revenue fell by £0.3 billion to £11.2 billion from £11.5 billion in 2020. This reflects a 2.8% decrease compared to 2020 and was anticipated as we saw the annualisation of the unusual customer behaviour at the start of the pandemic in both our Food and Wholesale businesses. In line with many retailers, we also saw an adverse impact on sales in the second half of this year due to reduced availability of certain products in our Food stores following the effect of Covid on global supply chains and our distribution network. Total Group sales are, however, up by £0.3 billion (2.6%) in comparison to 2019 reflecting steady two year growth in these businesses with two year like-for-likes in Food (excluding fuel) of 3.3% and in Wholesale of 9%.

As anticipated, our profits are lower than last year. This is driven by a combination of the significant planned strategic investments that we have made into our businesses and colleagues, as well as the annualisation of the impact of Covid on customer behaviour and associated additional costs, and supply chain issues resulting from the pandemic that have impacted our profits year-on-year. These tough trading conditions have seen us generate less cash than in previous years. In combination with our continued investment into our businesses, this means our working capital position has reduced and net debt has increased (this is explained in more detail below in 'Net Debt and Investment' section).

The reduction in Group profitability is in part offset by the new income stream from our recently launched Insurance (marketing and distribution) business and reduced costs from support functions as a result of operating model activity undertaken in 2020. After charging underlying interest on our bank borrowings and leases we made an underlying loss of £32 million compared to a profit of £100 million in 2020 (2019: £35m). Operating profit of £64 million has reduced in line with the underlying performance being £143 million down on the prior year figure of £207m (2019: £173m).

Profit before tax (PBT) was £57 million compared to £127 million in 2020 (2019: £24m). This reflects the reduction in operating profit noted above, but also includes a £32 million relative adverse net interest charge on funeral plans (the charge in the current period is £4 million whereas it was a gain of £28 million in the comparative period). The comparative swing reflects lower investment returns on funeral plan investments and follows the significant change in how we account for funeral plans that we adopted in 2020. Our PBT also includes a significant benefit of £84 million of net gains from one-off items which we explain in more detail below (comprising a net £15 million charge within Operating profit and a £99 million gain in Finance income). One-off items do not form part of our underlying profit but are included in our profit before tax figures. We show how we adjust profit before tax to get to our underlying profit before tax in Note 1 of our financial statements. Our jargon buster on page 217 also explains the accounting terms we have to use.

Our profits are reported after deducting the amount our members have earned through the 2% community and member rewards, which totalled £40 million in the year (2020: £58 million). Our operating profit also includes £20 million of Government assistance (2020: £66 million), which we benefited from in the year through business rate relief.

As noted in our 2020 Annual Report, our Board agreed to repay the £15.5m of furlough payments that we received in 2020. These repayments have been made in 2021 and charged to operating profit in the current period results - we have not received any further furlough support in 2021.

The final run off of costs and income from the sale of our insurance underwriting business to Markerstudy (which completed in December 2020) is shown in Discontinued Operations and as part of the sale agreement our Co-op has continued to supply Markerstudy with certain agreed transitional services in 2021. The recorded profit of £13 million in Discontinued Operations mainly reflects payments received in respect of a legal claim.

How our businesses have performed

Food sales of £7.7 billion are down 1.2% on 2020 levels (2019: up 2.2%) with like-for-likes excluding fuel down by 2.9%. This reflects the annualisation of the impact of Covid-19 in the prior year and the particularly high food sales that we experienced in the second quarter of 2020. In line with many retailers, we saw an adverse impact on sales in the second half of 2021 due to reduced availability of certain products in our Food stores following the effect of Covid on global supply chains. We have been tracking our two year like-for-like sales figure (excluding fuel) as a better reflection of relative performance which has grown by 3.3% (this compares sales in 2021 against sales in 2019 on a like-for-like basis).

Despite the disruption from the pandemic, we have continued to invest significantly in our Food business as planned during 2021. This includes continued investment in price, customer proposition and range, as well as considerable expenditure on our business processes and infrastructure to ensure our operations are optimised for the future. We have also invested in our colleagues through our commitments on the Real Living Wage and we have continued to incur ongoing costs to keep our customers and colleagues safe throughout the pandemic.

As well as lower sales in comparison to the prior year, changing customer habits have also impacted margins with smaller basket sizes and higher sales of low margin fuel being seen, than we saw during the pandemic. Supply chain issues in the second half of the year also particularly impacted our distribution network and our ability to consistently offer our customers the products we would want, which again impacted sales and profits.

Overall, these factors contributed to a 55% reduction in underlying profits which are down to £156 million from £350 million in 2020 (2019: £283 million). As noted above, Food's 2021 results also include the repayment of £13.6 million of furlough assistance we received in that business in 2020.

Our Wholesale business achieved sales of £1.4 billion in the year compared to £1.6 billion in 2020, representing a decrease of 12%. As with our Food business in the prior year, we saw customers move to local Nisa stores and transfer trade from pubs and restaurants with like-for-like sales growth of 16%. The decrease in this year follows the unprecedented circumstances of last year and our like-for-like sales versus 2020 are down 6%. However, this still reflects a solid performance in light of some considerable headwinds, including the planned loss of McColl's Retail Group as a customer, as well as the impact of the EU exit on our customer base in the Republic of Ireland. Recruitment of new members remains strong. Nisa saw an increase of more than 9% on sales on a two year like-for-like basis. Within Wholesale, Nisa recorded a profit in 2021 of £8m which is £1m better than 2020 and £18m better than 2019. The increase in profitability is driven by underlying sales growth and new partner recruitment and we continue to drive efficiency in our business model through the wider Co-op Group buying benefits and other profit driving initiatives.

Revenue in our Funeralcare business was down slightly year-on-year at £264 million (2020: £272 million and 2019: £272 million). This comparative performance reflects the tragic increase in funeral volumes that we experienced as a result of the pandemic in 2020. The death rate has reduced in 2021 and we have continued to see growing demand for lower cost funeral options such as Direct Cremation. We conducted 90,731 funerals in 2021 compared to 100,920 in 2020: a decrease of 10%. Despite the reduction in volumes, strong cost control and the removal of restrictions on ceremonies has maintained underlying profit levels at £12 million (2020: £16 million).

We have continued to grow our Legal Services business with a slight increase in sales to £39 million (2020: £37 million) and profits up to £5 million (2020: £4 million) and, following its launch in December 2020, our Insurance (distribution and marketing) business generated profits of £11m (2020: £2m loss) on sales of £31m (2020: £6m), showing the agility and success of the revised business model.

Costs for our Central Supporting functions have decreased by £36 million to £94 million (2020: £130 million). This reflects a continued focus on cost control throughout our businesses as well as the relative year-on-year savings generated by our target operating model programme and the associated costs to achieve that transition in the comparative period.

Property revaluations, disposals and one-off items

	2021 £m	2020 £m
Property and business disposals and closures	(30)	(41)
Change in value of Investment Properties	9	1
One-off items	(15)	12
Total	(36)	(28)

The table above shows one-off items, disposals and property valuation gains in the year (losses are shown in brackets). Further detail is given below:

Property and business disposals	2021 £m	2020 £m
Write-down of assets on poor performing sites	(30)	(36)
Sale or closure of properties	-	(5)
Total	(30)	(41)

As we do every year, we have reviewed our trading sites across our businesses for potential impairment of assets. The write down of £30 million (2020: £36 million) relates to goodwill, right-of-use assets and fixtures and fittings on stores, branches and other properties that are not generating enough cash to support the value of those assets. The charge is predominantly in our Food business and often relates to loss making sites. The 2020 figure was higher as it included £16m of impairments on stores identified with high freehold asset values when compared to their expected future profitability.

As part of this assessment, careful judgment has been applied in relation to the future trading expectations of those stores that have been particularly affected by the impact of Covid-19 on our customers' shopping habits (such as those in city centre locations) and we'll keep them under close review as lockdown restrictions continue to ease.

Investment Properties	2021 £m	2020 £m
Change in value of Investment Properties	9	1
Total	9	1

We hold a variety of properties which we don't occupy or trade from, which we rent out or hold for capital growth. We revalue these properties each year to reflect their latest fair value. The gain in 2021 of £9m (2020: £1m) reflects an upward valuation on the properties we hold (or on those which we sold during the year) with a gain of £6m achieved on one specific site (Summerville Farm).

One-off items	2021 £m	2020 £m
Fit for future (restructuring in Food)	(17)	-
Reduction in deferred consideration (Nisa)	2	-
ATMs business rates refund	-	15
Pensions GMP equalisation	-	(3)
Total	(15)	12

We've recorded a significant one-off charge of £17 million reflecting the costs of some organisational changes we have made to colleague structures in our Food stores as part of the Fit for Future programme, to ensure we are set up in the best way to efficiently serve our customers. This is offset by a £2m gain following the reduction in the liability that we hold in relation to the remaining contingent consideration we expect to make for the acquisition of Nisa, which depends upon the trade passing through Nisa from its partners.

In the prior year, one-off items included a £15 million gain following a legal ruling that saw repayment of business rates we had previously paid over many years on external facing ATMs, which was offset by a £3m charge in relation to changes to historic pension liabilities.

Financing

Our financing costs and income are shown in the table below (costs are shown in brackets):

	2021 £m	2020 £m
Underlying bank and loan interest payable	(56)	(63)
Net underlying lease interest	(76)	(72)
Total underlying interest	(132)	(135)
Net pension finance income	30	37
Net finance (costs) / income on funeral plans	(4)	28
Fair value movement on foreign exchange contracts	5	-
Fair value movement on quoted debt and swaps	-	(6)
Non-underlying finance interest	(5)	(4)
One-off gain on settlement of Group Relief Creditor	99	-
Non-underlying interest income / (costs)	125	55

Our financing costs from our borrowings and lease commitments were broadly consistent with the prior year with lower underlying bank and loan interest reflecting comparatively lower principal debt across the period, as we repaid the remaining £176 million balance of the 6.875% 2020 Eurobonds on 8 July 2020.

Pensions finance income is based on the pension scheme surplus on an accounting basis at the start of each year and the £7 million decrease mainly reflects a comparative fall in the discount rate that is used to calculate the net interest income.

In 2021 the gains on funeral plan investments of £54 million were outweighed by the interest we accrued of £58 million so we show net finance costs of £4 million. Investment returns of £88m were higher in 2020 and outweighed the interest we accrued of £60 million, such that we showed a net finance income on funeral plans of £28 million.

The one-off gain of £99 million relates to the settlement of the Group Relief Creditor owed to the Co-operative Bank PLC when a settlement of £48 million was agreed in February 2021 against a liability of £147 million.

Net debt and investment

Our total net debt at the year end was £2.4 billion including the IFRS 16 lease liability of £1.5 billion. Excluding the lease liability, net debt was £920 million. This represents an increase of £370 million from the £550 million at 2020 year end. The increase in net debt is driven by a reduced net cash position at year end which is £213 million down on the 2020 year end position of £269 million, as well as increased gross debt of £157m as we have drawn down on our available banking facilities. The tough trading conditions that we have experienced throughout the year have seen us generate less cash than in previous years and, because we have continued to invest steadily in our businesses, our cash position has reduced and net debt has increased. However, we remain comfortably within the ratios of debt and interest agreed with our banks and our funding position is secure. Details of what is included in net debt are provided in Note 21.

The increase in our indebtedness includes a significant net adverse movement in our working capital position with a marked reduction in the amounts we owed to our supplier

partners in comparison to last year. More cash was also tied up in inventories at the year end following a relative stock build in the run up to Christmas, in response to uncertainty around product availability due to supply chain and ongoing market challenges. As planned we also invested significantly in our customer proposition, colleagues and business processes throughout the year, which has had a knock on impact on our cash position. Robust cost control and working capital management will be a key focus for management going forward.

Our cashflow for the year also includes the impact of non-recurring items such as the £48 million settlement of the Group Relief creditor owed to the Co-operative Bank PLC, and repayment of the £16 million furlough assistance received in 2020, but repaid in 2021.

We invested £325 million of capital expenditure in 2021 (2020: £313 million) principally on refits and new stores in Food and refurbishing funeral homes, as well on technology to upgrade IT systems to improve our supply chain and service to Food stores. We also made deferred payments of £30 million relating to the acquisition of Nisa where consideration is payable over several years. This capital spend was partly funded by £102 million of cash from disposals and property sales.

Tax

We won't be paying corporation tax in respect of the year because we have brought forward tax losses and capital allowances. In 2021 we paid £170 million (2020: £150 million) to the Government in respect of VAT, business rates, Stamp Duty Land Taxes and Employers' National Insurance.

The total tax charge reported in the income statement for continuing operations of £25m is made up of a £1m current tax charge and a £24 deferred tax charge. The current year deferred tax charge mainly relates to deferred tax arising on movements on our pension assets and fixed assets. There is also a £14m deferred tax charge arising due to the change in tax rate from 19% to 25%.

See Notes 8 and 15 for more detail on Tax.

We retained the Fair Tax Mark accreditation in 2021 showing that we put our Purpose, Co-operative Values and Principles into action in the way we do business. Our tax policy can be found here: www.co-operative.coop/ethics/tax-policy

Our balance sheet

The overall net assets of the Group have increased by £0.3 billion from the start of the year. The main movements include an increase in the net pension surplus of £0.4 billion, a reduced cash position as noted above, offset by the reduction in non-current payables following the early settlement of the Group Relief Creditor due to the Co-operative Bank PLC. Furthermore, as outlined above, our net deferred tax liability has also increased significantly due to the increase in our pension net surplus and the change to the tax rate.

The actuarial surplus on our pensions schemes increased by £0.4 billion with asset values falling by £0.3 billion whilst liabilities decreased by £0.7 billion. Market uncertainty has seen asset values fall as investment returns have underperformed against the discount rate. However, the decrease in assets has been outweighed by a greater reduction in liabilities driven by an increase in the discount rate (due to rising AA Corporate bond yields) which reduces the present value of the scheme obligations.

Property, plant and equipment has decreased by £43 million which mainly reflects the net impact of £262 million of additions, net disposals of £38 million, depreciation of £254 million, impairment of £5 million and net transfers out of £8 million.

Non-current Trade and other payables have decreased by £170 million, which mainly reflects the settlement of the Group Relief Creditor of £147 million and £30 million of contingent consideration payments to Nisa partners following the acquisition of the business.

The value of the funeral plan investments that the Group holds has increased by £41 million. This reflects net movements from an increase of £92 million for new plans, a reduction of £51 million from redeemed plans and favourable market returns in relation to the value of those investments held. Contract liabilities relating to funeral plans have increased by £40 million in the year reflecting £98 million of new plans sold in the year with amounts recognised as revenue during the year (which reduces the liability) broadly offset by an increase in deferred revenue (which increases the liability) from the interest we accrue on plan liabilities. We now offset member discounts (2021: £24m) given on plan sales against the contract liability, whereas previously these were held within Contract assets and the liability is further reduced by £49m of cancelled plans or plans redeemed outside of the Group.

Key Performance Indicators

Financial KPIs

Why are these measures important?

Being a profitable business with financial stability is essential in helping our Co-op meet its strategic objectives. It's important to get the right balance between the returns to members and reinvesting in our Co-op for future growth.

More information on our financial performance can be found on page 31.

KPI		2021	2020	2019
Underlying (loss) / profit before tax	Underlying operating (loss) / profit (see below) less underlying interest, which does not include net interest on our funeral plans as it is not considered by management in the day-to-day running of the business	(£32m)	£100m	£35m
Underlying operating profit	A measure of underlying profit before one-off items and gains or losses on disposals of assets (see Note 1 for more details on how it's calculated)	£100m	£235m	£173m
Net debt	Bank loans and borrowings less the cash we hold (including lease liabilities)	£2,436m	£1,975m	£2,165m
Net debt (excluding leases)	Bank loans and borrowings less the cash we hold (excluding lease liabilities)	£920m	£550m	£695m
Total revenue	Net revenue as shown in the consolidated income statement (page 128)	£11.2bn	£11.5bn	£10.9bn
Operating profit	Operating profit as shown in the consolidated income statement (page 128). Includes the underlying operating profit of our businesses as well as one-off items and gains or losses on disposals of assets	£64m	£207m	£173m
Profit before tax (PBT)*	Total profit from continuing operations** before taxation	£57m	£127m	£24m

* PBT is stated after a one-off gain of £99m relating to the early settlement of the Group Relief Creditor owed to the Co-operative Bank PLC. The gain is recorded within Finance Income (see Note 6 of the financial statements for more details).

** The profit on discontinued operations of £13m (2020: £5m) relates to the final run off following the sale of our insurance underwriting business CISGIL in December 2020 and is shown below profit before tax in our consolidated Income Statement.

Colleague KPI

Why is this measure important?

Having colleagues who are engaged is really important in helping our Co-op achieve our goals and serve our members and customers. High levels of engagement show the pride and passion our colleagues have.

More information on colleague engagement can be found on page 22.

KPI		2021	2020	2019
Colleague engagement	Colleague engagement is measured by our annual Talkback survey	72%	76%	76%

Membership and Community KPIs

Why are these measures important?

Membership and community are at the heart of what we do as a co-op. What we measure shows us how well we're doing at connecting with members and providing them with products and services they really value. The returns made to members and their communities are one way in which our Co-op shares value.

KPI		2021	2020	2019
Active members	We define 'active members' as members who have traded with us in the last 12 months	4.2m	4.3m	4.6m
Reward* earned for communities	The amount members earned for local communities through the membership offer on own brand products	£19m	£13m	£11m
Reward* earned by members	The amount members earned for themselves through the membership offer on own brand products	£21m	£45m	£59m
Member sales in Food	The percentage of sales in our Food business that are made to members	29%	30%	33%

*We updated our membership proposition in October 2020 (previously community reward was earned at 1% and member reward was 5%, it is now 2% and 2% respectively).

Risk management

We want all colleagues to share responsibility for identifying and responding to risk and making decisions that fit with our Co-operative Values and Principles. Dealing with risk in the right way means we continue to create value for our members and communities. Our risk management framework gives colleagues a consistent and robust way of identifying and managing risks while keeping us within our risk appetite.

Our approach to risk

We have a four step approach which helps our leaders and colleagues to recognise and manage risk day-to-day within risk appetite; supported by our risk management processes and tools.



Identify

- We identify and regularly update the key risks that could impact our business by using our experience, judgement, policies and standards and by considering the external changing environment.

Assess

- We assess the likelihood and impact of the risks we identify relative to our risk appetite and the controls we have in place. We consider the financial, reputational, strategic and operational costs and benefits to our Co-op.

Manage and Control

- Our Board, Executive and senior leaders manage the risks to our business by making sure that appropriate response plans, change programmes and resources are in place.

Monitor and Report

- Business units and enabling function teams regularly review risk and other management information, to understand if our risk level is changing and will take action as needed.
- Reports are regularly provided to our governance committees to help monitor our risks.

Our risk management framework

Governance

- Our Board oversees our risk management framework through the Risk and Audit Committee and regularly considers the status of our Co-op's Risk Profile by reviewing risk mitigation plans and responses to emerging risks.
- The Executive manage our principal risks and responses through the Executive Risk Committee with the support of the Business Risk and Assurance Committee, comprised of senior leaders from across our Co-op.

Risk appetite

- Our tolerance for risk is considered for our Co-op as a whole and by risk category.
- The Executive, with the support of senior leaders, strives to take decisions in line with our risk appetite.

Policies and control standards

- Risks across our businesses fit into our key risk categories. Policies, standards and procedures guide colleagues, setting out our risk appetite and the minimum expectations for minimising the impact of key risks.
- Each risk category owner is a senior leader with the expertise to understand what's expected and regularly monitors progress against those risks.

Roles and responsibilities

- Our Co-op uses a three lines model to manage risk.
- First line / frontline colleagues, managers and leaders manage risk as part of their day-to-day activities and escalate where issues occur.
- Second line teams (e.g. Risk and Support functions) provide advice and oversight to help the frontline to manage risk within our risk appetite.
- Internal audit, as the third line, provides independent assurance and challenge.

Read more about

👉 Our principal risks and uncertainties on pages 45 - 49.

Our risk governance



Our Board regularly reviews our position against our risk appetite, the principal risks to our business and monitors management's action plans. In 2021, the Risk and Audit Committee (RAC) and Executive Risk Committee (ERC) met regularly to look at the risks affecting our Co-op and have made a robust assessment of the principal risks and the activity undertaken by management to mitigate these. The ERC considers the principal and emerging risks to our strategy and our Co-op as part of our annual planning exercise, updating as things change. This includes:

- Regularly reviewing our position against our risk appetite and taking appropriate actions where needed.
- Regularly assessing the impact and likelihood of each principal risk and management's progress in delivering agreed response plans.
- Considering the impact of emerging risks and external events, and revising the principal risks as required.
- Evaluating our current and target risk position.
- Monitoring corrective action when things go wrong.

Members of the Executive management team are individually responsible for managing the principal risks and mitigating those risks with the support of the appropriate senior leaders.

Senior leaders are drawn from each business unit and key support function to form the Business Risk and Assurance Committee (BRAC). This committee has delegated responsibility for managing the delivery of plans, assessing emerging risks and, when required, challenging action taken to keep us within risk appetite.

Our risk appetite

In setting our strategy and medium-term business goals, we consider the degree of risk we are willing to accept to achieve those goals. We refer to this as our 'risk appetite'. The level of risk we're willing to accept will vary depending on the type of risk.

Our risk appetite is set by the Board and reviewed periodically or when there are significant changes to our business context.

Our risk appetite statements and reports have supporting qualitative and quantitative criteria, which help us assess our position against our risk appetite.

The Executive and senior leaders put into practice monitoring processes in order to make decisions, ensuring that we operate within our risk appetite, taking corrective action where needed. We regularly report to the Business Risk and Assurance, Executive Risk and Risk and Audit Committees on our position compared to our agreed risk appetite.

We make assessments from the following perspectives:

Strategic and business

We are open to taking some risks to achieve our strategic objectives, provided we do so in a responsible way that contributes to the growth and sustainability of our Co-op; and in a way that will create value for our members, communities and colleagues.

Financial and treasury

We adopt a prudent financial approach and avoid risks that would undermine our Co-op's financial viability.

Operational and customer

Our processes, systems and ways of working must meet the needs of our stakeholders with minimum disruption tolerated.

Regulation and compliance

We must always comply with the laws and regulations that govern our business.

Brand and reputation

Co-operative Values and Principles are at the centre of our approach to business and how we engage with our stakeholders. We balance the level of risk we take in our business decisions with our ethical values.

Read more about

➡ Our principal risks and uncertainties on pages 45 -49.

Emerging trends: risks and opportunities

Due to the size and diversity of our business, we regularly face change, assessing the associated emerging risks, opportunities and implications for our business. We shape our responses depending on their scale and how soon they will impact our business.

Regulatory change

While we adapt our businesses to meet evolving legislation and regulation, some require greater change than others.

- **Food industry and legislation** - While there is a wide range of policy development on the horizon that will impact the food industry, the most imminent changes are those regulations relating to products that are High in Fat, Sugar and Salt (HFSS) and the Deposit Return Scheme (DRS) in Scotland. We have actively reduced the fat, sugar and salt content in our own brand products, and have established a programme of work to deliver the change required to our offering, pricing and promotions to ensure compliance with the HFSS regulations. We are also working towards the revised go-live date of August 2023 for the Deposit Return Scheme in Scotland.
- **Audit reform and public interest entities** – Following independent reviews led by Sir Donald Brydon and the Competition and Markets Authority, it is expected that reform of the audit sector will bring changed expectations of directors and large companies and the way they are audited, to strengthen UK's corporate governance framework. While we await the outcome of the consultation as a business, we are continuing to strengthen our system of risk internal controls, including those related to financial statement misreporting, as part of our risk management approach.

Environment, social and governance

With our established corporate governance, how we manage the impact of our Co-op on the environment and society, and preserve our planet for future generations, is increasingly important to our colleagues, members, partners and investors. Our commitment to the environment and sustainability is long held. We continue to adjust our strategy to meet our target and respond to changing regulation. Environment and sustainability are already identified as a principal risk and opportunity for our business. (See page 49.)

Climate-related financial disclosures

Like other large organisations, we will comply with the Government's mandate to disclose TCFD (Taskforce for climate-related financial disclosure) aligned financial information by 2023, considering the risk and opportunities to our business as a result of climate change.

In 2022, we are working to identify the physical and transition risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. Our existing risk management framework provides the structure for us to identify, assess, prioritise and manage our climate related risks. We will adapt our risk management processes to integrate climate related risk, where needed.

How our principal risks developed in 2021

- ⇒ 1 Change
- ⇒ 2 Competitiveness and External Environment
- ⇒ 3 Brand and Reputation
- ⇒ 4 Pensions Obligations
- ⇒ 5 Technology & Cyber Threats
- ⇒ 6 People
- ⇒ 7 Misuse and/or Loss of Personal Data
- ⇒ 8 Health & Safety and Security
- ⇒ 9 Supply Chain and Operational Resilience
- ⇒ 10 Regulatory Compliance
- ⇒ 11 Pre-need Funeral Plan Obligations
- ⇒ 12 Environment and Sustainability

Our 'Strategic and business', 'Finance and treasury' and 'Operational risk' categories have increased during 2021. The related principal risks most impacted are:

Competitiveness and External Environment: We have seen changes in our markets from competition, disruption and new regulation to changing consumer habits and the current economic climate, reflecting the increased cost of living.

Environment and Sustainability: The Intergovernmental Panel on Climate Change (IPCC) 2021 report warns that "climate change is widespread, rapid and intensifying", which, together with changing regulation, brings urgency to our Co-op's climate change and sustainability response to meet our commitment to science-based targets.

Pre-need Funeral Plan Obligations: These are impacted by inflationary pressures and associated increases in funeral costs, along with the adjustments to ensure that we are ready to comply with industry regulation.

People: The habits we've developed during the pandemic have seen us move to hybrid working combined with an increased focus on the wellbeing of our colleagues, particularly those in frontline roles. Externally, buoyancy in the jobs market makes it increasingly important to provide an attractive proposition to attract and retain talent. Core to which is our commitment to ensuring a fairer workplace for all our colleagues.

Supply Chain and Operational Resilience: This reflects the increased strain to our supply chain resilience from labour shortages for key job groups, and for our Food business' changing network demand and capacity, and structural changes to cross border movements of goods.

The war in Ukraine has had a wider impact on the global economy and is expected to further amplify our principal risks related to *Competitiveness and External Environment*, *Supply Chain and Operational Resilience* and *Technology & Cyber Threats*.

The war in Ukraine and its wider impact

The Russian invasion of Ukraine has created a humanitarian crisis and increased political instability in Europe, along with significant volatility in global markets. The shock to global energy markets has exacerbated increasing energy prices which are already sensitive to movements in supply and demand, seasonality, inventory levels, buyer and seller activity and geopolitical events; particularly where a major oil producer like Russia is involved.

While the UK is not heavily reliant on crude oil and gas from Russia, its connectedness to the global commodity market means that rises in wholesale prices will feed through our supply chains and operational costs. We have a significant hedging programme that helps us to manage these risks.

Existing inflationary pressures are being further heightened and over time will affect operational costs with a consequential impact on cost of living.

There are implications for all our businesses given the far reaching effects on market demand and supply chains. Fuel and energy price increases are having the most immediate impact with additional direct medium impacts for Co-op Food and Co-op Power.

- **Food industry:** higher fuel costs are expected to impact transportation and distribution costs for our Co-op and our supply chain partners. We do not expect an immediate impact to availability of products, though the war has disrupted the production and price of other key commodities such as wheat, corn and sunflower oil, aluminium and ammonium nitrate in fertilisers. Russia and Ukraine are key global suppliers of these commodities which are inputs for the agri-food, animal and fish supply chains. Scarcity of materials and products and search for alternative supplies is expected to increase the prices in these supply chains with implications for prices consumers may have to pay.
- **Energy supply market:** as a consumer of green energy our Co-op will be impacted by the volatility in the price and availability of renewable source electricity. Co-op Power's business customers - to which it supplies energy services, but not direct energy supply - will also be impacted. We have hedging strategies in place. Over the medium term we will seek the best price option and continue to manage our exposure to price risk through hedges where possible.

Cyber threats

There is a heightened threat of cyber attacks on financial, communication, corporate and government infrastructure which we monitor continuously through collaboration with multiple external organisations. This enables us to track potential threats that other organisations experience or witness so that we can adjust our controls at pace where needed. We have long invested in our cyber strategy and assess and adapt our cyber posture in response to the increasing volumes of attacks that we are seeing.

Looking ahead

It is difficult to predict the medium to longer term impact of the war and sanctions on the global economy. The duration of the war and unfolding events will determine if markets return to pre-war levels or a potential global economic downturn driving further inflation and lower economic growth.

Across all our most impacted businesses, we are monitoring and adjusting our plans where needed and making changes in our operations to continue to provide products and services to our customers. Our Co-op is working collaboratively with suppliers, and industry peers and groups to ensure that in this time of significant pressure to global supply chains, ethical trade and sustainability remains a focus.

Principal risks and uncertainties

V – Considered in our viability assessment, see pages 104 - 106 for further details.

Change 	Responsible Exec: Chief Financial Officer/CEO Life Services	Risk Category: Strategic and Business	2021 Risk Trend: Stable ↘
Risk description: We will make changes to the way we operate through our four year plan. If our plans are not delivered in an effective way, we will not be able to see the benefits of our change programmes.			
Reason for the risk <ul style="list-style-type: none"> - Number and complexity of change programmes - Available resources and capacity for change - Complex dependencies between change programmes - Cost of change 	What we do <ul style="list-style-type: none"> - Ensure oversight for transformation activity has appropriate governance and controls - Approach to change ensures colleague impact is considered and effectively managed, and that changes are fully embedded without disruption. Four year planning assesses and prioritises transformation choices and investment decisions against delivery of our strategic objectives 	What has changed <ul style="list-style-type: none"> - Retail Business Transformation - a multi-year programme bringing significant improvements in streamlining our retail processes and ways of working has completed its roll out - Effective prioritisation of investment in change activity is pivotal to ensuring we focus on what has the most material impact and benefit in delivering our Vision and strategy 	What we plan to do <ul style="list-style-type: none"> - Continual assessment of benefits from change activity we undertake - New and/or revised controls relevant to our management and execution of change - Adopt a more flexible approach to deliver change, to manage risk and ensure the delivery of target outcomes in a fast moving and changeable macro environment

Competitiveness and External Environment 	Responsible Exec: Chief Financial Officer/CEO Life Services Chief Executive, Food	Risk Category: Strategic and Business	2021 Risk Trend: Increased ↑
Risk description: The competitive and economic landscape in which we operate means that we need to monitor our growth targets, market share and competitor behaviour to remain viable and innovative.			
Reason for the risk <ul style="list-style-type: none"> - New entrants and market competition - Innovation and market disruption - Ongoing pandemic implications - Cost pressures - Market factors, such as the rising cost of living and inflation - Inefficiencies in our operations - Macro economic and supply chain issues relating to Covid-19, the war in Ukraine and ongoing market challenges - Changes to regulation and Government policy - Structural changes to the economy post-exit from the single market and customs union transition - Social and political uncertainty 	What we do <ul style="list-style-type: none"> - Strategic planning and financial planning - Risk and opportunity management, including financial forecasting - Annual planning refresh - Insight and strategy teams, reporting and analysis in place - Regular market share, customer behaviour and competitor analysis - Sales monitoring and reporting - Horizon scanning process and frequent assessment of external conditions - Agile promotions and marketing responses - Extensive due diligence for all acquisition activity - Engagement with Government and industry working groups 	What has changed <ul style="list-style-type: none"> - The pandemic and global political events have created economic uncertainty and placed pressure on the cost of living, disproportionately affecting those on lower incomes, leading many consumers to seek out value - Changes in consumer behaviours and expectations, with greater participation in online and local shopping, with signs that whilst these are softening, strong preferences will remain - Established scenario planning in place looking at external factors to support our strategic planning - Adapted our Funeralcare strategies and plans with the advent of the FCA's regulation of the pre-need funeral market 	What we plan to do <ul style="list-style-type: none"> - Across all our businesses: <ul style="list-style-type: none"> - Deliver compelling propositions for customers and members - Develop our strategies to meet evolving consumer and market trends - Deliver our transformation agenda and realise our digital capability potential - Funeralcare will focus on affordability reflecting the economic climate, managing out costs to give clients better value - Evolve our strategic planning process – investing in the right strategic initiatives in the most commercially sustainable way. - Evolve our strategies in light of changing regulatory or Government policy

Brand and Reputation

Responsible Exec:
Chief Executive

Risk Category: **Brand and Reputation** 2021 Risk Trend: **Stable ↘**

Risk description: Our Co-op Purpose of “championing a better way of doing business” leads us to consider wider social and ethical impacts within our decision making, so that we can be a commercially successful and sustainable Co-op, whilst reflecting our founding Values and Principles.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Delivering our Vision of 'Co-operating for a Fairer World' - Expectations of our members, customers and the communities we serve, to deliver positive social impact - Keeping to Co-operative Values and Principles set out by the International Co-operative Alliance (ICA) - Increasing use of third party partners to deliver Co-op branded products and services 	<ul style="list-style-type: none"> - Report on our ethical priorities and sustainability progress through our Co-operate Report, charting our responsible business performance and progress - Apply our Ethical Decision Making Tool to inform our key business activities and help make better decisions on behalf of our members - Campaign in line with our Vision of 'Co-operating for a Fairer World' on the issues which matter most to our members and the communities in which they live 	<ul style="list-style-type: none"> - We continued to fully support our members and their communities during the ongoing pandemic - Progressed our Vision of 'Co-operating for a Fairer World' with sustainability forming a key part - Providing over £4.7m of financial support to colleagues through our Wagestream service - Launched a levy share service to promote apprenticeship opportunities for individuals from under-represented groups 	<ul style="list-style-type: none"> - Continue to progress our Vision of 'Co-operating for a Fairer World' by improving pay and benefits for frontline colleagues - Launch a new pan-Co-op diversity and inclusion strategy - Deliver on our climate pledge commitments - Develop support for communities using our access to food, mental wellbeing and dedicated skills, apprenticeships and learning programmes

Pensions Obligations [✓]

Responsible Exec:
Chief People & Services Officer

Risk Category: **Finance and Treasury** 2021 Risk Trend: **Stable ↘**

Risk description: The measurement of our Defined Benefit liability is sensitive to changes in several factors. Adverse movements could result in lower pension surplus and may need our Co-op to pay additional contributions.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Changes in interest rates - Changes in inflation expectations - Changes in expectations of future life expectancy - Movements in market prices 	<ul style="list-style-type: none"> - Established Pension Strategy Committee to manage our pension risk exposure - Policies to manage exposures to environmental, social and governance risks and other risks - Regular monitoring of funding and risk positions - Reassess key assumptions used in the pension calculation - Review advice provided by internal and external actuaries - Use hedging to minimise interest rate and inflation increases 	<ul style="list-style-type: none"> • Schemes merged together to reduce our deficit funding requirements 	<ul style="list-style-type: none"> - Explore additional insurance options that would fully hedge our exposure and reduce pensions risk further

Technology & Cyber Threats [✓]

Responsible Exec:
Chief Financial Officer/CEO Life Services

Risk Category: **Operational** 2021 Risk Trend: **Stable ↘**

Risk description: We hold data on our members, colleagues, customers and partners. We are reliant on technology to deliver our business operations so theft of data or a cyber attack could significantly disrupt our operations.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Custody of valuable data - Reliance on technology - Sophisticated and diverse cyber threat landscape - Data privacy and data protection regulations - Colleague, member and customer confidence - Processing data through third parties - Protect information owned or managed by our Co-op - Protection of services that our Co-op delivers to our customers and members 	<ul style="list-style-type: none"> - Provide 24/7 security operations capability with embedded Information Security controls - 24 hour threat and security event monitoring and response capability - Patch management and penetration testing - Supplier security due diligence and assurance, and regular testing for security weaknesses - Share best practice and foster a strong information security culture - Improved remote working experience with Windows 10 and Office 365 - Improved system security controls through Microsoft Security toolsets 	<ul style="list-style-type: none"> - Simplified our technology footprint by adopting a streamlined vendor strategy - Improved protection from external cyber threats - Improved Identity and Access Management controls through single sign on reducing risk exposure - New threat discovery capabilities to determine where we are most at risk - New Security Scorecard technology to monitor third party security posture - Increased boundary controls to reduce external threats 	<ul style="list-style-type: none"> - Increase our Public Key Infrastructure (PKI) capability - Further mature our Identity solutions - Enhance end user compute protection capabilities - Extend cloud security further with additional controls over cloud application security

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People

Responsible Exec:
**Chief People & Services
Officer**

Risk Category:
Operational

2021 Risk Trend:
Stable 

Risk description: Our ability to attract and retain colleagues with relevant skills and experience while fostering a diverse and fairer workplace is important to achieving a strong, competitive Co-op. If we do not continue to recruit talent and to invest in our colleagues, then it may impact our operations and our ability to deliver on our strategic plans.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Ineffective selection and assessment processes - Talent attraction - Need for greater diversity - Increased demand for talent and reduced supply 	<ul style="list-style-type: none"> - Pre-employment screening, culture fit assessment and induction for new hires - Ongoing training for all leaders and managers, including diversity and inclusion leadership behavioural training - Colleague performance review, engagement and recognition - Talent management review - Pay and reward packages are reviewed regularly to ensure they remain competitive and fair 	<ul style="list-style-type: none"> - Launched a Hybrid Working Policy which gives more choice over how, when and where our colleagues work best to balance business and colleagues needs - Launch of a Wellbeing Hub with access to tools and resources to support and encourage a healthy and happy work life balance - Advancing Diverse Talent Programme - Launched LGV Driver Apprenticeship in response to market conditions and business demand - Revised Salary Management and Benchmarking 	<ul style="list-style-type: none"> - Embed our leadership and capabilities framework - Review our future talent strategy and invest in our frontline colleagues - Maintain an inclusive culture and continue to develop robust indicators to measure inclusion, as we increase awareness and insight among leaders

Misuse and/or Loss of Personal Data

Responsible Exec:
**Group Secretary and
General Counsel**

Risk Category:
Operational

2021 Risk Trend:
Stable 

Risk description: We hold personal information of our colleagues, customers and members. We need to make sure we protect and manage this responsibly.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Member, colleague and customer confidence - Data privacy and data protection regulations - Information processed on our behalf by third parties 	<ul style="list-style-type: none"> - Dedicated Data Protection, Data Management and Information Security teams provide challenge, guidance and oversight - Role specific training and awareness to manage data protection risks and promote ethical data usage - Data Protection Impact Assessments for new/changes to existing systems, processes or business activities - Strategic relationship with Government bodies and third parties 	<ul style="list-style-type: none"> - Increased accountability through enriched records of data processing activity - Further improvements to our data governance, reporting, monitoring and oversight - Co-op-wide repeatable assurance plan in place - Embedded third party supplier data protection risk management - Responded to Government consultation on proposed UK data reforms 	<ul style="list-style-type: none"> - Further embed assurance activity over key data protection controls - Evaluate materiality and practical implications to our Co-op of key proposed changes to data protection related regulation and standards - Enhance suite of reporting to include trend analysis, risk metrics and emerging risks - Drive increased ownership and accountability for personal data to ensure an appropriate level of data protection risk and compliance

Health & Safety and Security

Responsible Exec:
**Group Secretary and General
Counsel**

Risk Category:
Operational

2021 Risk Trend:
Stable 

Risk description: Faced with a rise in violent and abusive crime and busy retail environments, we need processes in place to protect our colleagues, members, customers and visitors to our premises.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Keeping colleagues, members, customers and visitors to our sites safe - UK Health & Safety legislation - Complexity of our business 	<ul style="list-style-type: none"> - Co-op Health and Safety Governance Framework and Financial Crime & Security Frameworks in place - Co-op Minimum Safety Standards - Oversight by 2nd line Safety and Security teams - Assurance of safety and security data and compliance with standards across Co-op 	<ul style="list-style-type: none"> - Embedded Co-op Minimum Safety Standards and Pan Co-op Assurance Activity on key areas including Covid-19 Controls - Wider focus on Occupational Health and Wellbeing - System and relationship enhancements to provide better intelligence sharing with police forces and other stakeholders - Working with partners to enhance security of our premises and people - Established ways of working with communities to better identify prolific offenders and respond 	<ul style="list-style-type: none"> - Ongoing review to ensure we meet our safety standards - Further safety and crime data enhancements to develop current system intelligence - Work with colleagues on wellbeing initiatives across Co-op - Build on external crime and safety partnerships - Continue the 'Safer Colleagues, Safer Communities' campaign - Ensure that security initiatives are in place across our Co-op

Supply Chain and Operational Resilience

Responsible Exec:
Chief Executive, Food Group Secretary and General Counsel

Risk Category:
Operational

2021 Risk Trend:
Increased ↑

Risk description: If we are unable to prevent, adapt or respond to a major failure or external event to a key part of our business or supply chain, it could significantly affect the availability and quality of products and services delivered to our members, colleagues, customers and partners.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Efficiency of logistics network process, infrastructure and resource capacity - Unpredictable external events like severe weather, pandemics, extreme criminal activity and significant geo-political events - Post-exit from the single market and customs union structural changes to the economy, trade deals and national infrastructure - Supplier capacity and preparedness for cross border processes - Variability in customer and network demand leading to supply pressures and service instability 	<ul style="list-style-type: none"> - Established business disruption planning and testing, including incident management processes - Regular disaster recovery testing and review of IT service levels to ensure resilience to external sources of disruption - Engagement with industry working groups, Government and information exchanges to support joint responses with key stakeholders - Maintain post-exit from the single market and customs union governance and oversight during the standstill of the Northern Ireland Protocol, ready to respond to changes 	<ul style="list-style-type: none"> - Review and update of pay rates for driver and warehouse colleagues - Strengthened our supply chain processes with enhanced monitoring and proactive measures to enhance our resilience - Delivered improved resilience through the completion of our multi-year Retail Business Transformation programme 	<ul style="list-style-type: none"> - Build on successful delivery of the Retail Business Transformation programme, realising further benefits in our supply chain - Deliver Funeralcare's core system transformation - Expand our network capacity to support our Food business with a new depot in Biggleswade - Ongoing strategic review of our network to meet future demands - Deliver the 'Best Ways' programme in Funeralcare to improve our operations - Focus on retention and attraction in our supply chain and logistics operations

Regulatory Compliance

Responsible Exec:
Group Secretary and General Counsel

Risk Category:
Regulatory Compliance

2021 Risk Trend:
Stable ⇌

Risk description: Our Co-op is subject to laws and regulations across its businesses. Failure to respond to changes in regulations or stay compliant could affect profitability, our reputation (through fines and sanctions from our regulators) and our licence to operate.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - New and updated laws and regulations - Our businesses provide financial and legal products and services regulated by the Financial Conduct Authority and the Solicitors Regulation Authority - Codes and regulations that apply to our Food business including the Groceries Supply Code of Practice (GSCOP), product safety regulations etc 	<ul style="list-style-type: none"> - Colleagues with expertise in financial services (including FCA approved senior managers) - Regulatory compliant controls and procedures for financial and legal product and services businesses - Processes and charter in place to engage with suppliers and remain compliant with GSCOP - Established risk and compliance teams in our regulated businesses - Mandatory regulatory/legislative training for all relevant colleagues - Regular compliance monitoring and review undertaken at senior governance committees 	<ul style="list-style-type: none"> - Competition and Markets Authority (CMA) introduced new legal obligations for funeral directors following its market investigation into the sector - FCA will regulate funeral plans from 29 July 2022 - Pandemic necessitated focus on regulatory compliance on health & safety and competition law - Conclusion of EU exit transition period means significant regulatory change for imports from the EU and exports to Northern Ireland, subject to current standstill arrangements 	<ul style="list-style-type: none"> - Strengthen compliance framework in response to increasing regulatory requirements for our businesses - IT improvements to support compliance with GSCOP and other regulatory and legislative requirements across our Co-op - Ensure readiness for changes to regulation of the funeral industry - Review all relevant transactions from 2010 to determine levels of compliance with the 2010 Controlled Land Order

Pre-need Funeral Plan Obligations ^V

Responsible Exec:
Chief Financial Officer/CEO Life Services

Risk Category:
Finance and Treasury

2021 Risk Trend:
Increased ↑

Risk description: The measurement of our pre-paid funeral plan obligations is sensitive to changes in several factors. Adverse movements could result in lower than expected funds being available and the business receiving a lower amount per funeral, or may result in individual contracts becoming onerous.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Changes in the cost of providing a funeral or expected inflation on funeral costs - Underperformance of assets held to meet funerals - Changes in long-term interest rates 	<ul style="list-style-type: none"> - Most funds are invested in whole of life insurance policies with guaranteed minimum returns - Regular stress testing, actuarial modelling and monitoring of risk positions versus risk appetite - Annual assessment of key assumptions and annual actuarial valuation by external actuaries - Monitoring and oversight by a senior committee of specialists, business leaders and advisers 	<ul style="list-style-type: none"> - Reviewed our controls to managing the risk in light of new conduct of business rules from the Financial Conduct Authority and made changes to our valuation approach 	<ul style="list-style-type: none"> - Adapt the products and services that we offer to our members and customers to respond to the market environment and external economic conditions. Continual review and improvement of the methodology and assumptions used in our actuarial models

Environment and Sustainability

Responsible Exec:
Chief Executive, Food

Risk Category:
Strategic and Business

2021 Risk Trend:
Increased ↑

Risk description: The way we choose to run our business operations and the products and services we provide has both social and environmental impacts and affects the future of our planet. Running our business in a sustainable manner is essential to Co-op's commercial success, to being climate resilient and to transition to a greener and fairer economy.

Reason for the risk	What we do	What has changed	What we plan to do
<ul style="list-style-type: none"> - Changing regulations and UK Government targets / policies - UK commitment to the 2015 Paris Agreement and to be net zero by 2050 - Increasingly competitive environment on sustainability as organisations move from aspiration to implementation to meet agreed targets - Climate change and sustainability impacts on food sources; materials we use in our business; livelihoods and economic growth - Government plans for a transition to a greener and fairer economy - Living up to Co-operative Values and Principles - Increased awareness and changing attitudes of members, customers, suppliers and partners 	<p>What we do</p> <ul style="list-style-type: none"> - Signatory to the: <ul style="list-style-type: none"> • World Wide Fund for Nature Basket Metric to halve the environmental impact of UK shopping baskets by 2030 • Courtauld Commitment 2030 to reduce food waste and cut carbon • British Retail Consortium Climate Roadmap - Public commitment and science-based targets focused on: <ul style="list-style-type: none"> • reducing direct and indirect greenhouse gas emissions • a broad range of material issues: plastics and packaging; biodiversity and responsible sourcing; human rights, Fairtrade and ethical trade - Annual sustainability report on our Performance - Robust roadmap to reach net zero by 2040, ahead of the Government's target, supported by sustainability strategies for our core businesses 	<p>What has changed</p> <ul style="list-style-type: none"> - Launched our 10-Point Climate Plan and Climate Justice campaign - Political and regulatory activity has increased, reflecting the urgency of this issue, including: <ul style="list-style-type: none"> • Intergovernmental Panel on Climate Change (IPCC) 2021 Report and its 'code red for humanity' warning • Launch of the UK Government's net zero strategy • Agreements from COP26 including commitment to end deforestation by 2030 - Changing policy and legislation are being factored into our sustainability strategy and plans, particularly the requirements of the Environment Act 2021 - Sustainability initiatives launched – first retailer to launch a nationwide soft-plastics recycling scheme 	<p>What we plan to do</p> <ul style="list-style-type: none"> - Continue to strengthen our pan-Co-op governance and future reporting to drive our sustainability plan while leveraging synergies across businesses - Ensure we have sufficient resource within our Co-op to deliver on our public commitments - Continue implementing carbon reduction strategies to deliver GHG reductions of 50% from our operations and reduce product emissions by 11% by 2025 - Horizon scanning and preparedness for future environment and sustainability regulations? - Commitment to deliver in line with the accelerated timeframe for disclosure of TCFD aligned climate-related financial risks (now to become mandatory for listed entities and large companies by 2023)

Governance reports

Board biographies



Allan Leighton

Chair

Appointed as Independent Chair on 19 February 2015.

Committee membership

- Nominations Committee (Chair).

Skills and experience

Allan has held many high profile roles, including Chief Executive of Asda from 1996 to 2000, and Non-Executive Chair of Royal Mail from 2002 to 2009. Allan is currently the Chair of C&A, Canal & River Trust, Element Limited, Northern Bloc Ice Cream, Pizza Express and Allbright, (the all-women's networking club) and is a Non-Executive Director of Going Plural Limited and Simba. Allan was also appointed as Chair of BrewDog PLC in September 2021.



Steve Murrells, CBE

Chief Executive

Appointed as an Executive Director on 1 March 2017.

Steve is stepping down as Group CEO following the 2022 AGM.



Shirine Khoury-Haq

Chief Financial Officer/CEO Life Services

Appointed as an Executive Director on 5 August 2019.

Shirine was appointed Interim CEO in March 2022.

Skills and experience

Shirine joined the Co-op Executive in August 2019 and is our Chief Financial Officer and Chief Executive Officer of Life Services. Shirine is also a Non-Executive Director of Persimmon PLC and Chair of the Risk and Audit Committees, as well as a member of The Tower Trust.

Before joining us, Shirine was Chief Operating Officer for the Lloyd's insurance market, which comprised of more than 50 leading insurance companies operating with over 200 Lloyd's brokers. Her remit included global operations, business transformation, data, information technology and corporate real estate. She also led the modernisation programme for the wider London insurance industry.

In addition to holding senior positions at IBM, McDonald's and insurer Catlin Group, Shirine has worked in a number of regulated sectors in the UK and overseas including retail, IT, pharmaceuticals and consumer goods. She was also a Non-Executive Director of the Post Office.

Shirine holds an MBA from Ohio State University and is a US Certified Public Accountant.



Kate Allum

Member Nominated Director

Appointed as a Member Nominated Director on 15 May 2021.

Committee membership

- Nominations Committee.

Skills and experience

Kate has extensive experience at board level, holding a variety of senior executive and non-executive leadership roles in the commercial sector, across a wide variety of companies, cultures and countries.

Kate is currently the Chair of Court for the University of the West of Scotland and is also a director of Anpario PLC, Ballater (RD) Limited, Cranswick PLC and of the Universities and Colleges Employers' Association.

Prior to Kate's election to our Co-op, she was Chief Executive of Cedo Limited and First Milk Limited, the largest dairy co-operative in the UK.



Lord Victor Adebowale, CBE

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director on 6 April 2016.

Committee membership

- Risk and Audit Committee.

Skills and experience

Victor has been involved in a number of independent commissions advising governments on a range of issues, including mental health, learning disabilities, the role of the voluntary sector, policing and stop & search, policing and mental health, housing policy, the future of public services and employment/skills and race and equalities.

He is currently Founding Chair of Collaborate CIC; Director Leadership at Mind; Director of the Covid-19 Healthcare Support Appeal; Chair of the NHS Confederation; Chair of Urban Development music charity; Chair of Social Enterprise UK; Co-founder and Chair of Visionable.com; a visiting professor and Chancellor of University of Lincoln; Non-Executive Director of Nuffield Health Group and a Court member of the London School of Economics.

Victor has a Masters in Advanced Organisational Consulting from City University and The Tavistock Institute.



Simon Burke

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director on 14 November 2014.

Committee membership

- Risk and Audit Committee (Chair).
- Nominations Committee.

Skills and experience

Simon was previously an Independent Non-Executive Director for the Group's subsidiary, Co-operative Food Holdings Limited. He was appointed Chair of the Group Risk and Audit Committee on 25 June 2015.

Simon is a Chartered Accountant and is currently Chair of Bakkavor Group PLC, The Light Cinemas (Holdings) Limited and Blue Diamond Limited. He is also a Trustee of the Charlotte Fraser Foundation. Simon was previously Chair of Majestic Wine, BathStore and Hobbycraft, and CEO for Virgin Retail, Virgin Cinemas and Virgin Entertainment Group.



Margaret Casely-Hayford, CBE

Member Nominated Director

Elected as a Member Nominated Director on 21 May 2016 and re-elected in 2018.

Committee membership

- Remuneration Committee.
- Nominations Committee.

Skills and experience

Margaret is a qualified lawyer of over 30 years' standing. She was the Director of Legal Services for the John Lewis Partnership for nine years and on the Board of the British Retail Consortium for four years to 2014. During her term on the Board of NHS England, she was one of the directors who promoted and championed 'NHS Citizen': the new listening structure for the NHS that enables proper consultation and collaboration.

Margaret is currently Chancellor of the University of Coventry; a member of the Institute of Directors' Governance Advisory Board and the British Council Review; a member of the Challenge Panel; a member of the Metropolitan Police Oversight Panel; Chair of Shakespeare's Globe Theatre and is an adviser to a number of social enterprises.



Paul Chandler

Member Nominated Director

Elected as a Member Nominated Director on 16 May 2015 and re-elected in 2017 and 2019.

Committee membership

- Risk and Audit Committee.

Skills and experience

Paul was the Chief Executive of Traidcraft from 2001 to 2013, President of the European Fair Trade Association from 2005 to 2012 and Chair of the William Leech Foundation until April 2020. Drawing on his Fairtrade experience and early career at Barclays Bank, he is now focusing on promoting responsible practices in business, alongside a portfolio of charity and community focused roles. Paul is a director of CBF Funds Trustee Limited, Chair of the Durham Cathedral Council and a Director of North East Ambulance Service. He is also the Vice Chair, Treasurer and a Fellow of St Chad's College in Durham University, Vice Chair of the County Durham Community Foundation, a Trustee of the Bible Society and a director of the Fair Trade Advocacy Office in Brussels.



Sir Christopher Kelly

Senior Independent Non-Executive Director

Appointed as a Senior Independent Non-Executive Director on 14 November 2014.

Committee membership

- Remuneration Committee.
- Nominations Committee.

Skills and experience

Chris chaired our Co-op's independent review which considered the events leading up to the re-capitalisation plan for The Co-operative Bank PLC in 2013. He is currently Chair of the Oversight Board of the Office for Budget Responsibility and Chair of Co-op Insurance Services Limited. Previous roles include chairing the King's Fund (the health and social care think tank), the Committee on Standards in Public Life, the Financial Ombudsman Service, the Responsible Gambling Strategy Board and the NSPCC. For many years he was a senior public servant, mostly in HM Treasury, but latterly as Permanent Secretary of the Department of Health.



Sarah McCarthy-Fry

Member Nominated Director

Elected as a Member Nominated Director on 18 May 2019.

Committee membership

- Risk and Audit Committee.

Skills and experience

As a committed co-operator for over 30 years, Sarah has previously served as a local Councillor and as a Labour and Co-operative MP, representing Portsmouth North. As a Government Minister in HM Treasury, Sarah was responsible for personal savings policy and financial inclusion including Credit Unions. As Schools Minister she led the development of apprenticeships policy and partnerships with Business and Schools.

She is a former Finance Director at GKN Aerospace, a global engineering company and a former Chair of the Employment and Skills Board for the Solent Local Enterprise Partnership. Sarah is currently Treasurer of the Parliamentary Outreach Trust.



Rahul Powar

Independent Non-Executive Director

Appointed as Independent Non-Executive Director on 23 July 2018.

Committee membership

- Remuneration Committee.

Skills and experience

Rahul is the founder and Chief Executive of Redsift, an organisation that provides an open platform delivering products that prevent cyber attacks. Prior to Redsift, he founded Apsmart, which was acquired by Thomson Reuters Corporation in 2012. At Thomson Reuters, he served as the Head of Advanced Products & Innovation. In a previous life, he was part of the founding team and principal technical architect of Shazam. Before the launch of the iTunes AppStore, he envisioned and created the first Shazam iPhone App.



Stevie Spring, CBE

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director on 25 June 2015.

Committee membership

- Chairman of the Remuneration Committee.

Skills and experience

Stevie has broad executive and non-executive experience across the private, public and not for profit sector. She was previously CEO of Clear Channel, the world's largest out of home company, then of Future PLC, an international media company, where she led its digital transformation.

Stevie's portfolio currently includes chairing the British Council, the UK's international cultural relations and English language organisation, technology company Kino-mo and mental health charity Mind. Stevie was named in the Sunday Telegraph/Debrett's list of Britain's 500 most influential people.

Executive biographies



Steve Murrells, CBE

Group Chief Executive

See Board biographies



Shirine Khoury-Haq

Chief Financial Officer/CEO of Life Services

See Board biographies



Helen Grantham

Group Secretary and General Counsel

Helen joined as Group Secretary in January 2016 and took on the additional role of General Counsel in July 2017. Helen qualified as a solicitor in 1989 and, prior to joining our Co-op, worked as both a general counsel and company secretary for listed companies, most recently for Dixons Carphone PLC (now Currys PLC). She is a Council member at the University of Leeds, and has recently been appointed as Chair of the Yorkshire and North East Advisory Board at the Canal and River Trust, which has a key focus on promoting wellbeing in local communities. Helen has a keen interest in helping others reach their potential.



Helen Webb

Chief People & Services Officer

Helen became Chief HR Officer in April 2017 having previously been the HR Director for Food and the Chief People & Services Officer in August 2019.

Prior to joining our Co-op, Helen held a variety of senior roles for FTSE 100 companies including Sainsbury's, Marks and Spencer and Aviva. She's passionate about diversity and is a strong women's advocate, winning an 'Everywoman Retail Ambassador' award in 2015.



Jo Whitfield, CBE

Chief Executive, Food

Jo joined the Group as Finance Director Retail in 2016 and was appointed Chief Executive, Food in July 2017. Prior to this, Jo was with the Asda business for eight years and held roles as Finance Director for George, VP for George Operations, International and Strategy and VP for Asda General Merchandise, Money and Mobile.

Jo is a qualified chartered accountant having trained with Ernst & Young and subsequently moved into industry. Throughout her career she has worked across various industry sectors and held leadership roles with businesses such as Northern Foods, GE Capital and Matalan.

Jo is an ambassador for Girls Out Loud and is a founder of the Grocery Girls network. She also sits on the Women's Business Council and is a trustee for Manchester International Festival.

Jo received a CBE in the 2021 New Year Honours for her services to retail and the food supply chain during the Covid-19 response.

Jo will be taking a career break from May to August 2022.

Governance review

Chair's overview

As I note in my Chair's introduction on pages 3 and 4, 2021 has been a year in which we have had to continue to face into and navigate our Co-op through the ongoing challenges brought about by the pandemic. We have done this by drawing upon our Co-operative Values and Principles, putting our Vision - '*Co-operating for a Fairer World*' - at the heart of what we did, in order to deliver our Purpose of 'championing a better way of doing business for our members and their communities'.

As the UK's largest consumer co-op, we will continue to support our members and their communities and help Britain recover and build new resilience. We recognise the opportunity our Co-op has to make a meaningful difference in the years ahead.

Our Board has continued to support the excellent work of CEO Steve Murrells and his Executive team, and our high standards of governance continue to play a vital role in running our Co-op, whilst we continue to adapt, learn and drive it forward.

We've further developed our new ways of working during the year by holding hybrid meetings for our Board and Council. It was great that the majority of our Directors were able to join our meetings physically during the second half of the year and we welcomed the opportunity of this face-to-face interaction for the first time since the pandemic hit.

We're confident that our governance structures remain resilient and sustainable.

Our members

We are the largest consumer co-operative in the UK. We are unique, as is our governance structure.

Membership is core to who we are and central to our better way of doing business. Our members remain at the heart of our thinking and decision making, and our Board continues to actively engage with our members to gain their valuable thoughts and ideas.

Our Members' Council, which is 100 strong, acts as our members' representatives, holding our Board to account for how the business performs and our commitment to Co-operative Values and Principles. We thank the Members' Council for its ongoing support and challenge.

We were delighted to welcome Denise Scott-McDonald during the year as our new Council President. Denise replaced Nick Crofts who stepped down as Council President after the 2021 AGM, following his six year term. I express my thanks on behalf of the Board to Nick for his contributions as Council President.

Due to Covid-19 restrictions in place at the time, we were once again unable to hold our 2021 AGM as an in-person event. We therefore followed the 2020 format with voting in advance and members joining us online. This was again a great success, with over 850 members joining us on the day. Our 'Join In Live' events, led by our Council members, were also held virtually and were an excellent opportunity to engage with members and to answer their questions.

In response to the positive feedback we received on the 'digital' format of the AGM, we are looking to continue to include this in our plans for this year and we will keep members updated via our website at www.co-operative.coop/agm. The AGM notice, which includes more detail, will also be displayed on the website. If you are an eligible member, keep an eye out for an email or letter with more information.

Our Board

We have twelve Directors on our Board who collectively have a great mix of skills, experience and knowledge. Our Board is made up of six Independent Non-Executive Directors (INEDs), four Member Nominated Directors (MNDs) and two Executive Directors. We are all elected by our members, although the route to election is different for INEDs and MNDs.

Kate Allum was elected to our Board as our new MND in May 2021. Kate has an extensive track record of senior executive and non-executive leadership roles in the food supply chain and agriculture industries. She is passionate about co-operation having been the Chief Executive of First Milk Limited and we are delighted to welcome Kate onboard.

We've been in a fortunate position to have Steve Murrells on our Board for the last five years. With Steve due to step down following the 2022 AGM, I'd like to take this opportunity, on behalf of the Directors, to thank Steve for the fundamental role he has played on our Board

Allan Leighton

Chair, The Co-op Group

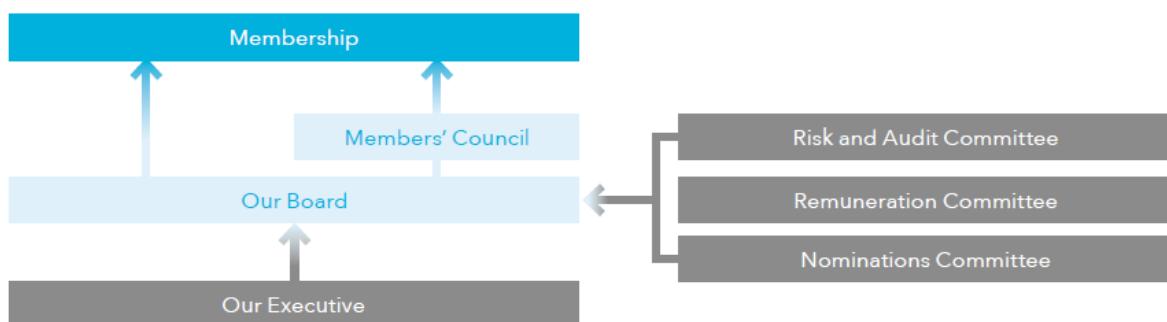
About us

Our Purpose is championing a better way of doing business for you and your communities.

Co-operative Values and Principles are the cornerstone of everything we do. These Co-operative Values and Principles are shared by many co-operatives around the world and are included in the International Co-operative Alliance's Statement on Co-operative Identity.

Our governance structure

Our governance structure is carefully constructed and is unique, based on ownership by our members. It is defined in our Rules, which set out a number of formal ways in which our Board, its committees and individual directors keep in touch with our Members' Council, its committees and members.



Our Board leads our Co-op and takes decisions at the highest level, so our Co-op is successful in the long term. The decisions we take are what we believe to be in the best interests of our members.

Our Board is supported by three committees. They have specific tasks which they do on behalf of the Board, set out in their written terms of reference:

- Our Risk and Audit Committee watches over Co-op's financial reporting and how well we are managing risk. The report of our Risk and Audit Committee can be found on pages 71 - 81.
- Our Remuneration Committee ensures our Executive are fairly and appropriately rewarded, taking into account wider pay policy across the Group. The report of our Remuneration Committee can be found on pages 82 -99.
- Our Nominations Committee ensures we have the right INEDs and Executive Directors in place and that the Board as a whole works well. It also plans for our future Board, leads on INED and Executive Director appointments and submits proposals to the Non-Executive Directors' Fees Committee in respect of the remuneration of our Co-op Chair, INEDs and MNDs. The report of our Nominations Committee can be found on pages 100 - 103.
-

In addition, there is an Administration and Finance Committee which deals with routine business that needs Board approval.

Our Members' Council, a democratically elected body of 100 of our members, acts as our members' representative, holding our Board to account for how the business performs. It also acts as a guardian to our Purpose and Co-operative Values and Principles. Council highlights from 2021 can be found in your Council's Annual Statement on pages 114 - 118.

Our Directors, alongside Council members, also participate in a number of informal working groups, such as the Stakeholder Working Group. Such forums, whilst not part of our formal Board governance, allow for open discussion between our Board and Council. They help make sure members' views and needs are considered when making decisions. Further detail can be found on page 122.

Our Board

At the date of this report, there are twelve directors on our Board. We have three categories of directors: Executive Directors, INEDs and MNDs.

- Allan Leighton is our Chair.
- Sir Christopher Kelly is our Senior Independent Director (SID).
- There are four other INEDs on our Board – Lord Victor Adebowale, Simon Burke, Rahul Powar and Stevie Spring.
- There are four MNDs on our Board – Kate Allum, Margaret Casely-Hayford, Paul Chandler and Sarah McCarthy-Fry.
- Steve Murrells (Chief Executive) and Shirine Khouri-Haq (Chief Financial Officer/CEO of Life Services) are our Executive Directors.
- Helen Grantham is our Group Secretary.

Steve will be stepping down as Group CEO following the 2022 AGM. Shirine has become Interim CEO.

Director biographies can be found on pages 50 - 56. Members are able to see copies of the Directors' appointment letters by contacting the Group Secretary.

Role of our Directors

Allan Leighton, our Chair, is responsible for:

- Leading our Board and making sure it operates well.
- Making sure we have the right Board in place, with the right skills to run a business of the size and complexity of our Co-op.
- Making sure Co-operative Values and Principles are at the heart of what we do, and that business decisions are both ethical and sustainable.
- Continuing to develop the relationship with Council.
- Making sure that the Board is made aware of the views of our Members' Council and other stakeholders.
- Setting the Board agenda and managing Board meetings.
- Setting the tone from the top and making sure business culture is clear.
- Making sure the Board effectively holds the Executive to account.

Steve Murrells, our Chief Executive:

- Heads the Executive Team, which is responsible for the day-to-day operation of our Co-op.
- Is accountable to our Board for all elements of our Co-op's operational and financial performance.

Sir Christopher Kelly, our SID:

- Uses his experience to advise, guide and provide feedback to the Chair.
- Deals with any governance issues relating to the Board or the Chair's performance, and any matters which it's not right for the Chair to deal with.
- Takes the lead role in the annual Board evaluation process.
- Takes responsibility for leading the Chair's annual performance review and acts as the Board's primary point of contact for stakeholder views.
- Regularly liaises with our Members' Council and sits on our Stakeholder Working Group.

Lord Victor Adebowale, Simon Burke, Rahul Powar and Stevie Spring, our INEDs; and Kate Allum, Margaret Casely-Hayford, Sarah McCarthy-Fry and Paul Chandler, our MNDs:

- Provide independent and constructive challenge and an external focus to Board discussions using their professional industry knowledge.
- Help set our strategy.
- Oversee commercial and financial performance.
- Ensure Co-operative Values and Principles remain at the heart of our Co-op.
- Meet with members and our Co-op Members' Council to hear their views.

Helen Grantham, our Group Secretary:

- Advises the Board on legal, compliance and governance matters.
- Makes sure there is the right level of information flowing between our Board and our Members' Council, and our Board and the Executive Team.
- Supports our Chair with Board procedures.
- Is available to Directors for advice and assistance.

Division of responsibilities

The roles and responsibilities of the Chair and Chief Executive are clearly set out in their role profile and a paper setting these out was approved at the Board meeting in March 2021.

Appointments of our Board – INEDs

INED appointments are made by our Board following recommendation from the Nominations Committee.

When a need to recruit an INED is identified, the Nominations Committee will lead the process, including:

- Preparing a candidate brief – sets out the skills and experience required, details what makes our Co-op different, gives the particular requirements of our Rules and Board Composition Charter (BCC) and makes the importance of Co-operative Values and Principles clear.
- Starting the recruitment process – assisted by an independent search firm, who are given the brief, screen potential candidates and conduct initial interviews.
- Conducting interviews - if a preferred candidate is identified, making a recommendation to the Board.

Following Director appointments, the Council Scrutiny Committee considers a report from the Nominations Committee and checks the right process has been followed for appointing an INED (or the Chair). The report of the Scrutiny Committee can be found on pages 119 - 120.

INEDs have to be elected by members at the first AGM following their appointment and are subject to re-election by our members at our AGM every three years thereafter.

In 2021, no new INEDs were appointed to the Board.

The UK Corporate Governance Code sets out that all Directors should be subject to annual re-election. We choose not to comply with this in our Rules to avoid a situation where all the Directors leave the Board at the same time. It ensures we maintain continuity and allows for staggering and succession planning.

Appointments of our Board - Executive Directors

The Nominations Committee is responsible for making recommendations to our Board in respect of Executive Director appointments.

Executive Directors are subject to election/re-election by our members.

In 2021 there were no new appointments recommended to the Board. Steve Murrells will step down following the 2022 AGM.

Appointments of our Board - Member Nominated Directors (MNDs)

MNDs are voted for and elected directly by our members. The MND Joint Selection and Approvals Committee (MNDJC), a joint Board and Council committee, works with an independent search firm to oversee the selection process and assess the eligibility, skills and experience of MND candidates who are put forward to a member ballot. Members then vote for who they would like to see on our Board. Following MND appointments, the Council Scrutiny Committee checks that the right processes have been followed.

The MND election process takes place before the AGM and the results are announced at the meeting:

- In 2021, Kate Allum was elected as an MND for the first time with a three year term following a contested election.

- The MNDJC led on the MND election process supported by Saxton Bampfylde, an executive search firm.

Two of our current MNDs, Paul Chandler and Sarah McCarthy-Fry, are due to stand for re-election in 2022.

Terms of office

Our INEDs and MNDs have a maximum term of office of nine years.

Our Executive Directors are employed directly by our Co-op and don't have a maximum term of office.

Our Board's skills and expertise

Our Nominations Committee continues to keep under review the skills and expertise we have on our Board in order to make sure it continues to be well balanced, diverse, effective and suitable to deliver our Vision.

Our Board Composition Charter (BCC) sets out certain requirements for our Board's composition as a whole, levels of knowledge and expertise expected for individual directors and additional requirements for key roles such as Chair and Senior Independent Director.

Our Rules and the BCC contain strict membership and eligibility criteria which all of our Board Directors need to meet. This includes high standards of professional expertise needed to run a business of the size and complexity of our Co-op as well as a strong commitment to Co-operative Values and Principles.

The Board considers that each Director brings relevant and complementary skills, experience and background to the Board.

The Director biographies on pages 50 - 57 summarise their key skills and experience.

Board succession plans

The Board maintains a Board Succession Plan which was reviewed and updated during the year.

See the Nominations Committee's report on page 101 for more details.

The Board is satisfied that the Board Succession Plan remains sufficiently robust. Executive succession is a matter for the Chief Executive in consultation with the Board. This has been delegated to the Remuneration Committee to review in the first instance.

Board effectiveness and evaluation

It is good governance that the Board regularly reviews its own performance. It is also a requirement set out in our Rules. The Nominations Committee oversees a Board effectiveness review every year. Our Rules say this review should be done by an external firm every second year unless the Nominations Committee and the Chair agree a good reason why that shouldn't happen.

In 2020, an externally facilitated evaluation was scheduled and conducted. This was led by Sir Christopher Kelly as SID and undertaken by Clare Chalmers Limited.

For 2021, an internally facilitated evaluation, led by Sir Christopher Kelly, was undertaken. The main focuses of the review were the areas highlighted by Clare Chalmers, which formed an action plan.

Further details of the 2021 review and a brief summary of the findings can be found in the Nominations Committee report on page 102.

How our Board operates

The Board and each of its committees have a scheduled forward plan of meetings to make sure sufficient time is allocated to each key area and to make best use of the Board's time.

The Board had nine scheduled meetings during the year. Due to Covid-19, we continued to hold Board meetings digitally until the second half of the year, where we moved to a hybrid approach to Board meetings with some attendees present through Microsoft Teams and others in a physical capacity. During the year, our Board:

- Focused on strategy at most of the meetings, with a number of deep dives presented throughout the year.
- Held closed sessions between the INEDs, CEO and Group Secretary and the INEDs alone – this is in line with good governance.

Members of the Executive team and various colleagues are regularly invited to Board meetings and give presentations and updates to the Board. The INEDs and MNDs take time at the end of each Board meeting to have a discussion after the Executive Directors have left.

The agendas for Board meetings are prepared by the Group Secretary in consultation with the Chair with reference to the forward planner. There is flexibility within the planner to ensure arising business matters can be addressed.

Report writers use a standard paper template and need to meet deadlines for submission. Papers are reviewed by the Group Secretary prior to circulation and made accessible to Directors on a tablet using a secure system.

Board Committee minutes are made available to all Directors (unless there's a conflict of interest) and the Chairs of the Board Committees update the Board on any committee activity at Board meetings. Board Committee papers are available to Directors on request.

Board attendance

Directors' attendance at scheduled Board and committee meetings is set out in the table below. Any unscheduled meetings which were held during the year and which were needed on relatively short notice as well as any cancelled meetings are not included in the figures.

The numbers in brackets show how many meetings each Director could have been at.

When we're setting the Board meeting schedule, we always take Directors' availability into account but with a larger Board we cannot always find dates all can attend.

Director	Board	Risk and Audit Committee	Nominations Committee	Remuneration Committee
Allan Leighton (Chair)	9(9)		3(3)	
Sir Christopher Kelly	9(9)		3(3)	4(4)
Kate Allum	5(5)		1(1)	
Margaret Casely-Hayford	9(9)		3(3)	4(4)
Paul Chandler	9(9)	5(5)		
Rahul Power	9(9)			4(4)
Sarah McCarthy-Fry	9(9)	5(5)		
Shirine Khoury-Haq	9(9)			
Simon Burke	9(9)	5(5)	3(3)	
Steve Murrells	9(9)			
Stevie Spring	9(9)			4(4)
Lord Victor Adebowale	9(9)	5(5)		
Denise Scott-McDonald*			1(1)	
Nick Crofts*	n/a	n/a	2(2)	n/a

*not a Director but is a member of the Nominations Committee by virtue of role as Council President

Time commitment and conflicts of interest

Conflicts of interest are situations in which Directors have, may have, or at least give the impression that they may have, divided loyalties on any issue. All Directors have a duty to avoid conflicts of interests.

Prior to appointment, Directors are asked to disclose any other appointments they have and any potential conflicts of interest and we also do a number of other background checks. In addition, Directors are required to confirm they will have sufficient time to be able to do the role. This obligation continues whilst Directors remain on the Board and is kept under review. A year end disclosures exercise is carried out annually and, as part of this, Directors disclose any changes or updates to their interests.

There are specific provisions in our Rules which cover any real or potential Director conflicts of interest. There's also a Board Conflicts Toolkit which gives guidance on what to do in potential conflict of interest situations.

The Board remains satisfied that each Director is able to allocate sufficient time to perform their responsibilities effectively.

Independence

It is important that we have Directors on our Board that have objective and independent thinking. The UK Corporate Governance Code (UK Code) requires at least half the Board, excluding the Chair, to be Non-Executive Directors whom the Board consider to be independent.

As a Co-op we have two different ways of looking at and assessing the independence of our Directors, as defined within the UK Code and as defined within our Rules and BCC.

The Board considers all our INEDs and MNDs to be independent in character and judgement as per the criteria set out in the UK Code. Excluding our Chair, nine of the current Directors on our Board are deemed to be independent.

Our Chair was determined to be independent on appointment in line with the UK Code and our BCC. Our BCC expects the Chair to become fully engaged in the activities of our Co-op and therefore does not expect the Chair to maintain their independence for their full term.

Diversity and inclusion

As a co-op, the guiding values of self-help, self-responsibility, democracy, equality, equity and solidarity translate through to the balance and diversity we seek for our Board.

Diversity of thought brings a richness of debate that is vital to an effective Board and those values are within our Board Diversity and Inclusion Policy, which can be found on our website. The policy was reviewed during the year by the Nominations Committee. See page 102.

We're very clear at Co-op that we're anti-racist and the commitments we made to racial equality and inclusion in 2020 underpin this (see our Co-operate Report for more information). Our Director, Lord Victor Adebowale, continues to sit on our Equality and Inclusion Think Tank, along with six other leading experts. Its purpose is to provide expert advice, challenge and insight by sharing examples of best practice and identifying opportunities to progress as we seek to meet our commitments.

Our Board is currently made up of five women (42%) and seven men (58%). Four of those Directors are from ethnic minorities. It is pleasing that our Board diversity exceeds the findings of the 2019 Hampton-Alexander Review, which indicated 32.4% of FTSE 100 board positions were held by women, and the target set in the 2017 Parker Review (and the subsequent 2020 update) for FTSE 100 boards to have at least one ethnic minority director on the board by 2021.

Decisions of our Board

Our Board takes decisions at the highest level to ensure the long term success of our Co-op.

It focuses on the future goals for our Co-op and how those goals should be achieved in a way which is in the best interests of our members as a whole and in line with our Purpose, and Co-operative Values and Principles. How those decisions are put into action is a matter for the Executive - the Board then monitors progress and holds the Executive to account.

We do not have the same structure as limited companies, which often have large, institutional investors. We are a co-op and we have been very clear that we want to do business in a better way for the benefit of our members and communities. We call this 'the Co-op difference'.

When considering future plans, our Board looks at short, medium and longer-term views to try and make sure our Co-op, and the way it does business, is built on a solid platform for generations to come. To achieve this, our Board takes decisions at the highest level, consistent with our Purpose and Co-operative Values and Principles that are commercially sensible and meet the needs of our members.

Our Board looks at the interests, views and needs of our wider stakeholders when making decisions of substance and our contact with them (as detailed on page 59 and pages 121 - 127) helps our Board understand these views.

Members' views are at the heart of our Board's decision making process through the use of an Ethical Decision Making Tool. This helps our Directors focus on what members are likely to think, whether the decision will create value and what the potential impact of the decision will be on our members and our wider communities. Recommendations on material decisions put forward to our Board must include a view on each of these elements.

Managing our risks

Our Board oversees our risk management framework through the Risk and Audit Committee. It regularly reviews and agrees risk mitigation plans and responses. Our Board ensures that policies and practices are consistent with our Purpose and Co-operative Values and Principles.

For more information on Risk Management at Co-op and our Principal Risks and Uncertainties, please see pages 41 - 49.

As Co-op, our commitments to the environment and tackling climate change are long standing. We are committed to identifying and reporting on our climate related risks in line with the Taskforce on Climate-Related Financial Disclosures (TCFD) and will continue to strengthen our governance processes in line with TCFD recommendations.

Delegated authorities framework and matters reserved for the Board

Our Board has the power to delegate certain decisions, for example, to individual Directors or Board Committees. We have a Delegated Authorities Framework which is reviewed regularly by the Risk and Audit Committee and approved by our Board. This sets out defined levels of authority for colleagues.

In line with good governance, the Board has reserved a level of decision making to itself, which covers areas including Strategy and Management, Group Structure, Capital and Borrowing and Financial Reporting and Controls. These are recorded formally in a 'Matters Reserved for the Board' document, approved by the Board.

Communicating with our stakeholders

For information on how our Board acted with regard to our key stakeholder groups, please see full details within our Section 172 Statement at pages 121 - 127.

Additional governance information

- Whistleblowing**

Our Board remains comfortable that there are sufficient processes in place which enable colleagues to raise any issues which they feel uncomfortable about or which are not in line with Co-operative Values and Principles. See page 80 for further detail.

- Board Code of conduct**

Our Board Code of Conduct sets out the standards of behaviour expected by Directors. All Directors are required to abide by the code during their term in office.

- **Directors' and Officers' liability insurance**

We have Directors' and Officers' liability insurance in place which covers Directors against any legal action taken against them for doing Co-op business. They also receive an indemnity from our Co-op for specified liabilities which could possibly arise from them doing their job.

- **Independent professional advice and Board support**

Our Board can seek the advice or assistance of the Group Secretary, Secretariat and the Executive Team. We also have procedures in place so that if any of the Directors feel they need independent professional advice to enable them to perform their duties properly, they can ask for that advice and, subject to certain limits, Co-op will pay for that advice.

- **Our subsidiaries**

Our subsidiaries are run as independent businesses, although they operate within the strategy and direction set by our Board. There are a number of rules, policies and procedures (particularly relating to governance and authority levels) which apply across the whole of our Co-op.

There are two subsidiaries which are treated slightly differently - Co-operative Insurance Services Limited (CISL) and Co-operative Legal Services Limited (CLSL). Both are regulated (CISL by the Financial Conduct Authority (FCA) and CLSL by the Solicitors Regulation Authority (SRA)). This means they have particular areas of responsibility for which they are accountable to their Regulator. Our Co-op retains general oversight of these businesses, but in order to satisfy their regulatory obligations, they need to keep a higher level of independence for their conduct and everyday operational decisions.

- **Our compliance with the UK Corporate Governance Code**

The latest version of the UK Corporate Governance Code (UK Code) was published in July 2018 and applies to large companies with traded shares. As a Co-op we are not required to comply with the UK Code.

However, we remain of the view that the general principles of governance set out in the UK Code are key to running a good business. We've therefore taken the view that it's the right thing for our Co-op to continue to voluntarily comply with the UK Code where it can be applied directly to our democratic model and it makes sense for us to do so.

In the following section, we have signposted you to various sections within the Annual Report to help demonstrate our compliance, either directly or in the spirit of the UK Code.

- **Board leadership and purpose**

A successful business is led by an effective and entrepreneurial Board who should promote long-term sustainable success, general value for members and contribute to the wider society. See pages 60 - 63.

The Board should establish purpose, values and strategy and make sure these align with culture. See page 66.

The Board should make sure sufficient resource is available to meet and measure performance against its goals and that risks can be properly assessed and managed through effective controls. See pages 41 - 42.

The Board should ensure effective engagement with all stakeholders. See pages 121 - 127.

The Board should make sure policies and practices across the business are consistent with our values and support long term sustainable success. Colleagues should be able to raise any concerns. See page 67.

- **Division of responsibilities**

The Chair should lead the Board, demonstrate objective judgement, set the tone for the culture, encourage constructive Director debate and ensure Directors receive accurate, timely and clear information. See pages 59 - 61.

There should be an appropriate mix of Executive Directors and Independent Non-Executive Directors (INEDs) and a clear division between the roles of the Executive team and Board. See page 60.

INEDs should give sufficient time to their role and hold the Executive team to account. See pages 59 – 61 and 64.

The Board should have sufficient policies, processes, information, time and resource to function effectively and efficiently. See pages 64 and 65.

- **Composition, Succession and Evaluation**

Appointments to the Board should be subject to a formal, rigorous and transparent procedure and an effective succession plan should be maintained for the Board and Executive. Appointments and succession plans should be based on merit and objective criteria, and promote diversity of general, social and ethnic backgrounds, as well as cognitive and personal strengths. See pages 100 - 103.

The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of services of the Board as a whole and membership regularly refreshed. See pages 63, 65 and 100 - 103.

An annual evaluation of the Board should consider composition, diversity and how effectively members work together. Individual evaluation should demonstrate whether each Director continues to contribute effectively. See pages 63 and 102.

- **Audit, risk and internal control**

The Board needs to put in place formal and transparent policies and procedures to make sure that external auditors and our internal audit function are independent and effective, with the result that our published accounts give a fair reflection of our Co-op's financial position. See pages 71 - 81.

The Board needs to satisfy itself that our Co-op's position and prospects are presented in a fair, balanced and understandable way. See page 72, 73 and 112.

The Board needs to identify an acceptable level of risk and make sure that financial controls across the business are appropriate so that financial decisions are taken in line with that identified level of risk. See pages 71 - 81.

- **Remuneration**

Our pay policies should link to and support our stated purpose and promote long-term sustainable success. See pages 86 - 90.

No Director should be involved in setting their own pay and procedures for developing the policy relating to Executive Director pay should be transparent. See page 98.

Directors should apply independent judgement by looking at our Co-op's business performance, Directors' performance and any other relevant circumstances when authorising Executive pay. See page 86.

- **Our compliance with the Co-operative Corporate Governance Code**

In November 2019, Co-operatives UK published a revised version of the Co-operative Corporate Governance Code (Co-operative Code).

We have reviewed our compliance with the Co-operative Code and are comfortable that our practices remain consistent with it, are appropriate and offer the necessary protection to our members.

The report of the Risk and Audit Committee

Introduction from your Committee Chair

When I was writing my report to you last year, we were all hoping that the worst of Covid was over, and we could all return to normal life during 2021. Sadly, it did not turn out that way. Many businesses have in fact experienced more difficult trading conditions this year than they did during lockdown. This is certainly true of our Co-op. Times of stress are often dangerous for the control environment of a business, as people focus on addressing the most pressing issues and less attention is paid to good process.

The Committee therefore kept a close focus on the key controls in Co-op during the year. We have been receiving steadily better reporting of the state and operation of controls, which has presented a mixed picture. There have been some significant improvements, notably in Nisa, which is now at a strong level, and in the proper completion of key reconciliations across the Group. On the other hand, progress in Funeralcare has been slower than we would like, and elsewhere some issues have come to light in our controls over working capital management. We are working with the Executive team to resolve these issues.

Ultimately we want to get to a position where the external audit can be primarily based on our controls, rather than having to include a significant amount of substantive testing as it does today. We still have much to do to get to this point. Some of this depends on upgrades to our IT, but we believe there is scope to make good progress ahead of those upgrades and we will keep pursuing this agenda.

One very substantial IT project that we have been tracking is Retail Business Transformation (RBT), of which the central element is installing SAP in our Retail business. We have reviewed, debated and challenged amendments to the programme and costs, and have also started to monitor the recording of the benefits already achieved. Just before Christmas, the team reported to us that the implementation was complete, and so we will be looking to review the transition to a 'business as usual' operation, and to begin tracking the promised returns on the investment during 2022.

Co-op was well ahead of the market in focusing attention on sustainability and climate change in its annual reporting. The Committee has devoted increasing time to reviewing this reporting, led ably by Paul Chandler and Hazel Blears. Sadly Hazel left the Board and, therefore, the Risk and Audit Committee (RAC) in May too, following the expiry of her term in office. She was a marvellous member of this committee and we miss her greatly. Sarah McCarthy-Fry has kindly volunteered to take her place in leading in this area, along with Paul. This year, we also examined in detail our Co-op's commitment to net zero and the plans in place to achieve it. In conjunction with the internal audit team, we have also examined the work being done to underpin Co-op's commitments on discrimination, diversity and inclusion.

The Committee has an important role in monitoring our compliance with the Groceries Supply Code of Practice (GSCOP) and reporting to the regulator. We were all delighted to see Co-op voted 'most improved retailer' by our suppliers for the third year running. The RBT roll out created some issues for suppliers during the year and, whilst we would have preferred this not to happen, it was good to see that matters were resolved within the framework of GSCOP and collaboratively with suppliers.

The RAC works as a team and I want to acknowledge the great contributions made by my colleagues on the Committee: Paul Chandler, Lord Victor Adebowale and Sarah McCarthy-

Fry. We are very ably supported by Co-op's Internal Audit and Risk Management teams, and my thanks go to them too.



Simon Burke

Chair, the Risk and Audit Committee

Risk and Audit Committee membership and attendance

Our Board has a Risk and Audit Committee ('Committee') which watches over Co-op's financial reporting and how well it's managing risk.

The UK Corporate Governance Code ('the UK Code') recommends that there are at least three independent directors on the Risk and Audit Committee, and we met this recommendation during 2021. All Committee members are considered by our Board to be independent under the UK Code providing objectivity and independent scrutiny. Paul Chandler and Sarah McCarthy-Fry are Member Nominated Directors, and our two Independent Non-Executive Directors are Lord Victor Adebowale and Simon Burke. Our Board is satisfied that Simon Burke's relevant and recent financial experience means he is qualified to be Chair of the Committee. One of our Member Nominated Directors – Hazel Blears – stepped down from the Committee in March 2021.

Details of attendance by Committee members at meetings held during 2021 are on page 65.

The Chief Financial Officer, Group Secretary, Assistant Secretary, Director of Internal Audit / Code Compliance Officer, Chief Risk Officer, Finance Director, Head of Financial Control and the external auditors regularly attend meetings. Other colleagues also attend meetings if asked to do so by the Committee. The Committee also met the Director of Internal Audit, the Chief Risk Officer and the external auditors privately, so they could talk without management being there.

What the Risk and Audit Committee does

The main areas the Committee looks after include the following:

- **Financial and regulatory reporting**

The Committee checks that our Co-op's Annual Report and Accounts and other information on its financial performance is prepared honestly, and the report itself is fair, balanced and understandable. It also reviews the financial statements (consolidated and for our significant subsidiaries), ensuring management has followed appropriate accounting standards and made appropriate estimates or judgements. It also assesses compliance with financial and regulatory requirements, including monitoring compliance with the Groceries Supply Code of Practice.

- **Internal controls**

The Committee reviews our Co-op's internal financial controls and internal controls system, and monitors any weaknesses identified and how management is remediating these.

- **Internal Audit**

The Committee monitors how well our Internal Audit function is performing, approves the appointment of and helps to set the objectives of the Director of Internal Audit. It considers and approves the remit of the internal audit team. This includes reviewing and approving Internal Audit's assurance priorities and monitoring management's response to findings from Internal Audit reports.

- **External audit**

The Committee ensures that our Co-op has a process to choose its external auditor, approve their fees, ensure their independence and check their effectiveness. It also reviews the findings of the audit including management's response to the recommendations.

- **Risk**

The Committee monitors the performance of our Risk function and checks how effective our Co-op is at managing and controlling risks, including reviewing the framework used to manage risk and helping to improve this. It oversees the main and emerging risks our Co-op faces as well as adherence to health and safety principles.

- **Sustainability reporting**

The Committee reviews and recommends to our Board the approval of our Co-operate Report and ensures it is independently checked.

- **Other**

The Committee also monitors our Co-op's procedures around whistleblowing, management of our pension scheme and compliance with the Modern Slavery Act.

The Committee's terms of reference give more detail on what it does and can be found on our website: www.co-operative.coop/investors/rules. During the year we undertook a review of these terms of reference to ensure these remain in line with best practice and the UK Code.

2021 key activities

In 2021, our committee's main activities included reviewing:

- That the financial information we provide to our members is prepared honestly; especially that the Annual and Interim Reports are fair, balanced and understandable and the key judgements and assumptions are reasonable.
- How well the risk and control systems are designed and working to spot risks, control them and the steps being taken by each of the businesses for sharing and monitoring key risk information.
- Internal Audit's work, plans and reports, including the completion of actions by managers on a timely basis.
- The approach we take to key judgements and significant matters when producing our financial information.

- How our Co-op uses and protects personal information, including how we continue to comply with the General Data Protection Regulation and updates on information security risk.
- Risk updates including changes to risks to our Co-op; performance against risk appetite, including breaches; updates on emerging and priority risks and progress with embedding risk categories, including detailed updates on Health & Safety and Security.
- Financial Control across our Co-op, including monitoring progress against Nisa and Funeralcare Financial Control improvement plans.
- Ongoing implementation of Retail Business Transformation (RBT) which is the multi-year programme set up to simplify and streamline our retail processes, systems and ways of working.
- Sustainability at our Co-op, including our route to net zero carbon, and how Procurement delivers in line with our Values and our Co-operate Report 2021.
- How we work with suppliers, so we comply with GSCOP and continue to have an open dialogue with the Groceries Code Adjudicator (GCA).
- The results of our new insurance business (Co-op Insurance Services Limited) and how these are recorded in the financial statements.
- How we continue to comply with the UK Code.
- Our external auditors' non-audit fees.
- Reports on our whistleblowing arrangements and activity.
- The annual review of our Co-op's pension schemes.
- Amendments to our Co-op's policies and strategies including Energy Procurement, Tax, Foreign Exchange and Delegated Authority Limits.

Significant issues relating to the financial statements

When our committee looked at the 2021 financial statements, it considered all the key areas of judgement. In all cases, it discussed them with management and the external auditor. There was specific focus in year on the following:

Areas of focus	What was done
Going concern Management continue to monitor our borrowings, facilities and banking covenants to ensure that we have enough financial headroom to continue to run our business as a going concern.	Our committee reviewed management's assumptions in financial projections and considered the current trading conditions. It was agreed that going concern disclosures in the year end statement would be extended to 30 June 2023. Our committee agreed that our Co-op is a going concern.
Goodwill and fixed asset impairment Our Co-op's Balance Sheet includes significant goodwill, intangible assets and property, plant and equipment balances. The most significant of these are in the Food and Funeralcare businesses. Accounting standards require us to perform an impairment review of our non-current assets at least annually or more frequently if there is an impairment trigger.	Our committee reviewed the outcome of management's impairment review and the impact of this on our financial statements.
Property and other provisions Our Co-op makes provisions for likely future liabilities. Management must apply judgement to determine whether, and how much, we should account for a provision, notably in relation to onerous contracts associated with leases which require significant judgement.	Our committee reviewed the increase in provisions and management's judgement on onerous contracts, self-insurance and litigation.
IFRS 17 & other amendments IFRS 17 is a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts. The standard is effective from 1 January 2023. The impact of the new standard is likely to have a reduced impact on our Co-op following the sale of our insurance underwriting business CISGIL, although there may well be an impact in our Funeralcare business particularly around low cost instalment funeral plans (LCIPs).	The Committee was updated on how the standard may impact our Funeralcare business and monitored progress against this assessment.
Funeral Plans During the year, management performed a review of the accounting for member discounts given on inception of a funeral plan as well as undertaking a review to fully identify all cancelled plans. As a	The Committee was updated on the reasons for the reclassifications and how management had determined and agreed this with our external auditors. The Committee agreed with the approach taken.

<p>result of this work we reclassified member discounts given on inception of a plan from contract assets to offset within contract liabilities. Further balance sheet reclasses were made to appropriately record cancelled plans.</p>	
<p>Income Statement: Group Relief Creditor In line with IAS1, a one-off gain of £99m in relation to the discount on settlement of the Group Relief Creditor owed to the Co-operative Bank PLC has been classified as finance income in the Income Statement.</p>	<p>The Committee was updated on the reasons for the accounting treatment and how management had determined and agreed this with our external auditors. The Committee agreed with the approach taken.</p>
<p>Discontinued Operations – CISGIL The sale of our Insurance underwriting business (CISGIL) completed in December 2020 and consequently the assets and liabilities of that business are no longer shown on our balance sheet. However, our income statement contains £13m of profit on discontinued operations.</p>	<p>The Committee was updated on this approach to reporting.</p>
<p>Fit For Future Programme During the period, the Food division announced the 'Fit for Future' restructuring programme, which involves a fundamental change to our Co-op's operating model in Food. The accounting treatment relating to the cost of the programme means that we treated it as a 'one-off cost' rather than an operating expense.</p>	<p>The Committee agreed with management's interpretation of the accounting standard and the treatment of programme costs.</p>
<p>IAS 40 Investment Property IAS 40 is an accounting standard that sets out how investment properties should be classified in the financial statements. Management performed a review and as a result reclassified a number of fixed assets as investment properties.</p>	<p>The Committee reviewed management's interpretation of the accounting standard and the impact of the reclassification on our financial statements.</p>
<p>Pension scheme IAS19 Valuation Our Co-op has a number of defined benefit pension schemes, of which the PACE scheme is the largest. Management must make assumptions (about things like the future growth rate of investments and the death rate of members of the scheme), which can</p>	<p>Our committee assessed the key assumptions that underpinned the pension calculations.</p>

materially affect the valuation of the pension schemes.	
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Review of the Committee's effectiveness

In 2021, the Committee undertook a self-assessment of its effectiveness which concluded that the Committee was working well. It was agreed that steps should be taken to consider non-financial metrics and consistently reference our Co-op's Values and Principles in formal updates. Our committee members also agreed to receive key updates between meetings (where needed) and clarify the guidelines for Committee and Board papers.

External audit activities

The UK Code says that audit committees should have primary responsibility for the tender process and make recommendations to the Board, about the appointment, re-appointment, and removal of the external auditor. It should also approve the remuneration and terms of engagement of the external auditor and assess how well the external audit process is working. The members have the opportunity to vote on the appointment of the auditor at the AGM in line with the UK Code.

EY is our Co-op's auditors. They also provide our Committee with relevant reports, reviews, information and advice throughout the year. All these activities are set out in the engagement letter.

Independence, objectivity and fees

Our external auditor must be judged to be independent for the audit to be objective. So we have an External Auditor Independence Policy. We also have a policy about appointing people who used to work for the external auditors and an approach to be taken when using the external auditors for non-audit work.

The Committee must pre-approve all non-audit spend with EY. This spend is capped at 70% of the average audit fee over the previous three years.

In line with our External Auditor Independence Policy, the external auditors are not allowed to do a number of tasks including (but not limited to) the following:

- Bookkeeping or preparing accounting records or financial statements.
- Designing and implementing financial information systems.
- Valuation services.
- Internal audit services.
- Management functions or some human resource services.

Our committee approved the nature and cost of all non-audit work done by EY for our Co-op and is satisfied that EY's non-audit work didn't affect objectivity in doing the audit.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in Note 3 to the financial statements.

Effectiveness of auditors

The Committee reviewed the effectiveness of EY throughout the year to ensure that the external auditors continued to provide a professional, independent and objective service.

Internal Audit

Internal Audit is an independent function authorised by our Board through our committee. Its main role is to provide professional, objective assurance while providing insight to improve the way our Co-op is managed and controlled.

In light of the fast paced, ever changing risk landscape, Internal Audit adopted a more flexible and dynamic approach to planning in 2021. As a result, Internal Audit regularly reassesses Co-op's assurance priorities rather than having a fixed plan. Our committee reviewed these priorities at each session and had the opportunity to input and shape the upcoming assurance reviews.

At each meeting, we received a report from the Director of Internal Audit on:

- The work of Internal Audit and the progress it had made against its assurance priorities.
- The impact on the systems of risk and control from internal audit findings.
- Whether management did what it said it would do to fix the issues.

During the year, our committee reviewed Internal Audit reports covering key processes, systems and controls, and projects and programmes. The reports have covered a range of different areas and businesses at our Co-op including Bullying Harassment and Discrimination; Commitment to Racial Equality and Inclusion; Food Regulatory Compliance Framework and Embedded Cost Savings. We also continued to receive assurance on the implementation of the RBT programme and Funeralcare's Core Systems Transformation programme.

During the year our committee reviewed the Internal Audit charter, reaffirming the purpose of Internal Audit. The Committee also received an update on completion of actions following the independent review of Internal Audit's effectiveness, undertaken by the Chartered Institute of Internal Auditors in 2020.

Internal Control

Our Board has overall responsibility to make sure controls are in place to enable our Co-op to work effectively. We assess the effectiveness of our controls using the globally recognised COSO model against five key areas: Culture, Planning, Doing, Informing and Reviewing.

Our committee is responsible for reviewing how effective the internal controls are. The controls are designed to manage rather than remove the risk of not being able to achieve our objectives. It can only provide some (but not complete) assurance that things won't go wrong.

Each Executive member was asked to review how well the controls were working for their area of responsibility and to self-certify the results of their review. This included consideration of the key elements of internal control operated and the key improvement initiatives. Our review of the Executive's self-assessment forms an important part of the annual review of the systems of risk and control.

The Committee also received regular management reports on financial control across our Co-op, including progress against the Nisa improvement plan and Funeralcare remediation plan.

Some of the main parts of the internal control framework are set out below:

Culture

Our control environment is designed to create a culture where colleagues take acceptable business risks but within clearly defined limits. The control environment includes:

- Having the right colleagues in place with everyone knowing what job they have to do, what they can authorise and how they should report, while being supported by a system that helps colleagues perform to the best of their abilities and meet our business objectives.
- Co-ordinating the way colleagues do things across our Co-op through regular management meetings and other forums, as well as setting policies for how we spend our money and making sure that the right approvals are in place.
- A Code of Business Conduct, which sets out how colleagues should act in line with Co-operative Values and Principles with members, customers, other colleagues, suppliers, the community and competitors. This code tells colleagues how they can report any serious wrongdoing confidentially and an anti-fraud policy also supports this code.

Our committee has also taken further steps to consider culture and Internal Audit reports provide us with cultural observations based on their assessment of how Co-op colleagues engaged during each audit.

Planning

Our Board and Executive team are responsible for identifying and evaluating our Co-op's main business risks. We aim to have systems that manage the risk in an efficient and effective manner. We look at what could go wrong and how we can stop this happening; to protect our members' interests and our reputation, and to make sure we comply with regulatory standards and achieve our business objectives. This is achieved through:

- Management maintaining risk registers that identify the likelihood and impact of risks and what they are doing to manage them. The Risk team supports risk management across our Co-op and reports on risk to our committee.
- The Committee receiving updates on our Co-op's priority risks, which in 2021 included our continued response to Covid-19 and the economic impact of the UK leaving the European Union.
- Updates on emerging risks, performance against risk appetite and work underway to further improve risk sharing and monitoring across the business.

Doing

Our Co-op's control procedures are designed to ensure that risks are appropriately managed. This includes risks around the completeness and accuracy of accounting for

financial transactions, as well as for reducing the potential cost from loss of assets or fraud. Risks and controls are regularly reviewed.

Management receive relevant information on our Co-op's accounting and other policies, procedures, our colleagues and the Code of Business Conduct.

Informing

We engage with our stakeholders in several ways. Colleagues receive and provide information on strategy and objectives through their reporting lines and a formal performance measurement process. Colleagues also receive regular business updates from our Co-op executives and senior management through various channels, including email, our intranet, conference/Microsoft Teams calls, social media and face-to-face/online briefings. We also have an external facing colleague website: www.coop.co.uk/colleagues

Reviewing

We adopt the 'three lines' approach to trying to make sure our Co-op does what it says it will do. The first line is the system of internal control, which is the responsibility of line management. The second line comes from various functions, including Risk, which monitor and check compliance. Internal Audit provides independent assurance, as the third line.

Whistleblowing procedure

To ensure our Co-op follows best practice and Co-operative Values and Principles, a whistleblowing procedure has again been in place during the year to allow colleagues to pass on information about suspected wrongdoing. We continue to use an external independent party to manage our 'Speak Up' service, which allows colleagues to raise concerns confidentially should they not wish to talk to someone within our Co-op. This procedure also allows suppliers to report on any suspected wrongdoing. In addition to Speak Up, reports can be made direct to colleagues at our Co-op.

We have a procedure for recording and investigating whistleblowing reports and the Committee reviewed a summary of whistleblowing cases reported throughout the year. The Committee considers the whistleblowing procedures to be appropriate for our size and scale. The whistleblowing policy is included in the Code of Business Conduct and is available on the colleague intranet and our website.

Other activities

Audit actions

Our committee reviews Internal Audit reports and supports the business to ensure that any issues raised are addressed by management promptly and appropriately.

Retail Business Transformation (RBT)

RBT is the multi-year programme set up to simplify and streamline our retail processes, systems and ways of working. The Committee oversaw the continued implementation and the route to programme closure. Updates on programme progress were provided by management, which focused on how new ways of working were embedding and benefits were being realised.

Groceries Supply Code of Practice (GSCOP)

During 2021, our Co-op engaged and worked collaboratively with Mark White, the Groceries Code Adjudicator (GCA), and we continue to demonstrate our compliance with the Code. The GCA Annual Survey 2021 also concluded that our Co-op was the 'most improved retailer' for the third consecutive year and we ranked second in 'overall compliance with the Code' for the second year running. We value the supplier feedback given in the GCA Survey and use the outputs to shape our Supplier Engagement action plan.

The Committee has kept compliance under review through regular updates from the Code Compliance Officer and the Supplier Engagement and Retail Business Transformation Programme Director. The Committee approved the Annual Compliance Report for submission to the Competition and Markets Authority as required by the Groceries (Supply Chain Practices) Market Investigation Order 2009. A summary of progress in the year is on page 110.

Co-operate Report and climate change

Our committee has responsibility for reviewing our Co-op's approach to sustainability reporting and social impact accounting. We review and recommend the approval of the Co-operate Report to our Board, giving the Co-operate Report the same importance and focus as the Annual Report and Financial Statements. The Co-operate Report is independently assured.

The Committee received updates this year on our Co-op's progress to net zero carbon by 2040 through delivery of our 10-Point Climate Plan.

Covid-19 pandemic

Covid-19 has continued to present a big challenge to our Co-op. Our committee has paid close attention to the ongoing developments through 2021 and has considered the implications for our colleagues, customers and members.

GDPR and Information Security

Our committee receives regular updates to ensure that our Co-op continues to meet its obligations to be trusted with data in line with the General Data Protection Regulation (GDPR) and to use it as a valuable asset to deliver benefits to our customers and members. Through management updates and Internal Audit reports, our committee has also considered information security including patching and user access controls.

The report of the Remuneration Committee

Introduction from the Committee Chairman

This is my seventh Remuneration report as Chairman of the Remuneration Committee ('the Committee'), and one of the most difficult to write.

The exceptional commercial challenges we faced in to, particularly during the second half of 2021, at a time when we were committed to investing in our business, meant that we ended the year in a weakened financial position. This has weighed heavily on some difficult decisions that we have made as a committee, on behalf of our members.

Our members have given the Committee the role of deciding what we pay, but we always listen to their views and regularly engage with representatives from the Co-op Members' Council and listen closely to the wider membership, not least at our AGMs. The consistent message we get is to continue to reward competitively and appropriately at the most senior levels, to try and do our very best wherever we have the opportunity, to increase rewards for those not on the very highest salary and bonus bands.

This is one of the years when we have used our power of discretion to do just that with the bonus outturn.

The report contains a lot of information, but we've tried to simplify it within the guidelines of best practice reporting.

My introduction has all the key highlights and there are two further sections which detail:

- i. **Part I – Executive Pay Policy.** We've included a summary of the pay policy which we will ask members to vote on at the 2022 AGM. This is unchanged from the one you approved at the 2019 AGM, but, following best practice, we put this up for approval every three years.
- ii. **Part II – Annual Report on Remuneration.** Then we've shown how the policy has been applied in 2021.

We've also included a 'Pay at a glance' section on page 86, so you can see all the key information on our Executive team in a simple format.

Our approach

We always believe in being open with our members. So, we go beyond public company best practice and tell you what our full Executive team earned, not just our Chief Executive and Chief Financial Officer.

We also look at wider pay and reward principles for our entire colleague cohort.

Our performance

2021 was another extremely challenging year for our Co-op. Profit before tax substantially reduced. Investment, particularly in our Food business, impacted underlying profitability exacerbated by well documented supply chain issues across the entire retail sector and only partially offset by improving profitability in the much smaller Funeralcare, Insurance and Wholesale businesses; and further cost savings in central supporting functions.

The full details of how our Co-op performed is given in 'Our financial performance' section on page 31.

Our colleagues

Once again, significant additional investment was made to our frontline colleague roles to recognise the vital role they play.

In April 2021, we aligned our minimum hourly rates to the Real Living Wage as set by the Living Wage Foundation (www.livingwage.org.uk), as we will from April 2022. For Customer Team Members (CTMs) in our Food stores, this resulted in a 4.2% pay rise. We also increased the pay rate differential between CTM and Team Leader roles. And our hourly pay rates apply to all colleagues, including younger colleagues and apprentices.

Yet again, those frontline colleagues have continued to do an amazing job; and yet again this year in very difficult circumstances. In recognition, they received £20 on their membership card and an increased colleague discount in December.

Their wellbeing – indeed the wellbeing of all colleagues - continues to be a key priority and we've made progress again on how we support both their health and financial wellbeing. Our monthly 'Wellbeing Wednesday' newsletter focuses on the things that colleagues tell us are most important to them.

In terms of specific activities in the year:

- We've made mental health training available to all people managers. Over 1,500 have now voluntarily chosen to take up the training and, in 2022, we're making attendance mandatory for all our Retail managers.
- We've launched Wagestream to all colleagues which has seen 10,400 colleagues supported with access to their earned pay between pay days and 2,400 colleagues opening a savings account paying 5% interest. The feedback on this initiative has been fantastic - more than 7,000 colleagues have told us Wagestream has reduced stress and improved their finances.
- We've sent all of our colleagues a clear booklet to show all of the benefits and support available to them, and how to access them.

We always put the colleague voice at the heart of our wellbeing programme, and we'll continue to be led by what they tell us matters most, using colleague focus groups to shape future investments.

More than 40,000 colleagues are members of our pension scheme. Our pension offer compares very favourably to competitors schemes and is available to all. We also take the social responsibility and sustainability footprint of our pension investments seriously. See our Co-operate Report for more information on the real progress we've made by focusing here

Our pay outcomes

- **Bonus**

Good financial stewardship - particularly managing our debt level - is an underpin performance measure within our annual Bonus Plan. The Plan rules have a 'gateway' that requires our Net debt/EBITDA ratio to be within 10% of our budget throughout the year in order for any bonuses to be made. There were times during the year that this was not the case. And by the close of 2021, our net debt increased to £920 million on declining profits. So while this level remains within our current banking facilities, we need, and now have, clear plans to reduce this significantly over the next three years.

Against our other targets for community and membership, we did make progress and, in the round, could have paid near threshold level bonuses to the (c.8,500) colleagues in the Plan .

More information on how we performed for each balanced scorecard measure and the final outturn can be found on page 92.

After a great deal of deliberation, the Committee made the difficult decision to determine that the financial gateway test had not been met. Consequently, no payments would be payable under the 2021 Bonus Plan.

However, in line with our reward philosophy, members of the Committee determined they would use discretion to enable the accrued bonus to be paid to all of our colleagues (including our Food Store Managers) who participate in the Plan, so excluding only our most senior leaders. The funds accrued through the year for Executive and Co-op Leader bonuses has been reallocated to the bonus pot and will therefore serve to uplift the amount paid to colleagues at lower earning grades.

- **Deferred bonus payments**

The second half of the 2019 BP Award is now due to colleagues still employed by our Co-op and not under notice at the time of payment.

It will be paid in May 2022 to senior leaders in line with the scheme rules.

Further details of the amounts paid and deferred can be found on page 91.

Changes to the Executive

Matt Atkinson stepped down in June 2021 and some contractual termination payments were made. No deferred bonus payments were made. Further details can be found on page 91.

Jo Whitfield will be taking a career break in 2022. This will reduce her bonusable pay for 2022, upon which the 2022 Bonus Plan will be calculated.

And, most importantly, our Group CEO, Steve Murrells steps down at this AGM after ten sterling years' of service to our movement. We shall miss him, but we welcome Shirine's promotion to Interim CEO. Shirine moves onto the Group CEO package.

Gender pay gap reporting

We continue to promote and recruit to narrow our gender role gap - increasing the number of senior female colleagues – but, because over 80% of colleagues are on fixed hourly pay rates regardless of gender, our gender pay gap moves only marginally. The full report can be found here: www.co-operative.coop/ethics/gender-pay-gap-report

The Committee

The Committee has worked hard this year. We've had to have a lot of extra meetings and discussions beyond the formal calendar, and every member has made a valuable contribution. My heartfelt thanks to all of them, and also to the members of the Council Remuneration Working Group under Lesley Reznicek's leadership. Their insight and challenge throughout the year made sure our members' voice was always heard.

AGM

It remains important to us that our members make their views heard, so we would ask that you vote prior to the 2022 AGM. And I hope you will be able to support and endorse our decisions by voting to approve this report.

To remind you, we will be asking our members to approve both the Annual Report on Remuneration and our Executive Pay Policy for a further three years. Both votes are advisory. So, while technically not binding, in the event of a vote against the Executive Pay Policy, my committee and our Board have committed to consult with the Council Remuneration Working Group about changes, with a view to bringing an amended version forward for another vote at the 2022 AGM. Until it can be amended at that time, the existing policy would remain in force.

I say every year that getting the balance right is never easy and this year we have had to make some particularly difficult choices. I'd like to offer my thanks in advance for your vote in favour of the motions.



Stevie Spring

Chairman, the Remuneration Committee

Pay at a glance

This section provides an overview of our Executive Pay Policy and summarises the framework that will apply for our executives in 2022. Further details are set out on page 87.

Executive Pay Policy

The key elements of pay for our Executive are:

Total Pay	<ul style="list-style-type: none">• Salary and benefits are fixed• Bonus Plan is variable and depends on performance
Salary	<ul style="list-style-type: none">• Our Executive receives a salary which reflects their core role• We benchmark the total pay of our Executive using market data from similar businesses to ours, including a selection of retail PLCs, mutuals and co-operatives, as determined by the Committee
Benefits	<ul style="list-style-type: none">• The benefits provided are in line with the offering across Co-op and could include a car or car allowance, fuel in certain cases, relocation assistance in certain cases, healthcare and life cover
Pension	<ul style="list-style-type: none">• Opportunity to participate in our Co-op's pension plan or receive a cash allowance instead, in line with the wider workforce
Bonus Plan	<ul style="list-style-type: none">• Payments are based on a combination of business and individual performance• 50% of the award is deferred for two years

The table below sets out the annual base salary and maximum amount each Executive member can receive under the Bonus Plan.

Executive member	2021 £'000	2022 £'000	Maximum BP opportunity as a % of bonusable pay
Steve Murrells ¹	750	750	250%
Shirine Khoury-Haq ²	650	650	180%
Jo Whitfield	650	650	150%
Helen Webb	450	450	150%
Helen Grantham	350	350	150%

Notes to table

1. As a result of stepping down from our Chief Executive role Steve Murrells will not be eligible to participate in our 2022 Bonus Plan.
2. On appointment as our Interim Chief Executive Shirine Khoury Haq's salary increased to £750k, and her maximum bonus opportunity increased to 250%.

How our approach links to our strategy

Our bonus elements are linked to doing what matters most for our Co-op. We are committed to a clear link between how we pay our Executive and how our Co-op performs, while keeping a strong connection with our colleagues and supporting our Co-op Values and Purpose.

Operating profit	It's important we make profit to reinvest and support our future strategy and Purpose.
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Debt	Maintaining responsible debt levels is an important part of that financial strategy.
Membership	We exist to create value for our members and the communities in which we trade.
Community	Supporting local communities where our members live, and where we trade, creates much of the shared value that makes our Co-op a better way of doing business.
Colleagues	Colleagues play a significant role in ensuring we continue to deliver to our members, customers and communities.

2021 pay outcomes

The chart below shows the pay which our executives received in 2021 and full details can be found in the Annual Report on Remuneration which starts on page 91.



Notes to chart

1. Matt Atkinson stepped down from the Executive on 30 June 2021.
2. The bonus paid is the second half of the 2019 BP Award.

Executive Pay Policy

How we look at Executive pay

We are committed to the following approach to pay:

- We want to pay our Executive at a level which reflects the job they do, but do not want to overpay. We look at what other similar organisations pay and take this into account.
- We want to reward our Executive for achieving stretching goals as well as for their commitment to our Co-op Purpose and Values.
- We want a benefits package that reflects our Co-op Purpose and Values.

Summary of Executive Pay Policy

Our current Executive Pay Policy is summarised below.

Base salary	
Purpose and link to strategy	To set a level of pay for performing the core role that allows us to attract and retain talented leaders.
Summary and operation	We want to pay our Executive at a level that reflects the job they do, but do not want to overpay. We look at what other similar organisations pay and take this into account when setting our Executive's pay.
Maximum Opportunity	<p>There is no maximum salary. Typically, salaries are reviewed annually. When reviewing salaries, the Committee will take account of:</p> <ul style="list-style-type: none"> • Experience • Personal and business performance • What other similar businesses pay their Executive • Increases being granted to other colleagues throughout the business
Benefits	
Purpose and link to strategy	To offer a benefits proposition to attract and retain talented leaders.
Summary and operation	<p>The benefits provided to our Executive will be in line with normal market practice and could include a car or car allowance, fuel in certain cases, relocation assistance, healthcare cover and life cover.</p> <p>Executives are also able to take advantage of benefits offered to all colleagues, for example: the cycle to work scheme, discounts on certain products and services, the Employee Assistance Programme.</p>
Maximum Opportunity	There is no formal cap on the level of benefits that can be provided. However, this will represent a small proportion of the total pay.
Pension	
Purpose and link to strategy	To provide the same percentage level of pension benefits to all colleagues across our Co-op, that provides an income in retirement.
Summary and operation	Our Executive are able to join our Co-op Defined Contribution pension plan or receive a cash allowance in lieu of pension provision.
Maximum Opportunity	<p>The following options are available:</p> <ul style="list-style-type: none"> • Defined Contribution employer pension contributions of up to 10% of salary • Cash alternative of up to 10% of salary if the lifetime limit has been exceeded
Bonus Plan	
Purpose and link to strategy	To motivate and reward achievement of key business performance measures which support the delivery of our Purpose and Values.
Summary and operation	<p>Our Executive will be eligible for a payment under a Bonus Plan (BP) agreed by the Committee.</p> <p>The performance measures and targets for each annual BP cycle will be set at the start of each year. Payments will be based on a combination of business and individual performance.</p> <p>50% of any award is subject to a two year deferral period – not all of the award will be paid in one go – 50% will be paid two years later.</p>

	Payments made under the BP are subject to malus and clawback provisions.
Maximum Opportunity	<p>The maximum possible bonus opportunity under the BP is 250% of salary for the Chief Executive and between 150% and 180% for the remaining members of our Executive.</p> <p>The maximum amount payable under the BP varies by Executive member and is set at an appropriate level in accordance with our reward philosophy. Target performance bonus is 50% of maximum.</p>

Clawback provisions apply to the BP and enable the Committee to claim back part or all of a payment under these arrangements if our Co-op's results were materially misstated, should have been assessed materially differently or where an individual ceases to be employed by our Co-op as a result of misconduct. Malus provisions allow, under specific circumstances, that the Committee can decide that an award which has not yet paid out should lapse.

To ensure payments are affordable, the BP has a financial underpin which must be achieved for any payments to be made. The Committee will look at performance at the end of the period and assess the BP outcomes. It can provide a BP payment between nil and the maximum opportunity for each executive depending on performance. The Committee has discretion to adjust targets, performance results or payments (up to the maximum or down to zero) for exceptional events, which they were not aware of at the time of granting the award.

Policy for Executive recruitment

The pay package for any new executive will be set using the same policies that apply to current executives, benchmarked externally by role. This means that the Committee would set a total pay package that is aligned to what other similar businesses pay for similar roles, while ensuring that it pays no more than is necessary to secure the individual.

The following additional items of pay may be considered when recruiting an executive:

- **Relocation.** The Committee will consider contributing towards relocation costs for an executive who needs to move home to be closer to their place of work or stay close to their place of work during the working week. When applicable, this is provided under a relocation policy that seeks to provide appropriate financial assistance based on the nature of the move and individual circumstances, without encouraging people to spend long periods away from family.
- **Giving up of outstanding incentive awards.** Under absolutely exceptional circumstances, the Committee may consider compensating a new executive for incentive awards lost as a direct result of leaving their previous employer to join Co-op. The exact type and amount of compensation will vary depending on the incentive plans operated by the previous employer. Any payments agreed under this policy will be no more generous than the arrangements lost, will mirror the original terms as far as possible and will typically be subject to relevant performance criteria.

Policy for Executive leavers

In the event of termination, the Committee will review and approve all payments due to an executive with the aim of minimising the costs to our Co-op. Payments will be based on

contractual and statutory obligations, including legal fees. Where negotiated, a contribution towards career support may be made.

The notice period in newly recruited executives' service contracts will not exceed six months. Current executives' contracts can be terminated by a maximum of six months' notice. Where it is better for our Co-op for an individual to remain under a contract of employment but not to work their notice, they are placed on garden leave and only contractual payments are made. Where an individual is not required to work their notice and receives a payment in lieu, our Co-op is only obliged to pay base salary. The payment in lieu would not include any benefits or bonuses.

The Committee can agree that the salary in lieu of the whole or part of the notice period can be paid in instalments. The Committee has the right to reduce the payments of salary in lieu of notice by the amount of income from a new role.

The Committee has discretion to determine whether, and to what extent, any part of the deferred BP payment should be made in respect of the period they have been employed. In exercising its discretion, the Committee will take account of the reasons for leaving, performance and contractual commitments.

Comparison

For base salary, benefits and pension, the same market aligned principles are applied to all colleagues.

Fees for Non-Executive Directors

Fees for non-executive Board directors are determined by the Non-Executive Fees Committee of Council. Fees are described in the section Annual Report on Remuneration on page 97.

Annual Report on Remuneration

What did our executives earn in total during the year?

The table below shows the pay received by our executives during the 2021 financial year.

Table 1a – 2021 pay for our executives in post at 1 January 2022

		Steve Murrells £'000		Shirine Khoury-Haq £'000		Jo Whitfield £'000		Helen Webb £'000		Helen Grantham £'000	
		2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Fixed Pay	Basic Salary	750	750	650	624	650	650	450	450	350	350
	Taxable Benefits (1)	29	39	4	9	14	15	10	13	13	13
	Pension Benefits (2)	75	75	65	62	65	65	45	45	35	35
Performance-related pay	Bonus Plan (3)	0	660	0	394	0	343	0	238	0	172
	Deferred Bonus Plan (4)	615	696	117	0	283	306	181	182	152	182
Other	Other	0	0	0	0	0	0	0	0	0	0
	Total	£1,469	£2,220	£836	£1,089	£1,012	£1,379	£686	£928	£550	£752

Notes to Table 1a

1. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
2. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
3. No payment was made under the 2021 BP as the Committee determined that the net debt/EBITDA ratio underpin was not met.
4. Deferred Bonus Awards relate to the 2019 BP. Half of the award was paid in May 2020 and the other half will be paid in May 2022, subject to still being employed and not under notice.

Table 1b – 2021 pay for executives who left our Executive during the 2021 financial year

		Matt Atkinson £'000	
		2021	2020
Fixed Pay	Basic Salary (1)	247	450
	Taxable Benefits (2)	7	15
	Pension Benefits (3)	22	45
Performance-related pay	Bonus Plan (4)	0	221
	Deferred Bonus Plan (5)	0	227
Other	Other (6)	1	44
	Total	£277	£1,002

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Notes to Table 1b

1. Basic salary includes a payment on leaving for unused holiday entitlement.
2. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
3. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
4. No 2021 BP payment has been made to Matt Atkinson.
5. No 2019 Deferred Bonus Award has been paid to Matt Atkinson in line with the scheme rules.
6. Matt Atkinson received £1k under the relocation policy to assist in staying close to the workplace during the working week.

Matt Atkinson stepped down from the Executive on 30 June 2021.

2021 BP outturn

Managing our debt level is an important performance measure within our Bonus Plan. The Plan rules have a 'gateway' that requires our Net debt/EBITDA ratio to be within 10% of our budget throughout the year in order for any payments to be made.

For 2021, there were times during the year this was not the case and after a great deal of deliberation, the Committee made the difficult decision to determine that the gateway test had not been met. Consequently, no payments will be made under the 2021 Bonus Plan to our Executive or Co-op Leaders.

However, in line with our reward philosophy, members of the Committee determined that they would use their discretion to pay a bonus for all of our other colleagues (which includes our Food Store Managers) who participate in the Plan. The money held for Executive and Co-op Leader bonuses was also used to bolster this discretionary bonus payment.

The following table shows our performance for each section of the 2021 balanced scorecard.

2021 Balanced scorecard measures	Weighting	Performance	
		Outturn	Summary
Stronger Co-op	% of maximum weighting		
Co-op Operating Profit	50%	Threshold	<ul style="list-style-type: none"> • We had to significantly invest in price to ensure we remained competitive. This, coupled with the well documented supply chain issues, put pressure on our financial performance. Our Co-op's operating profit was just ahead of threshold
Colleague – measures focused on building and maintaining colleague engagement	10%	Miss	<ul style="list-style-type: none"> • Our engagement score has dropped since 2020 but remains strong despite the continuing challenges of the pandemic. Despite the challenges, our Leadership Score has improved from 72% to 74% compared to 2020. This illustrates evidence of leadership development and agility to support colleagues evolving needs • Threshold was set at our 2020 engagement score. As a result of the drop

			in 2021, compared to 2020, we failed to hit threshold for this measure
Stronger Communities			
Member – measures focused on our membership proposition	10%	Target +	<ul style="list-style-type: none"> Despite uncertainty and volatile consumer behaviour driven by the ongoing Covid-19 pandemic and the industry wide grocery supply chain challenges, Co-op membership performed strongly against our targets in 2021 We saw an increase in member participation with more than 1m causes selected by our members. We also had strong levels of member participation in new product development, which outperformed our expectations
Community – measures focused on championing co-operation and engagement with community activities	10%	Target +	<ul style="list-style-type: none"> A strong performance against the targets set with colleagues across the business, working together to maximise the impact of our community activity. The backdrop to 2021 has undoubtedly allowed us to position our '<i>Co-operating for a Fairer World</i>' Vision at the heart of our community response, with all measures performing well
Personal performance			
Assessment of how each member of the Executive performs across the year	20%	-	<ul style="list-style-type: none"> Determined in reference to individual performance. Measures include specific objectives such as overall financial performance, cultural achievements such as inclusion and leadership, transformation programme delivery and sustainability targets.

Based solely on performance against the balanced scorecard measures, the bonus outturn would have been just ahead of 'threshold'.

What deferred BP Awards do our executives hold?

Awards are made annually under the BP and any payments due are made in cash, with 50% of all awards paid in two years' time. The table below shows the value of the deferred award held by executives in post at 1 January 2022.

Table 2a – deferred BP Awards held by our executives in post at 1 January 2022

Name of executive	BP Award Year	Value of BP Award Deferred £'000	BP Deferred Award due in year (Note 1) £'000
Steve Murrells	2021	0	
	2020	660	-
	2019		615
Shirine Khoury-Haq	2021	0	
	2020	394	-
	2019		117
Jo Whitfield	2021	0	
	2020	343	-
	2019		283
Helen Webb	2021	0	
	2020	238	-
	2019		181
Helen Grantham	2021	0	
	2020	172	-
	2019		152

Notes to Table 2a

1. The Bonus Plan rules apply in respect of payments being made.

Table 2b – deferred BP Awards for executives who have left our Executive

Name of executive	BP Award Year	Value of BP Award deferred (Note 1) £'000
Matt Atkinson	2020	221
	2019	196

Notes to Table 2b

1. In line with the BP rules, the deferred BP Awards were forfeited when Matt Atkinson resigned.

What pension benefits are our executives entitled to?

The table below shows the pension entitlements for our Executive. The figures shown reflect the period that the individuals were appointed to our Executive.

Table 3a – Pension entitlements for executives in post at 1 January 2022

Name of executive	Date appointed to Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £'000	Payment in lieu of Pension Benefit £'000	Total Pensions Benefits £'000
Steve Murrells	16 Jul 2012	9	2021 2020	-	75 75	75 75
Shirine Khoury-Haq	5 Aug 2019	2	2021 2020	2 3	63 60	65 63
Jo Whitfield	1 Mar 2017	6	2021 2020	3 4	62 61	65 65
Helen Webb	17 Apr 2017	8	2021 2020		45 45	45 45
Helen Grantham	11 Jan 2016	5	2021 2020		35 35	35 35

Notes to Table 3a

1. All pension scheme members have the option of paying additional voluntary contributions to their respective pension scheme. Neither any contributions paid nor any benefits arising from them are shown in the above table.
2. Defined benefit accrual ceased in October 2015 for all colleagues.

Table 3b – Pension entitlements for executives who left our Executive during the 2021 financial year

Name of executive	Date left the Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £'000	Payment in lieu of Pension Benefit £'000	Total Pensions Benefits £'000
Matt Atkinson	30 June 2021	3	2021 2020	-	22 45	22 45

What arrangements have been agreed for former executives?

Matt Atkinson stepped down from the Executive on 30 June 2021. His earnings whilst he was an executive up to 30 June 2021 are shown in Table 1b. The terms of his settlement agreement included an amount of £225,000 for contractual pay in lieu of notice and a termination payment of £240,600. No other executive left during the 2021 financial year.

Pay ratio

Large public companies are required to report the ratio of pay between a firm's chief executive compared to the 25th, median and 75th percentiles of full time employees.

To calculate each percentile, we've sorted all our colleagues in order of their total pay from high to low. We then split them into four equal groups to work out the percentiles i.e. if there are 101 colleagues, the 25th highest paid colleague is used for the 75th percentile, the 51st

highest paid colleague for the median and the 75th highest paid colleague for the 25th percentile.

The pay ratios calculated in line with the Corporate Governance Code guidance are set out below.

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
2021	Option C	76:1	71:1	64:1
2020	Option C	122:1	117:1	102:1
2019	Option C	83:1	76:1	62:1

Under the options provided in the guidance to calculate the pay ratio, we've opted to use option C. This allows us to select comparator colleagues for the 25th, 50th and 75th percentiles. All three options would give us a very similar result, and option C is the most practical and appropriate for Co-op given the size and complexity of our payroll systems.

A large proportion of our colleagues work in frontline roles in our stores, and both the 25th percentile and the median comparators are CTMs in our Food stores.

The Government pay ratio calculation is based on actual pay received. It therefore can change a lot, as bonus payments are likely to vary each year given that they are linked to both business and personal performance. The increase in 2020's ratio compared to 2019 is largely due to the deferred 2018 BP Award being paid in May 2021. The BP replaced the LTIP plan that we previously had in place. The reduction in 2021's ratio vs. 2020 is due to the increase in frontline colleague pay and no payment being made in respect of the 2021 Bonus Plan.

In addition, for the last four years we've shared our pay ratio based on target earnings rather than actual, as this approach makes sense to us and we believe it will make it easier for members to compare progress over time. We'll continue to provide the ratio on this basis, and the ratio between our highest paid executive and lowest paid colleague for 2018 to 2022 on base pay and for base pay plus target bonuses is set out below.

Year	Base pay only	Base pay plus on target bonuses
1 April 2022	39:1	87:1
1 April 2021	40:1	91:1
1 April 2020	43:1	96:1
1 April 2019	44:1	99:1
1 April 2018	48:1	96:1

No changes were made to the Chief Executive's on target earnings in 2021, whereas we increased the pay of the comparator role, which is a Customer Team Member (CTM), by 4.2%.

Non-Executive Directors' remuneration

This section of the report includes details of the payments made to the Non-Executive Directors (NEDs) in office during 2021.

What are the fees for the NEDs for 2022?

NED Role	Fees
Chair	<ul style="list-style-type: none">The basic fee for the Chair role is £250,000 per annum. There has been no change in annual fee between 2015 and 2021. No additional fees are paid
Independent Non-Executive Directors (INEDs)	<ul style="list-style-type: none">The basic fee for an INED is £60,000 per annumThe following additional fees apply:<ul style="list-style-type: none">Senior Independent Director £15,000Chair of Risk and Audit Committee £15,000Chair of Remuneration Committee £15,000There is no additional fee for the Chair of Nominations Committee or for being a member of any committee
Member Nominated Directors (MNDs)	<ul style="list-style-type: none">The basic fee for an MND is £60,000 per annumThe same additional fees for the INEDs apply to MNDs who are Chairs of a committee. There is no additional fee for being a member of any committee

Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2021, it was paid to The Co-operative Community Investment Foundation. The Chair also has access to a pool car and driver for Co-op business if required. No other benefits will be provided for the Chair or any other NED member of our Board.

All NEDs are entitled to reimbursement of all reasonable and properly documented travel, hotel and other expenses incurred in performing their duties, in accordance with the terms of our Co-op's expenses policy.

None of the NEDs, by virtue of their Board position, participated in any of our Co-op's incentive plans or pension schemes, nor did they receive performance related payments during the period.

The NEDs' letters of appointment are available for inspection on request.

How long are directors appointed to our Board for?

Appointments to our Board are for the following periods:

- The INEDs (including the Chair) were initially appointed for two year terms subject to election and re-election in accordance with the Rules. We amended our Rules in 2018 so that all INEDs and Executive Directors have to retire from office at each third AGM following their election/re-election. Our Board and the Council have the right to agree otherwise in order to avoid a situation where more than half of the other Directors (excluding the Member Nominated Directors) would be retiring from office at the same AGM.
- On this basis, any new appointments or re-appointments for INEDs are generally for three year terms, subject to INEDs being able to serve a maximum of nine years. Executive Directors do not have a maximum term of office.
- MNDs were initially appointed for two year terms and could serve a maximum of three terms, subject to the Member Nominated Director Election Regulations. Following the

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2018 Rule amendments, MNDs are generally appointed for three year terms and can serve a maximum of nine years.

What did the NEDs earn during the year?

The table below shows the fees paid to our NEDs during the 2021 financial year.

Table 4a – Non-executive members of our Board at 1 January 2022

	Notes	Board £'000	Risk and Audit Committee Chair £'000	Remuneration Committee Chair £'000	Senior Independent Director £'000	2021 Total £'000	2020 Total £'000
Allan Leighton (Chair)	1	See note 1	-	-	-	See note 1	See note 1
Chris Kelly	2, 3	60			15	75	75
Stevie Spring	2	60		15		75	75
Simon Burke	2	60	15			75	75
Lord Victor Adebawale		60				60	60
Margaret Casely- Hayford		60				60	60
Paul Chandler		60				60	60
Sarah McCarthy-Fry		60				60	60
Rahul Powar		60				60	60
Kate Allum	5	39				39	0

Notes to Table 4a

1. Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2021 it was paid to The Co-operative Community Investment Foundation.
2. The Risk and Audit Committee Chair, the Remuneration Committee Chair and the Senior Independent Director each receive an additional fee of £15,000 per annum.
3. Chris Kelly receives an additional £60,000 fee as the Chair of the Board of Co-op Insurance Services Limited.
4. No additional fee is paid to the Chair of the Nominations Committee.
5. Kate Allum was appointed on 15 May 2021.

Table 4b – Former Non-Executive members of our Board who left during the 2021 financial year

	Notes	Board £'000	Risk and Audit Committee Chair £'000	Remuneration Committee Chair £'000	Senior Independent Director £'000	2021 Total £'000	2020 Total £'000
Hazel Blears	1	23				23	60

Notes to Table 4b

1. Hazel Blears stepped down on 16 May 2021.

For details of fees paid to Independent Non-Executive Directors on the boards of subsidiary businesses, please see the relevant accounts which are available on request from the Secretary.

Role of the Committee

The Committee is responsible for determining and overseeing the Executive Pay Policy for our Co-op to ensure a consistent approach across our Co-op and its subsidiaries.

Terms of reference

The terms of reference of the Committee are available on our website: www.co-operative.coop/investors/rules

Members of the Committee

Details of the Committee members and their attendance at meetings during 2021 are provided on page 65.

The Chief Executive, the Group Secretary and General Counsel, the Chief People and Services Officer and members of the Reward team are also invited to attend the meetings of the Committee, but are not present when their own remuneration or terms and conditions are being considered. Other individuals are invited to attend for specific agenda items when necessary.

The Committee members are all non-executive. They have no personal financial interests in the Committee's decisions and they have no involvement in the day-to-day management of our Co-op. Our Board believes that all members of the Committee are independent for the purpose of reviewing remuneration matters.

Independent advice

In carrying out its responsibilities, the Committee has access to independent advice as required. During 2021 the Committee retained Deloitte as its independent remuneration adviser. The fees paid to Deloitte during this period totalled £31,050 excluding VAT.

Deloitte are a signatory of the Remuneration Consultants' Code of Conduct, which requires their advice to be objective and impartial.

The Committee takes legal advice from our Co-op's internal Legal team and also from external legal advisers.

The report of the Nominations Committee

Introduction from the Committee Chair

This year marks my seventh year as Co-op Chair and Chair of the Nominations Committee ('the Committee'). I'm pleased to report that the Committee remains confident that we have a strong team of Directors in place, that has continued to successfully support and challenge our Executive and lead our Co-op during another busy year.

This report summarises the work undertaken by the Committee during 2021. The Committee met in January, March and July and focused on areas including:

- Leading further development of Board succession planning.
- Undertaking an internal Board Evaluation.
- Reviewing the Board Diversity and Inclusion Policy.

The Committee also continued to deal with all of its routine matters. This included checking the eligibility and membership criteria for Directors, recommending the re-appointment of INEDs and reviewing the Committee terms of reference.

During the year we were pleased to welcome Kate Allum to the Committee. Kate replaced Hazel Blears on the Committee when her Member Nominated Director (MND) term of office came to an end in May 2021. We were also pleased to welcome Denise Scott-McDonald to the Committee when she replaced Nick Crofts as our Council President. I express my thanks to Hazel and Nick for the contributions they made to the Committee during their tenure.

As we face into 2022, a key priority of the Committee will be Board succession planning - a number of our Directors, including the Board Chair and Senior Independent Director, will be stepping down during 2023/24 when their maximum terms of office come to an end.

We will also see the departure of Steve Murrells as CEO and Executive Director following the 2022 AGM. Shirine Khoury-Haq continues to be an Executive Director on our Board following her appointment as Interim CEO.

Allan Leighton

Chair, the Nominations Committee

What does our Nominations Committee do?

Our Nominations Committee:

- Leads the appointment process for Executive Directors and Independent Non-Executive Directors (INEDs) having regard to (amongst other things): our Rules, our Board Composition Charter, our Board Diversity Policy, our Membership Regulations, our Board Election Regulations and Co-operative Values and Principles.
- Leads on other non-Board appointments if asked.
- Checks and approves the qualification and commercial experience requirements of INEDs and Executive Directors.
- Under the direction of the Chair, keeps the diversity and effectiveness of our Board under review and ensures it has the appropriate balance of skills and experience to provide effective leadership and oversight.
- Evaluates Director performance individually and collectively.
- Reviews and recommends succession plans for our Board.

- Submits proposals to the Non-Executive Directors' Fees Committee in respect of the remuneration of our Co-op Chair, INEDs and MNDs.

The Member Nominated Directors Joint Selection and Approval Committee (MNDJC) oversees the election process for MNDs and therefore who is put forward for direct election by members.

The Committee's Terms of Reference were reviewed during the year and minor amendments were made. They are available on our website: www.co-operative.coop/investors/rules

2021 focus areas – Board succession planning

During the year, the Committee spent time considering the important topic of Board succession planning. The Committee reviewed the Emergency Succession Plan (used to ensure the Board is prepared for sudden or unexpected loss to key Board members) and was confident it remained appropriate. The Board Skills Matrix (used to help assess the current skills, knowledge and experience of the Board and any potential gaps that could be addressed in future appointments) was refreshed following input from the Directors, including the addition of Kate Allum's skills and experience.

Our Non-Executive Directors comprise both INEDs and MNDs. While we can actively recruit for skills and skills gaps for INEDs, our MNDs are elected directly by our members once they have been shown to meet the membership and eligibility criteria under our Rules.

The Committee was satisfied that the Board Succession Plans remain sufficiently robust. However, it remained mindful that in 2023/2024 a number of Board members will be required to retire within a relatively short space of time. This includes the Board Chair, Senior Independent Director, Chair of the Risk and Audit Committee and Chair of the Remuneration Committee. As we enter 2022, and particularly in light of Steve stepping down and Shirine's appointment as Interim CEO, the Committee will carefully consider the detailed process needed to take our Co-op through the next phase. This will include focusing on the skills and experience required and the specifics around the recruitment activity.

In line with our Rules, the Chief Executive (with the support of the Chief People and Services Officer) continued to lead on succession planning for the wider Executive team, in consultation with the Board.

Directors are subject to re-election every three years. Allan Leighton, Sir Christopher Kelly and Rahul Powar will be offering themselves for re-election by members at the 2022 AGM.

Also, two of our current MNDs, Paul Chandler and Sarah McCarthy-Fry, are due to stand for re-election in 2022.

Steve Murrells is stepping down as an Executive Director and Shirine Khoury-Haq continues to be an Executive Director following her appointment as Interim CEO.

In accordance with our Rules, Shrine Khoury-Haq as Interim Chief Executive (with the support of the Chief People and Services Officer) will take the lead on succession planning for the wider Executive team, in consultation with the Board.

2021 focus areas – Re-appointment of Directors

During the year, the Committee considered and recommended to the Board the re-appointment of Rahul Powar as a NED for a further period of three years. The Committee

also considered and recommended to the Board the re-appointment of Sir Christopher Kelly as a NED for a further two year term. This would take Sir Christopher to the end of his nine-year term.

The Member Nominated Director Joint Selection and Approvals Committee (MNDJC) was responsible for the MND election process, which saw Kate Allum being elected to the Board for the first time. Kate replaced Hazel Blears who stepped down as MND when her term of office came to an end during 2021. Kate brings extensive experience having held a number of senior leadership and NED roles and she is passionate about co-operation having been CEO of First Milk Limited: the first British farmer owned dairy co-operative.

2021 focus areas – Board evaluation

An internally facilitated evaluation was conducted during the year, led by Sir Christopher Kelly as Senior Independent Director.

The review consisted of a series of questions, which Directors scored and commented on.

Based on the results of the review, an action plan has been developed and agreed with the Board covering the following areas of focus:

- Monitoring Board meeting length and use of time as the transition back to physical meetings from a remote environment takes place.
- Working to structure agendas to ensure all items receive sufficient coverage.
- Succession planning so as to manage the concentration of Directors due to step down during 2023/24, when their terms of office come to an end. This includes ensuring the Board maintains the range of skills and experience necessary for our future Co-op.

2021 focus areas – Diversity and inclusion

We recognise the importance of a diverse Board that is representative of our membership, now and in the future, and which provides diversity of thought as well as bringing an appropriate mix of skills and experience.

Whilst we believe diversity goes beyond gender and ethnicity, we know this has rightly been a key area of focus over recent years.

We are proud that our Board is currently comprised as follows:

- Men: (7) 58%.
- Women: (5) 42%.
- Ethnic Minority: (4) 33%.

During the year, the Committee reviewed the Board Diversity and Inclusion Policy and remained satisfied that it was aligned to Our Commitments to Racial Equality and Inclusion manifesto, adopted in 2020. The Board Diversity and Inclusion Policy can be found at: www.cooperative.coop/investors/rules

For more information on Our Commitments to Racial Equality and Inclusion, and how we measured against these targets during 2021, please see our Co-operate Report.

2021 focus areas – Board Committee composition

In July 2021 the Committee reviewed the composition and balance of skills on our Board Committees. As part of this review, the Committee considered the membership of each Committee, the tenure of each Director, the Board Skill Matrix, diversity and input from the Committee Chairs. Following the review, the Committee recommended to the Board that the composition of each Board Committee remained appropriate and that no changes be made.

Details of each of our Board Committees' members and their attendance at meetings held during 2021 are shown on page 65.

2021 focus areas – Review of INEDs' and Executive Directors' qualification and commercial experience

Having reviewed the qualifying and commercial experience for INEDs and Executive Directors throughout the year (including the Membership Criteria and Eligibility Criteria) the Committee can confirm that the INEDs and the Executive Directors have all met the requirements and shown continued commitment to Co-operative Values and Principles.

Focus areas for 2022

For 2022, the focus areas for the Committee will include:

- Board Succession Planning including careful consideration of the shape, size and skillset of the future Board and activity to replace Directors due to step down during 2023/2024.
- Progressing actions arising from the 2021 Internal Board Evaluation.
- Conducting another internally facilitated Board Evaluation.

Directors' report

The Directors present their report, together with the audited financial statements for the period ended 1 January 2022.

Results and distributions

The profit before taxation (from continuing operations) was £57 million (2020: £127 million and 2019: £24 million). No interim dividend has been paid for 2021 and the members are not being asked to approve any distribution of profits for the year.

Going concern

The financial statements are prepared on a going concern basis as the directors have a reasonable expectation that the Group has enough money to continue in business for the foreseeable future.

Our Co-op borrows money from banks and others and, as part of this process, we have checked that we can comply with the terms of those agreements, for example, banking covenants and facility levels. Accounting standards require that the foreseeable future covers a period of at least 12 months from the date of approval of the financial statements, although they do not specify how far beyond 12 months a Board should consider. The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 30 June 2023. Although our Co-op has a robust planning process, the current economic uncertainty (driven by factors including ongoing Covid 19 impact, inflation and rising energy costs) means that additional sensitivities and analysis have been applied to test the going concern basis under a range of downside test scenarios. The following steps have been undertaken by the directors:

1. Understand what could cause our Co-op not to be a going concern in relation to facility headroom and covenant compliance.
2. Board review and challenge the base case forecast produced by management including key investment choices.
3. Consider downside sensitivities across the base case forecast.
4. Examine what controllable mitigating actions would be taken in the event of these scenarios.
5. Perform reverse stress tests to assess under what circumstances going concern would become a risk, assess the likelihood of whether they could occur and any further mitigating actions.

1. Understand what could cause our Co-op not to be a going concern in relation to facility headroom and covenant compliance.

In making their assessment the directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability; cash flow and covenant compliance; and available capital resources.

The potential scenarios which could lead to our Co-op not being a going concern are:

a. Not having enough cash to meet our liabilities as they fall due. Throughout the going concern period the facility limit within which we need to operate is £1,179m, which includes £779m non-bank facilities and £400m bank syndicate facilities; and/or

b. A breach of the financial covenants implicit in our bank facility agreement.

- Net Debt Leverage: Consolidated net debt as a multiple of bank-defined EBITDA must not exceed 3.00:1.00 at each six-monthly covenant test date.
- Adjusted Interest Cover: The bank-defined EBITDA (further adjusted by a fixed rental figure) as a multiple of the consolidated net finance charges, must not fall below 1.75:1.00 measured at each six-monthly covenant test date.

We note at the year end date, of the total £1,179m of facilities available to us, we were £972m drawn-down and our net debt position was £920m, excluding lease liabilities. Post the balance sheet date, there have been positive changes to the liquidity position. It is being assumed that amounts due for repayment in the going concern period are repaid. Note 28 to the Financial Statements sets out more information on the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

2. Board review and challenge of the base case forecast produced by management including key investment choices

We have conducted a detailed forward planning exercise as part of our strategic plan. Our base case forecast includes prudence due to the uncertainty in the market due to geo-political factors, inflation and rising energy costs. The Board have reviewed and approved these plans.

The key assumptions in the plan are:

1. Year-on-year modest sales growth driven by inflation. Such inflation is expected to be driven by various cost inflationary pressures, primarily in the cost of goods.
2. Cost optimisation program to drive higher operational efficiencies.
3. A capital light store growth program to drive higher cash generation and reduce indebtedness.

3. Consider downside sensitivities across the base case forecast

In undertaking our going concern assessment, we have included assumptions related to the impact of the pandemic and uncertain economic environment, and modelled further severe but plausible downside sensitivities of internal and external factors on the financial projections including (but not limited to) the below. The starting position for the forecasts used as part of our assessment was the 2021 actual sales which were already 2.9% down due to the HGV driver issues, supply chain impact, product availability , and therefore additional sensitivities below would be considered severe:

- A reduction in the sales in our Food Retail business, with a 1% reduction to sales volume, reducing the net sales from the base case.
- A reduction in the demand of our Funeralcare business, with a 1% reduction in sales.
- An increase in cost price inflation of 0.5% incremental to what has been used within our base model. It is also assumed that none of that is passed through to the sales price inflation.
- An increase in energy cost for unhedged volumes priced at prevailing market rate adding a further 15% premium for 2022 and 7.5% premium for 2023.

- Assuming 75% of our cost saving initiative across 2022 and 2023, is not achieved.

During the preparation of these various downside scenarios, we have also reviewed the impact of the Russia – Ukraine conflict and continue to monitor the scenario through the involvement of the senior members of the organisation with various industry bodies. We note that our sourcing of products from Russia and Ukraine is limited. We note that the direct impact of the conflict to Co-op is proportionately lower, driven by the British sourcing strategy and lesser exposure to national brands with broader supply chains given tighter range offer.

The sensitivities identified above do not risk the validity of our Co-op as a going concern even before applying the mitigating actions set out below. Also, we have considered a plausible combination of the sensitivities happening concurrently where the validity remains protected. Only in the unlikely scenario of all the sensitivities happening simultaneously will we need mitigating actions to be taken.

4. Examine what controllable mitigating actions would be taken in the event of these scenarios

Whilst out of line with our strategic ambition, there are several options within the business' control we could exercise, if all of the above risks materialised. Options include:

- Our Co-op's ability to control the level and timing of its capital expenditure programme.
- Apply cost control measures across both variable and overhead budgets, as well as flexibility to the level of pass through of energy and cost inflation to the end customer.

5. Perform a reverse stress test and assess any further mitigating actions, assess the likelihood of whether they could occur and any further mitigating actions

Whilst our initial going concern approach assesses likely risks to our base case forecasts through severe but plausible downside scenarios and options to mitigate them, the reverse stress test represents a worst-case scenario at which point the model breaks. Whilst unlikely, to demonstrate the above, we have modelled a significant downturn in the grocery market driven by cost of living inflation and geo-political uncertainty of a further -4% retraction in Retail sales and a further reduction in funeral volume of -5%. In addition, we have modelled the impact of a higher than expected Food cost inflation and further energy price rises.

We note, however, that we could mitigate the reverse stress test scenario through a further reduction or delay in capital expenditure and a change in the timing of our investment into operational improvements. There is also the option to apply further cost control measures and flexibility to pass a higher level of energy and cost inflation onto the end customer. Whilst all remain undesirable strategically, there is also the option to apply further stringent cost control measures.

Longer term viability

The directors have assessed whether we will have enough money to continue in business over the longer term. In making that assessment the directors have considered our Co-op's current position and the potential impact of our principal risks as set out on pages 45 – 49. We believe that a three year period to 31 December 2024 is an appropriate period over which to provide this longer term viability statement. Retail is our largest business and the directors have therefore determined the three year assessment period given the dynamic nature of the retail sector. This is consistent with other major food retailers and forms part of the detailed forecasts reviewed by the Group board as part of the strategic planning process.

In preparing the viability assessment, the directors have considered the impact of climate change. This included an assessment of the potential impact of, and associated responses to, climate change and how that could impact our expectations of future trading conditions. This assessment did not identify any material risks arising from climate change and accordingly there has been no material impact on the valuation of the Group's cashflow forecasts used to assess the going concern basis and the viability statement. Furthermore, our forecasts do not include any material spend in relation to climate change. The Group will keep this assessment under review and continue to monitor developments in the future.

Our Sustainability Bond (£300m total facility) and RCF agreement (£400m total facility) are currently due to end in May and September 2024 respectively. Our current working assumption is these facilities will be refinanced on like for like terms. As part of the strategy planning process, the directors make a number of assumptions and judgements about business performance. We then flex the main financial assumptions to check that we still comply with the terms of our facilities, even if some of our principal risks happen. The viability statement is a continuation of the going concern assessment into future years and is part of the strategic plan that the Co-op Board has challenged and approved. The fundamental assumptions and sensitivities underpinning the outer years of our plan align to those of 2022 and we therefore deem them appropriate to use in assessing 2023–2024 sensitivities. The scenarios we have selected are severe but plausible and include considering risks in combination. We have ensured that the sensitivities modelled are representative of our principal risks as set out in the below table:

Principal risk	Sensitivity applied	Impact (in year)
Change and Competitiveness and External Environment	Cost saving programme under delivers by 50% in 2022 and 100% in 2023 Food sales reduce by 1% Wholesales market forces – 10% volume reduction Funeralcare volumes reduced by 1% Food inflationary pressure Wage and other cost inflation Electricity, gas and fuel price increases	2022: £(152m) 2023: £(149m) 2024: £(95m)

When applying these viability sensitivities, there is no breach to our Co-op's financial covenants and there remains sufficient liquidity through to the end of 2024.

Following their review, the directors have therefore concluded that they have a reasonable expectation that the Group will have enough money to continue in business over the period to 31 December 2024.

Post balance sheet events

Conflict in Ukraine - the Group continues to monitor the ongoing tragic conflict in Ukraine and resulting international relationships, to understand how we can respond as Co-op and potential effects upon our Group. Our immediate direct financial exposure to the fallout from the conflict is limited and we do not expect there to be a material impact on the valuation of the Group's assets or liabilities going forward.

IBM - Post the balance sheet date, on 4 April 2022, the Court of Appeal handed down judgment in a claim brought by CIS General Insurance Limited (CISGIL), a former subsidiary of Co-operative Group Limited, against IBM United Kingdom Limited on appeal from the Technology and Construction Court, relating to a failed programme to implement an IT platform. CISGIL was awarded an amount of approximately £80.5m plus an interim payment on account for costs, less an amount of approximately £13m which was awarded by the Technology and Construction Court in 2021 and has already been paid by IBM in 2021. During 2019, CISGIL assigned in equity the proceeds of the litigation with IBM to Co-operative Group Limited, resulting in a payment being due to Co-operative Group Limited of approximately £68m as a result of the judgment. £68m has not been recorded as an asset in the financial statements as the outcome of the judgment was not known at the year end date.

Greenhouse gas emissions

Since 2016, our total Scope 1 and 2 greenhouse gas (GHG) emissions have reduced by 50.9%. Total Scope 1 and 2 GHG emissions decreased by 8.2% in 2021. This means we have reached our science-based target for Scope 1 and 2 greenhouse gas emissions three years early. This is due to using less energy, less fuel, a decrease in emissions from fugitive refrigerant gases and the UK grid electricity mix generating lower carbon emissions.

Our indirect Scope 3 GHG emissions have decreased by 8% over the same period. Our full end-to-end carbon footprint and work to address climate change is published in detail in our 2021 Co-operate Report.

- Scope 1 and 2 company reporting**

In line with GHG Protocol guidance we present our Scope 1 and 2 GHG emissions figures in two ways, showing GHG emissions if our electricity was counted at UK grid average (known as location-based reporting), and also accounting for our purchase and generation of renewable electricity (known as market-based reporting).

Our GHG emissions reduction target is in line with the reductions needed to keep global warming to 1.5°C above pre-industrial temperatures; a threshold for the most dangerous impacts of climate change. Our targets have been reviewed and approved by the Science Based Targets initiative (SBTi), a coalition of leading environmental NGOs.

- **Scope 1 and 2 GHG emissions since 2016 – location-based**

2016 ktCO ₂ e	2017 ktCO ₂ e	2018 ktCO ₂ e	2019 ktCO ₂ e	2020 ktCO ₂ e	2021 ktCO ₂ e
653	542	436	397	349	320

- **Scope 1 and 2 GHG emissions since 2016 – market-based**

2016 ktCO ₂ e	2017 ktCO ₂ e	2018 ktCO ₂ e	2019 ktCO ₂ e	2020 ktCO ₂ e	2021 ktCO ₂ e
342	297	247	232	206	198

- **Scope 1 and 2 GHG emissions by source – location-based**

	2021 ktCO ₂ e
Scope 1 - Refrigeration	73
Scope 1 - Transport	103
Scope 1 - Heating / Generation	22
Scope 2 - Electricity	121
Scope 1 and 2 – Total (location-based)	320

- **Scope 1 and 2 GHG emissions by source – market-based**

	2021 ktCO ₂ e
Scope 1 - Refrigeration	73
Scope 1 - Transport	103
Scope 1 - Heating / Generation	22
Scope 2 - Electricity	0
Scope 1 and 2 – Total (market-based)	198

- **Carbon intensity**

	2016	2017	2018	2019	2020	2021
Tonnes CO ₂ -equivalent (location-based) GHG emissions per £m revenue	63.5	52.8	42.7	36.4	30.5	28.6

- **Energy efficiency**

Reducing our operational greenhouse gas emissions to meet our science-based target has centred around energy efficiency improvements, refrigeration technology and UK electricity grid decarbonisation. We've improved our property maintenance plans, standards and specifications, targeted investments in energy use and refrigeration, and enhanced asset monitoring/management controls.

We've also achieved a reduction in greenhouse gas emissions from our logistics operations by optimising store delivery schedules and dynamic route planning, leading to a reduction in kilometres travelled and fuel used.

Political donations

Like many other businesses of a comparable size, our Co-op engages with a wide range of political opinion formers and decision makers, designed to protect, promote and enhance our corporate reputation and to deliver our campaigning ambitions. On issues of relevance to our business, we are also an active participant in the work of business trade associations.

Separate to this corporate activity, our Co-op is a subscribing member of The Co-operative Party, which was founded by the co-operative movement in 1917 to promote its Values and Principles.

The Co-operative Party works to raise awareness of the benefits of co-operative and mutual models. We made donations totalling £598,000 (2020: £598,000) to The Co-operative Party, which is our financial subscription to the Party for 2021, in line with our members' approval at the Annual General Meeting in 2020. The Co-operative Party reports donations to the Electoral Commission in accordance with its reporting obligations as a registered political party under the Political Parties, Elections and Referendums Act 2000.

No political donations are made through the Local Community Fund ('the Fund') and its terms and conditions are explicit that the Fund cannot be used for party political purposes.

A motion was passed by our members at the 2021 Annual General Meeting regarding our political expenditure, including donations and/or subscriptions to political parties, not exceeding £750,000 in total for the year commencing 1 January 2022.

Compliance with the Groceries Supply Code of Practice (GSCOP)

We have maintained our whole business approach to monitoring compliance with the Code, with regular reporting at various governance forums. The Code Compliance Officer (CCO) and management report regularly to the Risk and Audit Committee on the programme of compliance activity. The Committee also approved the Annual Compliance Report for submission to the Competition and Markets Authority as required by the Groceries (Supply Chain Practices) Market Investigation Order 2009. See page 81.

National logistic and supply chain challenges have caused massive disruption to the grocery sector. Our continued commitment to treating our suppliers fairly has helped us maintain our levels of compliance throughout these turbulent times.

Our training has adapted to the challenges posed by working remotely and is tailored to reflect the specific roles and responsibilities of the different teams and compliance risks they are exposed to. We provide GSCOP training to colleagues beyond just the Buying teams. As per our duties with the Order, all relevant colleagues receive a copy of the Code within seven days of starting in their role. In 2021, we trained 1,241 colleagues.

Throughout 2021 we have continued to engage with Mark White, the Groceries Code Adjudicator, and we value his collaborative approach. We adopted the new best practice guide he published for Forensic Auditing and we shared access to our e-learning GCSOP training modules with him. Our Code Compliance Officer actively and visibly encourages suppliers to share their experiences of dealing with our Co-op and to report any Code related concerns in the strictest of confidence (CCO@coop.co.uk).

The Retail Business Transformation programme has introduced new ways of working for our business and for our suppliers, which are bringing benefits to both parties. During the transition from old to new systems, a number of suppliers have experienced some disruption. We have engaged proactively with suppliers where this was reasonably foreseeable to minimise any disruption. We are pleased that our well established mechanisms for raising issues with the CCO both internally and externally has meant that suppliers have been able to raise issues and seek resolution. During 2021, we recorded 78 potential supplier issues - of these, 20 were raised directly by suppliers with the CCO and 58 were raised internally by colleagues. At the end of the reporting period, nine issues were still under review. We continue to believe that our strong Code compliance culture gives suppliers the confidence to share their feedback with us as they trust we will do the right thing.

Statement of Co-op Board responsibilities in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations.

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 and additionally in accordance with international financial reporting standards adopted in the UK for the 52 week period ended 1 January 2022. The Group financial statements are required by law to give a true and fair view of the state of affairs of the Group and the profit or loss of the Group for that period.

In preparing the Group financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether UK adopted international accounting standards - in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 - have been followed.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with The Co-operative and Community Benefit Societies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy.

Each of the Directors listed on pages 50 - 55 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with international accounting standards - UK adopted international accounting standards, in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 – give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The Strategic Report and Governance Report contained in the Annual Report and financial statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In this context, 'the Group' means Co-operative Group Limited, and all the companies and societies it owns.

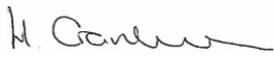
Financial statements

So far as the Directors are aware, there is no relevant information that has not been disclosed to our auditor. The Directors believe that all steps that ought to have been taken have been taken, to make them aware of any relevant audit information and to establish that our auditor has been made aware of that information.

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors of the Group and to determine their remuneration for the forthcoming year was proposed at the 2021 Annual General Meeting and approved.

By Order of the Board



Helen Grantham

Group Secretary and General Counsel

7 April 2022

Co-op's National Members' Council: annual statement for 2021

Our Members' Council is elected by you, our members

Our Council is made up of 100 Co-op members from around the UK, including colleagues. We act as guardians of the Co-operative Values and Principles, helping our leaders keep them at the heart of Co-op's decisions and plans. We continued to meet virtually throughout 2021 to hear about, constructively challenge and give input into the things Co-op is doing as a business.

Council works for Co-op members

As a voice for members in the business they own, Council has a responsibility to hold our Board to account on the performance of our Co-op and the things that matter most to the communities we serve and support.

To do this effectively, Board members attend our Council meetings regularly, giving Council members the chance to share their views and ask questions on many different areas of Co-op business. In 2021, Council held seven Directors' Forums, where we raised 62 questions on behalf of members as part of our commitment to influence Board thinking on several key topics. These included:

- How our Co-op has responded to the availability challenges in food and labour supply chains.
- Our Co-op's approach to partnerships in relation to online delivery and advertising.
- How our Ethical Decision Making Tool is used by the Board and how decisions align to our Co-operative Values and Principles.
- Climate change, plastic packaging and sustainability and how Co-op promotes its leadership in these areas.
- How our Co-op is delivering its diversity and inclusion commitments.
- The development of our wholesaling and franchise partnerships.

Through Council's committees, working groups and advisory groups, we also talk with leaders and colleagues about business plans in more detail, providing input and feedback to help shape key pieces of work. To give us a clear steer and focus for our discussions and priorities, we use a framework called the Co-op Compass. It has four lenses that cover the main areas we hold the Board to account on:

- Member Value.
- Member Voice.
- Ethical & Sustainable Leadership.
- Co-operative Leadership.

With these themes and updated key performance indicators as our guide, Council continued to champion a better way of doing business for our members and colleagues over the last year, despite the challenges of not being able to meet face-to-face.

To support the Society with achieving its Vision '*Co-operating for a Fairer World*', Council has developed a three year plan to help us set out our ambitions and measure our effectiveness in achieving these on behalf of members. We're disappointed that implementation of this plan has been delayed as we've not yet reached agreement with the Executive and Board on our approach and ambitions around member participation, which forms an important part of our plan. We continue to work towards a solution and look forward to sharing more information on our plan with members in future.

In the rest of this report, we'll share how Council worked for Co-op members in 2021.

Member Value

Through our Member Value lens, we challenge the Board to create, sustain and develop member value in everything we do, so that members are rewarded for choosing our Co-op and can see the difference in the way we do things.

We're all aware of the challenges faced across the UK food supply chain in 2021. We have regularly raised members' and customers' concerns with our Board and Food business leaders to understand how we're managing this and ensuring our stores have the products our members and customers need. While these issues will take some time to address, we are proud of the work our Co-op has done to influence Government on systems changes, while supporting our suppliers and British farmers through this difficult time.

How we promote our Co-op is key to attracting new shoppers and we know that our members are passionate about responsible advertising, so we have also raised questions on our use of GB News as a channel and how it aligns to our Advertising Policy. While our partnerships with Amazon and Deliveroo are helping us to be closer to our members and customers and improve our online offer, we need to make sure that our Co-operative Values and Principles are protected, and that Co-op does all it can to influence the ethical approach taken by our partners. To champion this important issue for our members, we will continue to provide input and ask questions on our partnerships as they evolve.

Reviewing our Co-op's financial performance is a role our Member Value & Business Performance Committee carries out on behalf of our members. In 2021, the Committee prioritised the impacts of Covid-19 and the EU exit on our Co-op, with a particular focus on understanding our approach to budgeting and forecasting in uncertain times to ensure we remain in a strong financial position.

Across the UK, our stores and funeral homes are adapting to meet changing consumer behaviour, so as part of its meetings, the Committee discussed post-investment appraisals for our estate. We also raised questions on the difficult decision to close a number of our funeral homes in 2021. Co-op Funeralcare has seen major shifts in attitudes and needs during the pandemic, with many customers seeking out personalised funerals and online services. Co-op has responded to this by improving its digital offer and going above and beyond to make funeral wishes a reality. On behalf of Council, we'd like to say a heartfelt thank you to colleagues for their fantastic work in helping people say the best goodbye possible to their loved ones.

Member Voice

Having an active, healthy Co-op democracy has always been important to Council. In 2021, we continued to build on the progress we made in 2020, to reach more members and get them involved in what's happening around our Co-op.

At a national level, we took our Join In Live events (www.co-operative.coop/joininlive) online for the second time over four dates in October. This meant that members could join us from the comfort of their own homes to help shape future plans, chat with Council members and find out how they can get more from Co-op membership. Hundreds of members took the time to get involved and we're thrilled that holding our events online has been a success again. We'll have a look at what we can do in 2022 to continue meeting and co-operating in easy and accessible ways.

At a local level, our Member Pioneers continued to plan and host more Join In Live Local events too, with a focus on what we can do in our communities to tackle climate change and make more sustainable choices. Hundreds of members have been busy getting involved with local activities and we're pleased to let you know that, following the recruitment drive, we reached 1,000 Member Pioneers in communities around the UK in 2021. Also, Council members are now paired with Member Pioneer Co-ordinators for where they live. This will be a huge help in keeping us connected to members near us and we're excited to start thinking about what participation in our Co-op can look like locally.

In 2020, we shared with you that we'd created a communications plan to provide Co-operative Member Education, Training & Information (CMET&I) to members in meaningful, engaging ways. In 2021, we've been working hard to bring it to life and develop opportunities to help members learn and play a part in our Co-op. From a quiz during Co-op Fortnight on what it means to be a co-op to an event in Black History Month, that shone a light on where the movement has championed inclusion and where it's needed to improve over the years, we've helped 21,021 members understand our difference and the role they have in the business they own. We'd like to say a big thank you to our Council Secretariat and Member Participation teams for their support in shaping and delivering this work. We're looking forward to hosting more opportunities in 2022.

Through our Member Voice lens, we challenge the Board to make sure our members feel engaged in our Co-op and want to contribute positively and proactively in our society – both economically and democratically.

For the second time, our Annual General Meeting (AGM) (www.co-operative.coop/AGM) was held online in 2021, meaning that more members from across the UK could join us on the day. We were pleased to see that there was a small increase in the number of members voting in our AGM and elections - we had piloted the re-introduction of postal packs for members who had previously voted this way. We will continue to make suggestions for engaging members in our democracy with the Board, and we hope that we'll be able to hold a hybrid meeting in 2022 and see members face-to-face again.

Council and the Committee have long championed our Join In platform (<https://joinin.coop.co.uk/opportunities>) as a way for members to get involved in our Co-op. Over the last 12 months, the Member Voice Committee worked closely with colleagues from our Member Participation team to hear about and shape the latest opportunities. In 2021, members joined in more than half a million times to have their say on plans and products, making it a record-breaking year, and we're excited to see how we can use the platform to grow and engage our democracy in 2022.

Some Council members from this committee also make up our Community & Member Participation Joint Working Group, which meets with our Community and Membership teams. In 2021, its focus was on inputting into mission plans for helping people get fairer access to food, mental wellbeing support and education and employment opportunities. Our Local Community Fund (<https://causes.coop.co.uk>) also plays a big part in making where we live, work and play better places to be. Council is so proud of how members and our Co-op have worked together over the last five years to raise an incredible £100m overall for local communities, causes and charity partners.

Ethical & Sustainable Leadership

Through our Ethical & Sustainable Leadership lens, we work with the Board and the business to demonstrate leadership in ethical and sustainable performance. Inputting into our Co-op's ethical and sustainable business practices, policies and performance is a role our Ethical & Sustainable Leadership Committee carries out on behalf of our members. Co-

op's Ethical Decision Making Tool helps our Board to balance who we are, as a co-op and an ethical retailer, with what we do as a business. Understanding the process was a big focus for the Committee in 2021 and will continue to be in 2022 - it's more important than ever that our Co-operative Values and Principles remain at the core of decisions, as our Co-op explores new markets and expands its offer.

Our Co-op has always been a leader on key environmental issues and 2021 was a crucial year in the fight against climate change. Council is keen to support the business in championing our sustainability agenda and, in 2020 and 2021, 98% of members voted for Council's AGM motions on climate change and sustainable production and consumption. This was followed up by the creation of our 10-Point Climate Plan and our campaign for climate justice – for more details, see the 'Fairer for our planet' section and our Co-operate Report.

In 2021, the Committee was delighted to hear that we achieved net zero across our operations, and it continues to monitor our progress towards net zero own brand products by 2025. Throughout 2022, the Committee will be supporting our businesses with getting members involved in taking individual and collective action to tackle this important issue, building on the amazing initiatives that are already having a big impact.

Co-op's soft plastics recycling scheme was welcomed by the Committee when it launched in summer and our Join In Live Local events have helped to promote it to members in their communities. The Committee was also pleased to hear that our Food business is trialling zero waste packaging options, following support for Council's Sustainable Production and Consumption Motion.

Fairtrade, animal welfare and agriculture all play a key role in the fight to save and protect our planet. In 2021, Co-op implemented its new Fairtrade strategy, and the Committee was pleased to see plans for our commitments to continue going from strength to strength. Our delicious Fairtrade products are a big part of our difference and Council is keen to shout about this to our members. As part of Fairtrade Fortnight celebrations, we hosted a Join In opportunity and quiz, which saw 7,234 members test their knowledge. The Committee also caught up with our Agriculture team to hear about how we're trialling higher welfare breeds for our meat and poultry products, helping our Co-op to deliver the ethical standards our members and customers expect and offer food that is as sustainable as possible.

We've delivered some brilliant, industry leading work during 2021 and the Committee is so proud of our Co-op for taking such a bold, important stance. It was exciting to see us promoting our ethical and sustainable leadership during COP26, but we feel that even more can be done to showcase our difference across our channels, so this will remain a big discussion topic with the Board in 2022.

As part of its remit, the Committee also supported the business with providing 74 items of feedback across all areas of our 2020 Co-operate Report, available on www.co-operative.coop

Co-operative Leadership

It's important for our Co-op to demonstrate leadership in the UK and international co-operative movement.

Our Diversity & Inclusion Working Group helped shape our diversity and inclusion commitments and Council welcomed the launch of them in 2020. We reviewed progress against these commitments with the Board in 2021 and will continue to encourage our Co-op to lead and report transparently to members on steps taken.

Council recognises that it has an important role to play around diversity and inclusion. Led by our Diversity & Inclusion Working Group, we are looking at how to evolve our own ways of working, culture and communications to all sectors of our membership, so that more members from under-represented groups choose to stand for election in future. It's important that we understand the views of members from under-represented groups and we look forward to hearing them as part of our Insight team's new member panels. We recognise that there is still more to do and, in 2022, this will remain a priority for us as we work together to learn, reflect and improve.

We mentioned our CMET&I work earlier in this statement and it's a great example of how we're bringing together other co-ops to collaborate and find new, exciting ways to get members involved with the businesses they own. Co-operative College, Co-ops UK and the Co-operative Heritage Trust create and offer some excellent resources and, in addition to supporting us with events and quizzes, they've shared content for our website (www.co-operative.coop/co-operative-member-education-training-and-information) that can be accessed any time. These are simple but effective introductions to what makes us different.

Our hard work and leading voice on the serious, industry wide issue of violence and abuse towards shopworkers reached a major milestone in 2021. We couldn't be prouder of our colleagues, our members and the wider movement for coming together to champion such an important campaign. 'Safer Colleagues, Safer Communities' was unanimously approved by Council in 2018 and - after three years, hundreds of letters to MPs and too many devastating stories from colleagues - the UK Government has finally tabled an amendment to the Police, Crime, Sentencing and Courts Bill. This will make assaulting a retail worker an aggravated offence in England and Wales for the first time, following the introduction of the Protection for Workers Act 2021 by Scottish Parliament. This is a huge step forward and we're pleased with the progress – however, the campaign doesn't stop here as there's still more the Government could do. We will continue to raise this issue with our Board.

Within our Co-operative Leadership lens, Council also has a role to review our Co-op's governance structures and practices. Our Governance Committee oversees this work and, in 2021, it undertook a skills audit of Council members and approved recommendations for developing our learning programme, including further use of the wide ranging skillsets Council members bring to the role. It also discussed and agreed changes to our Council Elections Regulations to make them as inclusive as possible and led our co-options process to address diversity shortfalls on Council. Meeting with Sir Christopher Kelly, Senior Independent Non-Executive Director, the Committee went through the results of our Board Effectiveness Review, too.

Focusing on the future

We are looking forward to supporting our Co-op with creating a fairer world and offering more opportunities and resources to help members understand how they can work with us to make a difference. We're incredibly grateful to colleagues throughout our businesses and on the frontline for everything they've done to help people through the challenges we've all faced over the last 12 months. We'd like to say a big thank you to our members for your continued support - you're helping us shape a Co-op that's fit for the future. We'd also like to recognise our Board, Executive and Council Secretariat for their time and willingness to work together on our shared belief that co-operation is a better way of doing business.

Help us achieve more amazing things in 2022 by having your say on what matters to you. Sign up to 'Join In' (<https://joinin.coop.co.uk/opportunities>) or get in touch with a local Council member anytime, using: www.co-operative.coop/members-council-your-representatives

The report of the Scrutiny Committee

Our review of Board appointments and elections in 2021

After any Non-Executive Director is appointed or elected, our Co-op has an extra level of checking so members can be sure we've done everything fairly and openly in line with our Values and Principles.

This checking is done by the Scrutiny Committee of the National Members' Council and we're pleased to present our report to members for 2021.

It was confirmed that all Directors met our Co-op's trading requirement of 1,000 points. Also we've received assurances that all Independent Non-Executive Directors and Member Nominated Directors are 'independent' for the purposes of our Rules.

How Directors are appointed

All our Directors need to show their commitment to Co-op Values and Principles.

There are two types of Directors who don't work day-to-day as executives for our Co-op: Independent Non-Executive Directors and Member Nominated Directors.

Independent Non-Executive Directors

There are those chosen specifically for their skills and experience, and to add diversity and balance to the Board. In 2021 no Independent Non-Executive Directors were up for re-election.

Member Nominated Directors

Our Co-op also has Directors elected by members - these Directors are able to show very clearly their commitment to bringing the voice of members to the boardroom. Before being put to a ballot of eligible members, these individuals also need to evidence that they have the necessary skills and experience of a substantial organisation, and awareness of the strategic and operational challenges of a business of the size and complexity of our Co-op.

The Scrutiny Committee checks:

- That the selection process for the ballot is fair, transparent and objective.
- The background information gathered on the candidates is satisfactory.

Our findings

The Member Nominated Directors Joint Selection and Approval Committee (MNDJC) has the primary responsibility for the selection process of MND candidates and is made up of both members of the Members' Council and Board. We interviewed the Chair of this committee and carefully scrutinised the decision making process. As a result, the Committee can confirm that the selection process leading to the shortlisting of Kate Allum, Wendy Barnes and Sandra Campopiano to a ballot of members was fair, transparent and objective, and that all proper background checks were made.

We noted that the MNDJC would be conducting a tender process in 2021 for the search agency to support the Committee in its work to identify candidates suitably qualified for the role of MND.

The Committee was pleased to see the progression of an MND development programme pilot. It has been designed to enable potential candidates to understand how their current skills and experience fits with the role of an MND and understand how they might address gaps identified.

We hope in future to see a greater number of candidates from the co-operative sector, with the relevant skills and experience applying and being shortlisted for this role.

Whilst we are satisfied that there was a contested election of Member Nominated Directors, we do hope that a greater number of candidates with 1,000 or more membership points, with the required skills and experience, can be sourced in future years.

Promoting the success of our Co-op

Section 172(1) Statement & Stakeholder Engagement

Reporting requirement

Our Co-op prepares its Annual Report and Accounts substantially as though it were a company registered under the Companies Act 2006 ('the Act'). Whilst it is not a requirement for our Strategic Report to contain a Section 172(1) Statement, we are including one in line with best practice.

The Board has, in good faith, acted in a way that it considers would be most likely to promote the success of our Co-op for the benefit of members as a whole, and, in doing so, has recognised the importance of considering all stakeholders and other matters (as set out in Section 172(1) (a) to (f) of the Act) when making decisions.

The following pages comprise our Section 172(1) Statement, setting out how our Directors have, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Act.

Our approach

Corporate governance best practice underpins how we conduct ourselves as a Board; our culture, values, behaviours and how we do business. We are conscious of the impacts that our business and decisions have on our direct stakeholders as well as our wider societal impact. We also understand the importance of developing strong and meaningful relationships. We know that we can't fix everything by ourselves, and that working with others is key. To help us develop the strategies and capabilities to achieve our Vision of '*Co-operating for a Fairer World*', we know we need to continue to build and nurture strong, reciprocal relationships with our stakeholders.

For any key and principal decisions approved by the Board, a discussion takes place around the impact on our key stakeholders, including our members, our colleagues and our customers. The relevance of each stakeholder group may vary by reference to the issue in question, so the Board seeks to understand the needs of each stakeholder group and any potential conflicts as part of its decision making.

We have provided below examples of our key stakeholder interests, their concerns and the ways in which the Board acted with regard to these groups when taking its key strategic decisions during the year.

Our members

As a co-op we are a different kind of business. We are the UK's largest consumer co-operative owned by more than four million active members (individual members and other co-ops, not big investors), and our members get a chance to have a say in how we're run. Our members are at the heart of everything we do, which is why our Board uses an Ethical Decision Making Tool which considers the impact on, and impact of members in relation to the material decisions it makes.

Our members elect representatives to the Members' Council which has a voice at the highest level of our Co-op (see more in the below section).

Whenever it makes sense to do so, we ask members to connect with us on projects and activity where their input can make a real difference. During 2021, our Join In online activity and our Join In Live events have engaged more than 250,000 members. These have enabled our members to put questions to our Council members and Directors and help shape our approach and influence decision making on our products and services. Since their launch in September 2018 the Join In activities have engaged over 550,000 members.

Our Member Pioneers make great things happen in our communities. They are the boots on the ground, working together with other Co-op colleagues, members and local causes to make a difference and make our communities better places to work, play, live and learn. We reached 1,000 Member Pioneers and Member Pioneer Co-ordinators in 2021, based in communities across the UK. As well as encouraging member activity and engagement, they bring our Co-op Vision to life. They connect key contacts in their communities and bring people together to increase co-operation through Local Forums.

During 2021, Member Pioneer Co-ordinators delivered more than 300 Live Local events across the UK, bringing our Vision to life with members, colleagues, customers and causes. Themes ranged from Fairtrade to sustainability to complementary activity such as the launch of our soft plastic recycling programme. Member Pioneer Co-ordinators also buddy with our National Members' Council to work together in their area. In 2022, Member Pioneers will continue to embed our Vision of '*Co-operating for a Fairer World*' into their local networks on the ground, bringing it to life.

We encourage our members to get involved in our AGM and elections, by voting on motions and on who gets to sit on our Board, and by attending the AGM in person or joining digitally. Our AGM is the forum through which our eligible members can hear more about our performance, ask questions to our Board and vote on AGM motions, which have been put forward by our members, our Members' Council and our Board. Due to the ongoing restrictions around hosting public events as a result of the pandemic, for the second year in a row, members were unable to attend our 2021 AGM in person. Therefore, we encouraged them to vote in advance and join the meeting online, where they could hear about our performance and future plans, and put their questions to the Board in real time. They could also get involved in a workshop prior to the event.

In response to the positive feedback we received on the digital format of the AGM, we are looking to further develop this in our plans for this year. We will keep members updated via our website at www.co-operative.coop/agm

All motions are voted for on a 'one member, one vote' basis, except for Independent Society Members, which have their voting entitlement calculated based on the amount of trade they do with our Co-op.

Each year we publish a 'You Said, We Did' report which outlines the actions our Board and Executive have taken in response to motions passed at our AGM.

We continue to interact with members through social media channels, including Facebook and Twitter.

Our Members' Council

Our Members' Council is made up of 100 Co-op members from around the UK, including colleagues. They met regularly during 2021, providing the opportunity for our Members' Council to ask questions and input into decisions, to make sure things are being done in a way that benefits our members and communities.

In addition to formal routes there are many informal ways our Board, Chair and individual Directors interact with the Members' Council, its committees, working groups and members.

During 2021 this included:

- Attendance at Members' Council sessions to update on developments in the Group.
- Directors' Forums where Board members answer questions from the Members' Council.
- The use of working and advisory groups with the Members' Council, particularly when our Board, the Executive or colleagues feel input would be useful and add value.
- Regular discussions between the Group Secretary and Council Secretary to make sure there is a good flow of information between the Board and Members' Council.
- Our Board and Members' Council provided reports on their meetings to each other.

Due to ongoing Covid restrictions, the above sessions were all held virtually.

We also have the non-governance Stakeholder Working Group, which is made up of four Co-op Board members and four Members' Council members (the Council President, two Vice Presidents and one other). This meets as required to discuss issues that may arise so our Board and Members' Council can have an open debate and better understand the views of the other.

During 2021, our Members' Council continued to use its Co-op Compass tool to hold the Board to account under four themes: Member Value, Member Voice, Ethical & Sustainable Leadership and Co-operative Leadership. It also worked to refresh its three year plan in consultation with the Executive.

Our customers

Whilst we are committed to staying true to our Vision of '*Co-operating for a Fairer World*' and our Co-operative Values and Principles, our relationship with non-member customers remains extremely important and is a priority of the Board.

All of our businesses proactively monitor and manage customer opinion and have a customer focused culture to ensure positive outcomes for all. Through understanding our customers' needs, we are able to offer products and services to fit their circumstances and by providing a positive customer experience, we aim to build relationships so they will continue to do business with us in the future.

We are continually looking to adapt our product and service offerings in order to remain relevant to our customers. For example, expanding our online offering during 2021 has enabled us to extend the reach of our products and difference to meet the needs of more customers in the UK.

During the year we created a new Customer Experience Strategy team. The team works in partnership with colleagues across the business to create seamless journeys that solve customer problems and improve their experience across the end-to-end customer journey.

Our Insight & Research teams have undertaken a wide range of research projects. These include:

- A detailed exploration of customer irritants and delights in our Food stores, to understand the issues that matter most.
- A usage and attitudes study for our Funeralcare business, providing insight into the market and how we are perceived.

- Furthering our understanding of diversity and inclusion through research on our World Foods offer and semiotics, to clarify how we better represent, support and connect with different ethnic groups across all our business units.
- A range of projects for our ecommerce teams, including a new voice of the customer programme, research to segment and understand the market, and deep dives into behaviours such as click and collect.
- Iterative projects informing an evaluation of member offers.
- Research exploring the impact and perceptions of our community missions.
- A qualitative study to better understand the market for, and perceptions of, our legal services offer to help develop its brand positioning.

Our colleagues

Our Board recognises the importance of engaging our colleagues. We have not adopted one of the methods set out in the UK Corporate Governance Code to do this (a colleague appointed director, a workforce advisory panel or a designated non-executive director). However, our Directors are of the view that they are ALL responsible for hearing what our colleagues have to say and making sure these views are considered when making decisions. There are lots of formal and informal ways that this happens, including through communicating with our colleague members (see above section).

Having engaged colleagues, who are connected to our Co-op and feel valued for their contribution, is fundamental to our ongoing success. Our colleague engagement activities during the year have included:

- Measuring colleague engagement and experience through our listening tools – Talkback, Pulse and Colleague Voice. These tools highlight where we need to focus to improve the everyday experience of our colleagues. In 2021, despite another turbulent year, our overall colleague engagement score remained strong at 72% (2020, 76%), which is, in the main, ahead of the external industry benchmarks.
- Our Colleague Voice Forums (both national and local) enabled groups of colleagues to provide insight from across our Co-op.
- Our Colleague Insight team has continued to run listening sessions, colleague hackathons and surveys, taking on board colleague suggestions and representing the voice of colleagues across our Food stores and Funeralcare operations.
- We continued to supplement our existing communication channels by using Yammer. This is a communication platform used internally by approximately 16,000 of our Co-op colleagues.
- Our Members' Council has a keen interest in our colleagues, and we have a number of colleague members on the Council. Council regularly holds the Board to account on colleague issues.
- Regular Board updates on culture, colleague engagement, wellbeing and diversity and inclusion were provided by our Executive team.
- Colleagues received regular wellbeing emails, focusing specifically on mental and physical wellbeing. Areas covered during the year included World Mental Health Day, Winter Wellbeing, Stoptober, Menopause and Talk Money Week.
- 40 events were held across Mental Health Awareness Week, attended by over 1,500 colleagues.
- We launched our first ever online Uplift festival, bringing over 150 sessions, podcasts and downloads for our colleagues and their families to increase feelings of hope for a brighter future and support their wellbeing.
- Our annual #BeingCoop awards event took place in late August with 130 colleagues celebrating at our Angel Square office. 21 winners were announced across seven award categories including 'Members' Choice', 'Community Star' and 'Inclusion'.

Alongside our 'CEO Choice' winner, for the first year, colleagues were invited to select their 'Colleagues' Choice' winner from our selection of finalists.

To help ensure our colleagues feel valued for their contribution and in recognition of the vital role they have played, we made significant additional investment during the year to align our minimum hour rate for frontline colleagues to the Real Living Wage. All our Customer Team Members in our stores received a pay increase of 5.6%, with similar pay increases to other frontline roles across Co-op. In addition, all colleagues received £20 on their membership card and we further increased our colleague discount offer in December.

Our suppliers

A strong, trusted and transparent supply chain is integral to our success. Our Co-operative Values and Principles underpin all of our supplier relationships as we continue to balance commerciality with shared value and communities.

Our Co-op has a range of suppliers, who provide goods and services to support our businesses and operations. The terms of those suppliers and the day-to-day relationships are negotiated and managed by our Procurement team. The Board ensures we work with our suppliers so that everyone involved in producing our products is treated fairly. It monitors our relationship with our suppliers in a number of ways, including via the Risk and Audit Committee on areas such as our compliance with the Groceries Supply Code of Practice and our approach to sustainability issues.

As we faced into the supply chain challenges experienced across the retail industry during 2021, we worked closely with our suppliers to support their recovery and agreed action plans with our most crucial suppliers.

Within our Food business, we have been working collaboratively with our supply partners to ensure we are aligned and have shared goals on diversity and inclusion (D&I). This has included the roll out of D&I training for our suppliers with an initial focus on ethnic minority businesses.

We have continued to focus on providing support for our suppliers, working collaboratively to protect those that are most vulnerable, protect workers and continue to champion resilient livelihoods for everyone in our supply chain. You can read more about our approach to responsible sourcing within our Co-operate Report. The way we approach modern slavery is detailed in our Modern Slavery Statement. Both reports are available on our website:

www.co-operative.coop

Fairtrade partners

Our commitment to Fairtrade spans over 25 years from when we first stocked Café Direct and predates the launch of the Fairtrade mark by two years. In 1998 we became the first supermarket in the UK to start selling Fairtrade products in all our Co-op stores. Since then, our relationship with Fairtrade has continued to grow and in 2015 we became the largest seller of Fairtrade wine in the world. Since 2017, all the cocoa used as an ingredient in Co-op products is Fairtrade and 100% of our tea, coffee, bananas, African roses and bagged sugar is Fairtrade. We are committed to support Fairtrade producers and growers around the world. You can read more about our food sustainability plans to 2030 in our separate Future of Food publication and Co-operate Report, both available on our website: www.co-operative.coop

Community

At our Co-op, our Purpose is to champion a better way of doing business for you and your community. The Board recognises the role of our Co-op in working with and supporting our communities, and this has never been more relevant than during the last few years. Through our Membership proposition, we aim to build stronger and more resilient communities by offering:

- Fairer Access to Food.
- Fairer Access to Mental Wellbeing Support.
- Fairer Access to Education & Employment for Young People.

The funds raised by our members are split two ways:

- We continue to support thousands of grassroots community causes through our Local Community Fund, where members can select which local cause in their community to support.
- Through our Community Partnerships Fund, which creates lasting change on big issues we care about, targeting communities that need the extra help the most.

Our community plan is a critical part of delivering our Vision of '*Co-operating for a Fairer World*' and our work to make things fairer for our members, our communities, our colleagues and our planet. We continue to focus on tackling the stark inequalities that the pandemic has highlighted even more strongly in our communities.

Our Community Wellbeing Index was refreshed during the year and helped to inform our community activity.

Examples of how we have engaged with our communities during the year include:

- Celebrating that, together, we've raised £100m for our local communities since 2016.
- Our Hubbub partnership was launched, offering funding for over 100 community fridges across the UK – using food to build, nurture and grow local communities.
- £4.5m raised for Mind, SAMH (Scottish Association for Mental Wellbeing) and Inspire in 2021 – taking the total raised to £7m since 2019 - enabling the partnership to deliver innovative new services in communities across the UK, ensuring people receive the mental wellbeing support they need – with over 50 services already up and running, supporting over 8,000 people so far.
- We launched the Peer Action Collective (PAC), a partnership with the Youth Endowment Fund including 120 peer researchers and more than 6,000 other young people to understand their experience of violence, and views on how they can help make their communities better places to live and work.
- The Co-op Foundation launched the 2021 'Lonely not Alone' campaign to address the stigma of youth loneliness.
- Our Member Pioneers held Join In Live Local events. The feedback from these sessions helped shape our approach and influence our decision making on all matters of Co-op business including community involvement.

Other co-ops

We recognise the benefits of working closely with other co-operatives.

We are the major shareholder in Federal Retail and Trading Services Limited (FRTS), which is collectively owned by our Co-op and Independent Society Members (ISMs). Through FRTS, our Co-op collaborates with ISMs on the management and operation of its centralised buying function, while observing competition law requirements. FRTS has an independent Chair and holds six formal meetings a year.

ISMs are members of our Co-op and are also represented on our Members' Council.

We are a member of Co-operatives UK: a network of Britain's thousands of co-operatives, which work consistently and proactively to grow the co-operative economy by promoting, developing and uniting co-operatives. We delivered a session at the Co-ops UK 2021 Practitioners Forum on 'Combating the Climate Emergency', outlining our approach to and guidance on setting a meaningful and measurable climate action plan.

We provide funding to a number of organisations which support the co-operative movement.

Co-op Academies Trust

Education is really important to us and we have continued to support the work of the Co-op Academies Trust (CAT).

Due to Covid-19, it was not possible to host visits or to hold a Board meeting at one of our academies in 2021. However, a virtual session was held with the Chair and CEO of CAT in January 2021, when our academies' progress and our Co-op's extensive support during a challenging period was discussed.

Our Board currently plans to hold a Board meeting at one of our academies during 2022.

For more information on the CAT, please see page 22 in the Strategic Report.

Environment

Sustainability is a critical part of our future and helps to support our wider Vision of 'Co-operating for a Fairer World'.

It is imperative that we effect a green global recovery, take the opportunity to shift perceptions and tackle the ongoing climate emergency. That is why our Co-op has set out an ambitious 10-Point Climate Plan which includes a set of commitments on how we will work with our members, communities, colleagues, customers and suppliers to achieve this. For more information see www.coop.co.uk and our Co-operate Report.

Consolidated income statement

for the period ended 1 January 2022

What does this show? Our income statement shows our income for the year less our costs. The result is the profit that we've made.

Continuing Operations	Notes	2021 £m	2020 £m
Revenue	2	11,151	11,472
Operating expenses	3	(11,097)	(11,277)
Other income	5	10	12
Operating profit	1	64	207
Finance income*	6	196	132
Finance costs	7	(203)	(212)
Profit before tax	1	57	127
Taxation	8	(25)	(55)
Profit from continuing operations		32	72
Discontinued Operation			
Profit on discontinued operation, net of tax	9	13	5
Profit for the period (all attributable to members of the Society)		45	77

* Finance income in 2021 includes a one-off gain of £99m following settlement of a liability (see note 6 for further details).

Non-GAAP measure: underlying (loss) / profit before tax**

What does this show? The table below adjusts the operating profit figure shown in the consolidated income statement above by taking out items that are not generated by our day-to-day trading. This makes it easier to see how our business is performing. We also take off the underlying interest we pay (being the day-to-day interest on our bank borrowings and lease liabilities).

Continuing Operations	Notes	2021 £m	2020 £m
Operating profit (as above)		64	207
Add back / (deduct):			
One-off items	1	15	(12)
Property, business disposals and closures	1	30	41
Change in value of investment properties	26	(9)	(1)
Underlying operating profit	1	100	235
Less underlying loan interest payable	7	(56)	(63)
Less underlying net interest expense on lease liabilities	6, 7	(76)	(72)
Underlying (loss) / profit before tax		(32)	100

The accompanying notes on pages 133 - 190 form an integral part of these financial statements.

** Refer to Note 1 for a definition of underlying (loss) / profit before tax. Further detail on the Group's alternative performance measures (APMs) is given in the Jargon Buster section on page 217.

Consolidated statement of comprehensive income

for the period ended 1 January 2022

What does this show? Our statement of comprehensive income includes other income and costs that are not included in the consolidated income statement on the previous page. These are usually revaluations of pension schemes and some of our financial investments.

	Notes	2021 £m	2020 £m
Profit for the period		45	77
Items that will never be reclassified to the income statement:			
Remeasurement gains / (losses) on employee pension schemes	27	350	(83)
Related tax on items above	8	(130)	-
		220	(83)
Items that are or may be reclassified to the income statement:			
Gains less losses on fair value of insurance assets*		-	6
Fair value losses on insurance assets transferred to the income statement*		-	(2)
Fair value losses on insurance assets transferred to the income statement on disposal of subsidiary*		-	(18)
Gain on revaluation of Right-of-use assets prior to transfer to Investment property**		5	-
Related tax on items above	8	-	3
		5	(11)
Other comprehensive profits / (losses) for the period net of tax		225	(94)
Total comprehensive profit / (loss) for the period (all attributable to members of the Society)		270	(17)

The accompanying notes on pages 133 - 190 form an integral part of these financial statements.

* The sale of our Insurance underwriting business completed on 3 December 2020. The results of that business have been classified as a discontinued operation in the Consolidated income statement in both 2020 and 2021 with assets and liabilities transferred to held for sale in the 2019 Consolidated balance sheet. Further details on discontinued operations are given in Note 9 (Profit / (loss) on discontinued operations, net of tax).

** During the year, we reviewed how we identify Investment properties and have reclassified £5m of assets from Property, plant and equipment (Note 11) and £28m from Right-of-use assets (Note 12) to Investment properties (see Note 26). Prior to the transfer from Right-of-use-assets a £5m uplift to fair value was recorded through the Consolidated statement of comprehensive income.

Consolidated balance sheet

as at 1 January 2022

What does this show? Our balance sheet is a snapshot of our financial position as at 1 January 2022. It shows the assets we have and the amounts we owe.

	Notes	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	11	1,912	1,955
Right-of-use assets	12	1,086	1,031
Goodwill and intangible assets	13	1,075	1,105
Investment properties	26	55	17
Investments in associates and joint ventures		4	3
Funeral plan investments	14	1,372	1,331
Derivatives	29	-	3
Pension assets	27	2,262	1,931
Trade and other receivables	17	214	203
Finance lease receivables	12	30	34
Contract assets (funeral plans)	18	43	60
Total non-current assets		8,053	7,673
Current Assets			
Inventories	16	488	460
Trade and other receivables	17	551	546
Finance lease receivables	12	12	11
Contract assets (funeral plans)	18	5	6
Derivatives	29	4	-
Cash and cash equivalents	20	60	269
Assets held for sale	19	7	21
Total current assets		1,127	1,313
Total assets		9,180	8,986
Non-current liabilities			
Interest-bearing loans and borrowings	21	796	803
Lease liabilities	12	1,306	1,234
Trade and other payables	22	44	214
Contract liabilities (funeral plans)	23	1,614	1,570
Derivatives	29	2	1
Provisions	24	74	85
Pension liabilities	27	4	77
Deferred tax liabilities	15	314	161
Total non-current liabilities		4,154	4,145
Current liabilities			
Overdrafts	20	4	-
Interest-bearing loans and borrowings	21	180	16
Lease liabilities	12	210	191
Trade and other payables	22	1,472	1,747
Contract liabilities (funeral plans)	23	164	167
Derivatives	29	3	-
Provisions	24	52	46
Liabilities held for sale	19	2	5
Total current liabilities		2,087	2,172
Total liabilities		6,241	6,317
Equity			
Members' share capital	25	74	74
Retained earnings	25	2,859	2,594
Other reserves	25	6	1
Total equity		2,939	2,669
Total equity and liabilities		9,180	8,986

The accompanying notes on pages 133 - 190 form an integral part of these financial statements.

Board's certification

The financial statements on pages 128 - 197 are hereby signed on behalf of the Board pursuant to Section 80 (1) (a) of the Co-operative and Community Benefit Societies Act.

Allan Leighton - Chair

Steve Murrells - Chief Executive

Helen Grantham - Group Secretary

7 April 2022

Consolidated statement of changes in equity

for the period ended 1 January 2022

What does this show? Our statement of changes in equity shows how our reserves have changed during the year.

For the 52 weeks ended 1 January 2022	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 2 January 2021	74	2,594	1	2,669	
Profit for the period	-	45	-	45	
Other comprehensive income / (loss):					
Remeasurement gains on employee pension schemes	27	-	350	-	350
Gain on revaluation of Right-of-use assets prior to transfer to Investment property*		-	-	5	5
Tax on items taken directly to other comprehensive income	8	-	(130)	-	(130)
Total other comprehensive income		-	220	5	225
Balance at 1 January 2022	25	74	2,859	6	2,939

*During the year, we reviewed how we identify Investment properties and have reclassified £5m of assets from Property, plant and equipment (Note 11) and £28m from Right-of-use assets (Note 12) to Investment properties (see Note 26). Prior to the transfer from Right-of-use-assets a £5m uplift to fair value was recorded through other comprehensive income.

For the 52 weeks ended 2 January 2021	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 4 January 2020	73	2,597	15	2,685	
Profit for the period	-	77	-	77	
Other comprehensive income / (loss):					
Remeasurement losses on employee pension schemes	27	-	(83)	-	(83)
Gains less losses on fair value of insurance assets**		-	-	6	6
Fair value gains on insurance assets transferred to the income statement**		-	-	(2)	(2)
Fair value losses on insurance assets transferred to the income statement on disposal of subsidiary**		-	-	(18)	(18)
Tax on items taken directly to other comprehensive income	8	-	3	-	3
Total other comprehensive loss		-	(80)	(14)	(94)
Contributions by and distribution to members:					
Shares issued less shares withdrawn	25	1	-	-	1
Balance at 2 January 2021	74	2,594	1	2,669	

The accompanying notes on pages 133 - 190 form an integral part of these financial statements.

**The sale of our Insurance underwriting business completed on 3 December 2020. The results of that business have been classified as a discontinued operation in the Consolidated income statement in both 2020 and 2021 with assets and liabilities transferred to held for sale in the 2019 Consolidated balance sheet. Further details on discontinued operations are given in Note 9 (Profit / (loss) on discontinued operations, net of tax).

Consolidated statement of cash flows

for the period ended 1 January 2022

What does this show? Our statement of cash flow shows the cash coming in and out during the year. It splits the cash by type of activity - showing how we've generated our cash then how we've spent it.

	Notes	2021 £m	2020 £m
Net cash from operating activities	10	178	672
Cash flows from investing activities			
Purchase of property, plant and equipment		(297)	(253)
Proceeds from sale of property, plant and equipment		80	35
Purchase of intangible assets		(28)	(60)
Acquisition of businesses, net of cash acquired		(30)	(31)
Disposal of businesses		22	104
Payments to funds for pre-paid funeral plan sales		(93)	(86)
Receipts from funds for pre-paid funeral plans performed or cancelled		105	107
Net cash used in investing activities		(241)	(184)
Cash flows from financing activities			
Interest paid on borrowings		(57)	(79)
Interest paid on lease liabilities		(79)	(77)
Interest received on subleases		3	3
Interest received on deposits		-	1
Settlement of Group Relief Creditor owed to The Co-operative Bank PLC*		(48)	-
Issue / (repayment) of corporate investor shares	21	1	(1)
Repayment of borrowings	21	(2)	(246)
RCF drawdown	21	163	-
Payment of lease liabilities		(134)	(128)
Derivative settlements		3	-
Net cash used in financing activities		(150)	(527)
Net decrease in cash and cash equivalents		(213)	(39)
Cash and cash equivalents at beginning of period		269	308
Cash and cash equivalents at end of period		56	269
Analysis of cash and cash equivalents			
Cash and cash equivalents (per balance sheet)	20	60	269
Overdrafts (per balance sheet)	20	(4)	-
		56	269

*Refer to Note 6 (Finance Income) for details of the settlement of the Group Relief Creditor owed to The Co-operative Bank PLC.

The balances above include cashflows from Discontinued operations. Cash & cash equivalents includes £6m (2020: £6m) of non-distributable cash held on behalf of customers in the process of purchasing funeral plans. Refer to Note 20 (Cash and cash equivalents).

The accompanying notes on pages 133 - 190 form an integral part of these financial statements.

Group Net Debt	Notes	2021 £m	2020 £m
Interest-bearing loans and borrowings:			
- current		(180)	(16)
- non-current		(796)	(803)
Total Interest-bearing loans and borrowings		(976)	(819)
Lease liabilities:			
- current		(210)	(191)
- non-current		(1,306)	(1,234)
Total Lease liabilities		(1,516)	(1,425)
Total Debt		(2,492)	(2,244)
- Group cash		60	269
- Overdrafts		(4)	-
Group Net Debt	21	(2,436)	(1,975)
Group Net Debt (excluding lease liabilities)		(920)	(550)

Notes to the financial statements

Section A - where do our profits come from?

1 Operating segments

What does this show? This note shows how our different businesses have performed. This is how we report and monitor our performance internally. These are the numbers that our Board reviews during the year.

2021	Revenue from external customers (e)	Underlying segment operating profit / (loss)	Operating profit / (loss)	Additions to non-current assets (d,e)	Depreciation and amortisation
	£m	£m	£m	£m	£m
Food	7,671	156	103	288	(332)
Wholesale	1,386	7	7	5	(9)
Funerals	264	12	14	28	(32)
Insurance	34	15	15	-	-
Legal	39	5	5	-	(1)
Other businesses (c)	1	(1)	(2)	-	-
Federal (f)	1,756	-	-	-	-
Costs from supporting functions	-	(94)	(78)	34	(31)
Total	11,151	100	64	355	(405)

2020 (represented*)	Revenue from external customers (e)	Underlying segment operating profit / (loss)	Operating profit / (loss)	Additions to non-current assets (d,e)	Depreciation and amortisation
	£m	£m	£m	£m	£m
Food	7,765	350	316	264	(306)
Wholesale	1,577	6	6	6	(7)
Funeral	272	16	(2)	21	(29)
Insurance	6	(2)	(2)	-	-
Legal	37	4	4	-	(1)
Other businesses (c)	2	(9)	(10)	-	-
Federal (f)	1,813	-	-	-	-
Costs from supporting functions	-	(130)	(105)	22	(37)
Total	11,472	235	207	313	(380)

*Refer to (c) below and the general accounting policies section on page 191 for details of the representation.

a) Underlying segment operating profit / (loss) is a non-GAAP measure of segment operating profit before the impact of property and business disposals (including impairment of non-current assets within our businesses), the change in the value of investment properties, and one-off items. Further detail on the Group's alternative performance measures (APMs) is given in the Jargon Buster section on page 217.

b) Each segment earns its revenue and profits from the sale of goods and provision of services, mainly from retail activities.

c) The Group identifies its operating segments based on its divisions, which are organised according to the different products and services it offers its customers. The operating segments (and the captions) reported above are based on the periodic results reported into the Chief Operating Decision Maker which is the Board and whether the respective division's results meet the minimum reporting thresholds set out in IFRS 8 (Operating Segments).

The results of our Insurance business (marketing and distribution) are now reported as a separate operating segment in the tables above in both the current and comparative periods (previously the results were reported within Other businesses but are now shown in their own segment having reached appropriate maturity). This is in-line with the way that information is now reported to our Board and follows the sale of our insurance underwriting business in December 2020 (the results of which have been reported in Discontinued Operations from 2018 and so were not shown in the segmental tables thereafter).

The Other businesses segment includes activities which are not reportable per IFRS 8. In the current and comparative period then this mainly comprises the results of Co-op Health which was sold on 6 April 2021.

Our other holding and support companies are included within costs from supporting functions.

Notes to the financial statements continued

1 Operating segments continued

d) Additions to non-current assets are shown on a cash flow basis.

e) The Group's external revenue and non-current assets arise primarily within the United Kingdom. The Group does not have a major customer who accounts for 10% or more of revenue. In-line with how information is presented to the Board then underlying segment operating profit includes an appropriate allocation of central support centre costs which are re-charged to the operating segments. There are no other material transactions between the main operating segments.

f) Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities.

g) Transactions between operating segments excluded in the analysis are £nil (2020: £1m) in the period of sales of legal cover made by Legal Services to our Insurance underwriting business (sold in December 2020).

h) Operating profit in 2021 includes £20m of government assistance received through business rates relief and no employee furlough payments have been received in 2021 (for the 52 weeks ended 2 January 2021 equivalent figures were £66m of business rates relief and £16m of employee furlough payments). These amounts have been netted against relevant cost lines in operating profit. As noted in our 2020 financial statements, Co-op has repaid the £16m it received in furlough payments in 2020 during the first half of 2021.

i) A reconciliation between underlying segment operating profit and operating profit is as follows:

2021	Food	Wholesale	Funeral	Insurance	Legal	Other businesses	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m	£m	
Underlying segment operating profit /(loss)	156	7	12	15	5	(1)	(94)	100
One-off items	(17)	-	-	-	-	-	2	(15)
Property, business disposals and closures	(36)	-	2	-	-	(1)	5	(30)
Change in value of investment properties	-	-	-	-	-	-	9	9
Operating profit / (loss)	103	7	14	15	5	(2)	(78)	64

One-off items totalling a £15m charge (2020: £12m gain) are made up of a £17m charge in relation to organisational changes to colleague structures within our food store teams (under the Fit for Future programme) net of a £2m gain in relation to a reduction in the value of deferred consideration from our acquisition of Nisa. In the prior period the £12m gain included £15m of income received for refunded business rates in relation to externally facing ATMs following the Supreme Court ruling that ATMs outside stores should not be separately assessed for business rates net of a £3m charge in respect of aligning guaranteed minimum pensions for members of our schemes who have previously transferred out of the scheme.

2020 (represented*)	Food	Wholesale	Funeral	Insurance	Legal	Other businesses	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m	£m	
Underlying segment operating profit /(loss)	350	6	16	(2)	4	(9)	(130)	235
One-off items	15	-	-	-	-	-	(3)	12
Property, business disposals and closures	(49)	-	(18)	-	-	(1)	27	(41)
Change in value of investment properties	-	-	-	-	-	-	1	1
Operating profit / (loss)	316	6	(2)	(2)	4	(10)	(105)	207

* The results of our Insurance business (marketing and distribution) are now reported as a separate operating segment in the tables above in both the current and comparative periods (previously the results were reported within Other businesses but are now shown in their own segment having reached appropriate maturity). Refer to the general accounting policies section on page 191 for details of the representation.

Notes to the financial statements continued

1 Operating segments continued

j) A reconciliation between Underlying operating profit and Profit before tax is provided below:

Continuing Operations	Notes	2021 £m	2020 £m
Underlying operating profit		100	235
Underlying loan interest payable	7	(56)	(63)
Underlying net interest expense on lease liabilities	6, 7	(76)	(72)
Underlying (loss) / profit before tax		(32)	100
One-off items	1	(15)	12
Loss on property, business disposals and closures (see table below)	1	(30)	(41)
Change in value of investment properties	26	9	1
Finance income (net pension income)	6	30	37
Fair value movement on derivatives (net)	6, 7	-	4
Fair value movement on quoted Group debt	6, 7	5	(10)
Finance income (one-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc)*	6	99	-
Finance income (funeral plans)	6	54	88
Finance costs (funeral plans)	7	(58)	(60)
Other non-cash finance costs	7	(5)	(4)
Profit before tax from continuing operations		57	127

*Refer to Note 6 (Finance Income) for details of the settlement of the Group Relief Creditor owed to The Co-operative Bank PLC.

Loss from property, business disposals, closures and impairment of non-current assets	2021 £m	2020 £m
Disposals, closures and onerous contracts		
- proceeds	80	35
- less net book value written off	(71)	(23)
- provisions recognised	(9)	(17)
	-	(5)
Impairment of property, plant and equipment, right-of-use assets and goodwill	(30)	(36)
Total	(30)	(41)

Impairment charges of £30m (2020: £36m) are split: Food £22m (2020: £36m), Funerals £nil (2020: £10m) and Costs from supporting functions saw a net impairment charge of £8m (which includes £6m of impairment reversals) (2020: £10m reversal) in respect of our non-trading property estate. The impairment charge in 2021 includes £3m on properties which have subsequently been transferred to Investment properties (see note 26 for details).

Notes to the financial statements continued

2 Revenue

What does this show? This note shows our net revenue (which excludes VAT) across our different businesses.

	2021	2020
	£m	£m
Sale of goods	7,689	7,806
Member reward earned on sale of goods	(18)	(41)
Provision of services	341	321
Member reward earned on provision of services	(3)	(4)
Wholesale sales	1,386	1,577
Federal sales	1,756	1,813
Net revenue (as shown in the consolidated income statement)	11,151	11,472

Accounting policies

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). IFRS 15 defines performance obligations as a 'promise to provide a distinct good or service or a series of distinct goods or services'. Revenue is recognised when a performance obligation has been delivered which reflects the point when control over a product or service transfers to a customer. Revenue is measured based on the consideration set out in the contract with the customer and excludes amounts collected on behalf of third parties.

Sale of goods

The Group recognises revenue when it transfers control over a product to a customer. For the sale of goods, revenue is recognised at the point of sale. Any rebates, VAT and other sales tax or duty items are deducted from revenue.

Provision of services

Provision of services relates to activities in our Funerals, Legal services and Insurance (distribution and marketing services) businesses. Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') and funeral plan sales ('pre need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed). See Note 29 (Financial instruments) for further details of the accounting policies relating to prepaid funeral plans, funeral benefit options (FBO's) and low cost instalment plans (LCIP's). Revenue from Legal and Insurance services is recognised as distinct performance obligations are delivered to the customer.

Contract liabilities

Amounts received from funeral plan holders are deferred on the balance sheet within contract liabilities until the related funeral is performed. The deferred amount is subject to adjustment to reflect a significant financing component. This significant financing component is calculated based on the expected interest rate that would be reflected in a separate financing transaction between the Group and the plan holder at the inception of the contract and is charged to the income statement as a finance cost (Note 7) each period until the performance obligation is satisfied. The interest rate applied is fixed at inception of each plan and is based on an estimated incremental borrowing rate between the customer and the Group at the point the contract is entered into and reflects the security over our customers' plans through the whole of life policies we have in place. The corresponding obligation to deliver the funeral is shown in the consolidated balance sheet as a contract liability until the funeral is performed (at which point the revenue is recognised). See Note 23 (Contract Liabilities) for further details. When the service prescribed by the plan is delivered, revenue is recognised equal to the deferred revenue balance related to the specific plan. Discounts offered to members on initial sale of a plan are deducted from the related contract liability.

Contract assets

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) are deferred and shown in the consolidated balance sheet as a contract asset. The costs are then recognised in the consolidated income statement at the point that the funeral is performed and in line with when the revenue is recognised. See Note 18 (Contract assets) for further details.

Member rewards

The member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. From October 2020 onwards member rewards are earned at 2% of sales value (prior to that at 5%). The Community reward on member's spend is recognised as an operating expense in the income statement when it is earned (from October 2020 at 2% of sales value (prior to that at 1%)).

Federal sales - principal versus agent presentation

The Group operates a joint buying group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities. In accordance with IFRS 15 and based on the nature of the sales made to the other independent co-operatives and the level of control the Group has over the goods sold to those co-operatives the Group is acting as the principal in these transactions as opposed to an agent and records revenue on that basis.

Notes to the financial statements continued

3 Operating expenses

What does this show? This note shows the costs we have incurred during the period. It splits costs into key categories such as trading activities and employee benefits.

Operating profit is stated after (charging) / crediting the following:

	2021 £m	2020 £m
Cost of inventories recognised as an expense	(7,894)	(8,135)
Employee benefits expense (see below)	(1,484)	(1,507)
Distribution costs	(508)	(496)
Loss on property, business disposals and closures (before impairments)	-	(5)
Impairment of plant, property and equipment and goodwill	(5)	(26)
Impairment of right-of-use assets	(25)	(11)
Impairment reversal on subleases	1	1
Net gain on other plant and equipment disposals	2	2
Change in value of investment properties	9	1
Depreciation of plant, property and equipment	(254)	(250)
Depreciation of right-of-use assets	(122)	(113)
Amortisation	(29)	(17)
Furlough (repayment) / receipt*	(16)	16
Business rates relief received*	20	66
Subscriptions and donations	(4)	(4)
Community reward earned	(19)	(13)

*Operating profit (see Note 1) includes £nil (2020: £16m) of employee furlough payments received under the UK Government's Coronavirus Job Retention Scheme and £20m (2020: £66m) of assistance through business rates relief in the first quarter of 2021. These amounts have been netted against relevant cost lines in operating profit. As noted in our 2020 financial statements, Co-op has repaid the £16m it received in furlough payments in 2020 during the first half of 2021.

Employee benefits expense

	2021 £m	2020 £m
Wages and salaries	(1,332)	(1,323)
Social security costs	(86)	(82)
Pension costs - defined benefit schemes	(5)	(5)
Pension costs - defined contribution schemes	(61)	(60)
Total employee benefits expense (continuing operations)	(1,484)	(1,470)
Total employee benefits expense (discontinued operations)*	-	(37)
Total employee benefits expense	(1,484)	(1,507)

Employee benefits expense includes executive directors.

The average number of people employed by the Group in the UK (including executive directors) was:

	2021 Number	2020 Number
Full-time	19,618	20,273
Part-time	42,919	43,982
Total (continuing operations)	62,537	64,255
Total (discontinued operations)*	-	963
Total	62,537	65,218

*The sale of our insurance underwriting business (CISGIL) completed on 3 December 2020 and the results of that business have been included in Discontinued operations. We've recorded a profit after tax of £13m (2020: £5m) in Discontinued Operations (see Note 9 for further details). The 2020 figures noted in the tables above reflect the 11 month period in 2020 that CISGIL was under Co-op ownership.

Remuneration of key management

We regard the Board and Executive as our key management personnel and details of their remuneration can be found on pages 82 - 99.

Notes to the financial statements continued

3 Operating expenses continued

Auditor remuneration and expenses	2021 £m	2020 £m
Audit of these financial statements*	1.6	1.8
Amounts receivable by the Society's auditor in respect of:		
- Audit of financial statements of subsidiaries in respect of the Society	0.4	0.4
Services relating to:		
- Audit-related assurance services	-	-
- All other services	0.1	0.1
Total	2.1	2.3

* 2020 figure restated to include audit overrun fees incurred but not finalised at the time the Group's accounts were published.

Accounting policies

Operating expenses

Operating expenses are analysed by nature, as defined by IAS 1 (Presentation of Financial Statements). Payments to our members in their capacity as customers or colleagues (rather than as members), or membership payments to non-members such as charitable organisations, are treated as charges in the income statement.

4 Supplier income

What does this show? Sometimes our suppliers give us money back based on the amount of their products we buy and sell. This note shows the different types of income we've earned from our suppliers based on the contracts we have in place with them. This income is taken off operating expenses in the income statement.

Supplier income	2021 £m	2020 £m
Food - Long-term agreements	158	140
Food - Bonus income	82	130
Food - Promotional income	341	355
Total Food supplier income	581	625
Wholesale - Long-term agreements	27	28
Wholesale - Bonus income	19	21
Wholesale - Promotional income	99	114
Wholesale supplier income	145	163
Total supplier income	726	788

Percentage of Cost of Sales before deducting Supplier income	%	%
Food - Long-term agreements	2.6%	2.3%
Food - Bonus income	1.4%	2.2%
Food - Promotional income	5.7%	5.9%
Total Food supplier income percentage	9.7%	10.4%
Wholesale - Long-term agreements	2.0%	1.8%
Wholesale - Bonus income	1.4%	1.3%
Wholesale - Promotional income	7.3%	7.2%
Total Wholesale supplier income percentage	10.7%	10.3%

Notes to the financial statements continued

4 Supplier Income continued

Accounting policies

Supplier income

Supplier income is recognised as a deduction from cost of sales on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within trade and other receivables (Note 17). Where amounts received are in the expectation of future business, these are recognised in the income statement in line with that future business. There are three main types of income:

1. Long-term agreements: These relate largely to volumetric rebates based on agreements with suppliers. They include overrides, advertising allowances and targeted income. The income accrued is based on the joint buying group's latest forecast volumes and the latest contract agreed with the supplier. Income is not recognised until confirmation of the agreement has been received from the supplier.
2. Bonus income: These are typically unique payments made by the supplier and are not based on volume. They include payments for marketing support, range promotion and product development. These amounts are recognised when the income is earned and confirmed by suppliers. An element of the income is deferred if it relates to a future period.
3. Promotional income: Volumetric rebates relating to promotional activity agreed with the supplier. These are retrospective rebates based on sales volumes or purchased volumes.

5 Other income

What does this show? This note shows what we have earned during the period from activities that are outside our normal trading activities. This is mainly from rental income we earn on properties that we own or sublet.

	2021 £m	2020 £m
Rental income from non-investment property	7	11
Rental income from investment property	3	1
Total other income	10	12

During the year, we reviewed how we identify Investment properties and have reclassified £5m of assets from Property, plant and equipment (Note 11) and £28m of Right-of-use assets (Note 12) to Investment properties (Note 26).

Accounting policies

Rental income from investment and non-investment properties

Rental income arising from operating leases on both investment and non-investment properties is accounted for on a straight-line basis over the lease term. For accounting policies relating to investment property, refer to Note 26.

Notes to the financial statements continued

6 Finance income

What does this show? Finance income arises from the interest earned on our pension scheme and interest from finance lease receivables which have been discounted. If they are gains then we also include the movement in the fair value of some elements of our debt, our interest rate swap positions, foreign exchange contracts and commodity derivatives (which are used to manage risks from interest rate, foreign exchange and commodity price movements). If they are losses, they are included in Finance costs (see Note 7). If they are gains, we also show the fair value movement on our funeral plan investments as well as the discount unwind on funeral plan instalment debtors.

	2021	2020
	£m	£m
Net pension finance income	30	37
Underlying interest income from finance lease receivables	3	3
Fair value movement on foreign exchange contracts and commodity derivatives	5	-
Fair value movement on interest rate swaps (Note 29)	-	4
Fair value movement on quoted Group debt (Note 21)	5	-
One-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc*	99	-
Finance income (excluding funeral plans)	142	44
Unrealised fair value movement on funeral plan investments (Note 14)	54	81
Discount unwind on funeral plan debtors	-	7
Finance income (on funeral plans)	54	88
Total finance income	196	132

Refer to Note 29 for details of our accounting policy for funeral plans.

*The one-off gain of £99m relates to the settlement of the Group Relief Creditor owed to the Co-operative Bank Plc when a settlement of £48m was agreed in February 2021 against a liability of £147m. This was disclosed as a post balance sheet event in Note 34 of the 2020 Annual Report and Accounts.

7 Finance costs

What does this show? Our main finance costs are the interest that we've paid during the year on our bank borrowings (that help fund the business) and the interest payments we incur on our lease liabilities. If they are losses then we also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate and foreign exchange movements). If they are gains, they are included in Finance income (see note 6). We also include the interest that accrues on the funeral plans we hold and any impact of discounting on funeral plan instalment debtors if it is a charge.

	2021	2020
	£m	£m
Loans repayable within five years	(56)	(26)
Loans repayable wholly or in part after five years	-	(37)
Underlying loan interest payable	(56)	(63)
Underlying interest expense on lease liabilities	(79)	(75)
Total underlying interest expense	(135)	(138)
Fair value movement on quoted Group debt (Note 21)	-	(10)
Fair value movement on interest rate swaps (Note 29)	(5)	-
Other non-underlying finance interest	(5)	(4)
Finance costs (excluding funeral plans)	(145)	(152)
Interest accruing on funeral plan liabilities (Note 23)	(54)	(60)
Discounting on funeral plan debtors	(4)	-
Finance costs (on funeral plans)	(58)	(60)
Total finance costs	(203)	(212)

Refer to Note 29 for details of our accounting policy for funeral plans.

Non-underlying finance interest includes the impact of discount unwind on payables and provisions (see Note 24).

Total interest expense on financial liabilities (including lease liabilities) that are not at fair value through the income statement was £127m (2020: £98m).

Notes to the financial statements continued

8 Taxation

What does this show? Our tax charge is made up of current and deferred tax. This note explains how those items arise. Additional explanatory footnotes are included to explain the key items. We were re-accredited with the Fair Tax Mark during 2021 and the additional disclosures we provide are in line with best practice guidance.

	Footnote	2021 £m	2020 £m
Current tax charge - current period	(i)	(1)	-
Current tax charge - adjustment to group relief payable owed to The Co-operative Bank	(ii)	-	(16)
Current tax credit - adjustment in respect of prior periods	(iii)	-	-
Net current tax charge - in respect of continuing operations		(1)	(16)
Net current tax credit - in respect of discontinued operations		1	(3)
Total current tax charge		-	(19)
Deferred tax charge - current period	(iv)	(5)	(39)
Deferred tax charge - adjustments in respect of prior periods	(v)	(6)	-
Deferred tax charge - impact of rate change (see note below)		(13)	-
Net deferred tax charge - in respect of continuing operations		(24)	(39)
Net deferred tax charge - in respect of discontinued operations		-	(3)
Total deferred tax charge		(24)	(42)
Total tax charge reported in the income statement		(25)	(55)
Total tax credit / (charge) attributable to a discontinued operation		1	(6)
Total tax charge		(24)	(61)

The tax on the Group's net profit before tax differs from the theoretical amount that would arise using the standard applicable rate of corporation tax of 19% (2020: 19%) as follows:

	Footnote	2021 £m	2020 £m
Profit before tax from continuing operations		57	127
Profit before tax from discontinued operation		12	11
Total profit before tax		69	138
Tax charge at 19% (2020: 19%)		(13)	(26)

Current tax reconciliation:

Expenses not deductible for tax (including one-off costs)	(vi)	(2)	(1)
Credits not taxable on the Co-operative Bank settlement	(ii)	19	-
Depreciation and amortisation on non-qualifying assets	(vii)	(11)	(11)
Non-taxable profits / (losses) arising on business disposals	(viii)	3	(3)
Capital gains arising on property disposals	(ix)	(1)	(3)
Adjustments in respect of prior periods	(iii)	-	-
Revaluation of the Co-operative Bank group relief creditor	(ii)	-	(16)
Impact on current tax for movement in temporary tax differences (see below)		5	41
Total current tax charge		-	(19)

Deferred tax reconciliation:

(Utilisation) / increase of temporary tax differences - see Note 15 footnote (vii):

Utilisation of capital allowances in excess of depreciation on qualifying assets		-	(10)
Utilisation of brought forward tax losses		(1)	(1)
Pension timing differences		(10)	(13)
Unwind of restatement adjustment on adoption of IFRS 16		(3)	(3)
Impact of restatement adjustment in relation to IFRS 15		-	(13)
Unrealised gains on investment properties, rolled-over gains and historic business combinations		6	-
Other timing differences		3	(1)
Subtotal of deferred tax reconciling items	(iv)	(5)	(41)
Other deferred tax items:			
Adjustment in respect of previous periods	(v)	(6)	-
Impact of restatement of deferred tax to enacted rate	(x)	(13)	(1)
Total deferred tax charge		(24)	(42)
Total tax charge		(24)	(61)

Notes to the financial statements continued

8 Taxation continued

The net tax charge of £25m on a continuing profit before tax of £57m gives an effective tax rate of 45%, which is higher than the standard rate of 19%. The main reasons for the increase are the impact of restating deferred tax following the announcement of the Corporation Tax rate change enacted in the 2021 Budget and depreciation on non-qualifying assets, being tax debits of £13m and £11m respectively. See footnotes (vii) and (x) for more detail. Off-setting this, as noted in foot note (ii), was a non-taxable accounting credit taken to the income statement on the final settlement of the Co-operative Bank group relief creditor which reduces the effective tax rate after the above items by 33%.

Tax expense on items taken directly to consolidated statement of comprehensive income or consolidated statement of changes in equity

	2021	2020
	£m	£m
Actuarial gains and losses on employee pension scheme	(128)	-
Investment property revaluation through other comprehensive income	(2)	-
Insurance assets held at fair value through other comprehensive income	-	3
	(130)	3

Of the tax taken directly to the consolidated statement of comprehensive income, £66m charge (2020: £15m credit) arises on the actuarial movement on employee pension schemes. There is also a £62m charge (2020: £15m charge) being the impact of rate change on the deferred tax related to the employee pension schemes. A further £2m charge arises on investment property movement through other comprehensive income. Following the disposal of CISGIL last year there is no longer any movement in respect of Insurance assets held at fair value.

Following last year's Budget, on 3 March 2021, the Chancellor announced the enacted corporation tax rate of 19% would increase to 25% with effect from 1 April 2023. To the extent the above deferred tax assets and liabilities are expected to crystallise after this date they should be valued using 25% rather than the current corporation tax rate of 19%. The bulk of the deferred tax assets and liabilities, as shown in Note 15, are expected to crystallise over a much longer time frame, being mainly the retirement benefit obligations, capital allowances on fixed assets and unrealised gains on investment properties, rolled-over gains and historic business combinations. An assessment of the amount of deferred tax assets and liabilities that are expected to crystallise prior to 1 April 2023 is considered to be immaterial when compared to total net deferred tax liability, being less than 2% of the total amount. Due to this assessment being based on projected forecasts and the potential uncertainties inherent in using these, utilising a flat rate of 25% is seen as a fair approximate and has been used to determine the actual net deferred tax liabilities.

The impact of recognising the net deferred tax liabilities at 25% rather than 19% has increased the liability by £75m of which £62m has been charged to equity and the remaining £13m has been charged to the income statement.

Tax policy

We publish our tax policy on our website (<https://www.co-operative.coop/ethics/tax-policy>) and have complied with the commitments set out in that policy.

Footnotes to taxation note 8:

i) The Group is not tax-paying in the UK in respect of 2021 due to the fact it has a number of brought forward capital allowances (£184m gross claimed in 2021) and tax losses (£5m gross utilised in 2021) that offset its taxable profits for the period. These allowances and losses are explained in more detail in Note 15.

The disclosure in this year's tax note has been extended to show separately the reconciliation of both current tax and deferred tax as we believe this conveys a greater transparency and understanding to the reader of these financial statements. More detail on these reconciling items are included within footnote (x).

The current tax charge nets to nil, but discontinued disclosure requirements require the tax impact of discontinued operations to be split out resulting in a £1m tax charge and £1m tax credit in continuing and discontinued respectively.

Outside of the UK, our Isle of Man resident subsidiary, Manx Co-operative Society, a convenience retailing business in the Isle of Man showed a small profit in 2021, giving rise to a small current tax liability of £0.2m (2020: £0.3m). This is the Group's only non-UK resident entity for tax purposes, which employs 116 part-time and 149 full-time colleagues out of our total Group headcount figure. All other income in the consolidated income statement is generated by UK activities and all other colleagues are employed in the UK.

The unaudited 2021 revenue of Manx Co-operative Society is £38m and all other revenue reflected in the consolidated income statement is generated by UK trading activities. The unaudited net assets of Manx Co-operative Society at 2 January 2021 were £11.8m, compared to net assets of the consolidated Group of £2,939m. The Manx assets represent the only overseas trading assets within the Group. A full copy of the most recent accounts is available here <https://www.co-operative.coop/investors/rules>. The presence of this IOM resident subsidiary has not resulted in any additional tax charge in 2021 over and above that payable to the Isle of Man authorities stated above. If these activities had been carried out in the UK, these profits would have been included within the Group's taxable profit prior to the availability of capital allowances and tax losses.

In addition the Group has one dormant company registered in the Cayman Islands, Violet S Propco Limited. This is a legacy dormant company and is UK resident for tax purposes, as it is managed and controlled entirely within the UK. All tax obligations in respect of this company are therefore reported in the UK. It should be noted that we have engaged with the Cayman Counsel and are in the process of completing the relevant due diligence that will allow the commencement of the formal striking off of Violet S Propco Ltd as a Cayman Isle registered company.

Notes to the financial statements continued

8 Taxation continued

ii) The Group held a creditor balance in relation to group relief claimed from The Co-operative Bank ('the Bank') (see Note 22). Group relief is the surrender of tax losses made by one group company to another which made taxable profits. In 2012 and 2013, the Bank had tax losses that it was able to surrender to a number of Group companies which had taxable profits during those two years. This group relief payable was linked to and held at prevailing tax rates. Due to the enacted rate change in 2020 from 17% to 19% the creditor balance was remeasured increasing the total liability by £16m, being the charge shown in the 2020 comparatives.

As noted in last year's financial statements, as a non-adjusting post balance sheet event, in February 2021 the Bank agreed a full and final settlement of £48m as payment for the losses it had group relieved to Co-op Group, extinguishing the liability of £147m as carried on Group's balance sheet. The accounting gain of £99m arising from this, shown in the income statement, is not subject to corporation tax in accordance with UK tax legislation.

iii) There was minimal adjustment in respect of the current year in respect of prior years for both 2021 and 2020.

iv) Deferred tax is an accounting concept that reflects how some income and expenses can affect the tax charge in different periods to when they are reflected for accounting purposes. These differences are a result of tax legislation.

The £5m deferred tax charge represents the net utilisation of temporary differences throughout the current year that are offset against the Group's taxable profits, reducing the Group's current tax liabilities. The current year charge of £5m primarily relates to deferred tax arising on movements on our pension assets. Note 15 gives further detail on how each deferred tax balance has moved in the year.

As the Group is not tax-paying in respect of 2021, the reconciling items between the tax charge at the standard rate and the actual tax charge mostly affect the deferred tax we carry as they will result in us having more or less capital allowances or losses to offset against future profits.

v) There was a £6m tax charge adjustment in the current year relating to prior years. This resulted from changes to the taxable profits reported in the individual subsidiary accounts compared to the Group's tax charge as a whole in 2020. In 2020 there was minimal adjustment in respect of prior years.

It is common for adjustments to arise in respect of prior years, as the tax charge in the financial statements is an estimate that is prepared before the detailed tax calculations are required to be submitted to HMRC, which is 12 months after the year end. Also, HMRC may not agree with a tax return some time after the year end and a liability for a prior period may arise as a result. When HMRC may not agree this can give rise to uncertainties for which a provision is recognised. Following recent agreement with HMRC on prior year issues we no longer carry any uncertain tax positions.

vi) Some expenses incurred by the Group may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability. Examples of this include some repairs, entertaining costs and certain legal costs.

vii) The accounting treatment of depreciation differs from the tax treatment. For accounting purposes an annual rate of depreciation is applied to capital assets. For tax purposes the Group is entitled to claim capital allowances, a relief provided by law. Some assets do not qualify for capital allowances and no relief is available for tax purposes on these assets. This value represents depreciation arising on such assets (primarily Land and Buildings).

viii) In 2021 the Group disposed of its shares in Co-operative Care Limited. The disposal falls within the substantial shareholder exemptions (SSE) which means any gain or losses arising on the disposal are not brought into tax. The amount shown for 2020 was in connection to the disposal of shares in CIS General Insurance Limited that was also covered by SSE.

ix) During the year a number of properties were sold, where the taxable profit was in excess of the accounting profit.

x) It is a requirement to measure deferred tax balances at the substantively enacted corporation tax rate at which they are expected to unwind. As noted above the net impact of rate change on deferred tax balances recognised through the income statement is £13m this year.

Accounting policies

Income tax on the profit or loss for the period is made up of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements continued

9 Profit / (Loss) on discontinued operation, net of tax

What does this show? We classify any of our business segments as discontinued operations if they have been disposed of during the year or if they are held for sale at the balance sheet date (which means they are most likely to be sold within a year). This note shows the operating result for these segments as well as the profit or loss on disposal.

Discontinued operation - disposal of insurance (underwriting) business

The sale of our insurance underwriting business (CISGIL) completed on 3 December 2020. The results of that business have been classified as a discontinued operation from 2018 and shown in a separate line at the bottom of the consolidated income statement under Discontinued Operations. As part of the sale agreement Co-op have continued to supply CISGIL with certain agreed services in the first half of 2021 under a service agreement (TSA). The costs and recoveries associated with that agreement are included in the table below within Operating expenses and Operating income respectively and are shown within Discontinued operations in the Consolidated Income statement. Other income includes £13m of income following payments received in respect of a legal claim.

Results of discontinued operation - Insurance (underwriting business)	2021 £m	2020 £m
Operating income / Revenue	12	273
Operating expenses	(13)	(352)
Other income	13	85
Remeasurement adjustments recognised in arriving at fair value less costs to sell	-	10
Operating profit	12	16
Finance costs	-	(5)
Profit before tax	12	11
Tax	1	(6)
Profit for the period from discontinued operation	13	5

Figures in 2020 only include trading results of CISGIL up to the point of disposal on 3 December 2020.

Segmental analysis - Insurance (underwriting business)	Revenue from external customers £m	Underlying segment operating (loss) / profit £m	Operating profit £m	Additions to non-current assets £m	Depreciation and amortisation £m
52 weeks ended 1 January 2022	12	(1)	12	-	-
Period ended 2 December 2020	273	19	16	32	(43)

Figures in 2020 only include trading results of CISGIL up to the point of disposal on 3 December 2020.

The table below shows a summary of the cash flows of discontinued operations:

Cash flows used in discontinued operations:	2021 £m	2020 £m
Net cash from operating activities	13	30
Net cash used in financing activities	-	(5)
Net cash from discontinued operations	13	25

Cash flows from investing activities were not significant in any period.

Notes to the financial statements continued

9 Profit / (Loss) on discontinued operation, net of tax - continued

Accounting policies

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Discontinued operations are those operations that can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes, that have either been disposed of or classified as held for sale and which represent a separate major line of business. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the balance sheet. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations; or
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

10 Reconciliation of operating profit to net cash flow from operating activities

What does this show? This note shows how we adjust our operating profit, as reported in the income statement, to get to the net cash from operating activities which is the starting position in the cash flow statement. Non-cash items are added back to or subtracted from the operating profit figure to show how much cash is generated from our operating activities.

	2021 £m	2020 £m
Operating profit (Note 1)	64	207
Depreciation and amortisation charges	405	380
Non-current asset impairments	30	36
Profit / (loss) on closure and disposal of businesses and non-current assets	(2)	3
Change in value of investment properties	(9)	(1)
Retirement benefit obligations	(24)	(35)
Increase in inventories	(28)	(6)
Increase in receivables	(17)	(248)
Decrease / (increase) in contract assets (funeral plans)	18	(8)
Increase in contract liabilities (funeral plans)	(19)	99
(Decrease) / increase in payables and provisions	(253)	215
Net cash flow from operating activities before net cash operating inflow from discontinued operations	165	642
Net cash flow from operating activities relating to discontinued operations	13	30
Net cash flow from operating activities	178	672

Accounting policies

Refer to note 20 for details of the accounting policy for Cash and cash equivalents.

Notes to the financial statements continued

Section B - what are our major assets?

This section of the accounts (notes 11 - 20) outlines the key assets that we hold at the balance sheet date.

11 Property, plant and equipment

What does this show? Property, plant and equipment is the physical assets we use in our business such as our buildings, equipment and vehicles. This note shows how the amount we include on our balance sheet for these assets has changed over the period.

For the period ended 1 January 2022	Property	Plant and equipment	Total
	£m	£m	£m
<u>Cost or valuation:</u>			
At 2 January 2021	1,467	2,580	4,047
Additions	38	224	262
Transfer to Assets held for sale (see Note 19)	(4)	(6)	(10)
Reclassified to Investment properties (see Note 26)*	(7)	-	(7)
Disposals	(52)	(67)	(119)
At 1 January 2022	1,442	2,731	4,173
<u>Depreciation:</u>			
At 2 January 2021	607	1,485	2,092
Charge for the period	30	224	254
Impairment	1	4	5
Transfer to Assets held for sale (see Note 19)	(2)	(5)	(7)
Reclassified to Investment properties (see Note 26)*	(2)	-	(2)
Disposals	(24)	(57)	(81)
At 1 January 2022	610	1,651	2,261
<u>Net book value:</u>			
At 1 January 2022	832	1,080	1,912
At 2 January 2021	860	1,095	1,955
Capital work in progress included above	21	37	58

*During the year, we reviewed how we identify Investment properties and have reclassified net £5m of assets from Property, plant and equipment to Investment property (see Note 26).

The impairment charge of £5m (2020: £21m) primarily relates to poor performing food stores and funeral branches (see also Critical accounting estimates and judgements section of this note for further detail on impairment).

Notes to the financial statements continued

11 Property, plant and equipment continued

For the period ended 2 January 2021	Property £m	Plant and equipment £m	Total £m
<u>Cost or valuation:</u>			
At 4 January 2020	1,463	2,437	3,900
Additions	45	218	263
Reclassified as assets held for sale (see note 19)	(8)	(6)	(14)
Disposals	(33)	(69)	(102)
At 2 January 2021	1,467	2,580	4,047
<u>Depreciation:</u>			
At 4 January 2020	588	1,311	1,899
Charge for the period	25	225	250
Impairment	13	8	21
Reclassified as assets held for sale (see note 19)	(2)	(3)	(5)
Disposals	(17)	(56)	(73)
At 2 January 2021	607	1,485	2,092
Net book value:			
At 2 January 2021	860	1,095	1,955
At 4 January 2020	875	1,126	2,001
Capital work in progress included above	35	74	109

Notes to the financial statements continued

11 Property, plant and equipment continued

Critical accounting estimates and judgements

Impairment

The recoverable amount for Food and Funeral cash generating units (CGUs) is the greater of the fair value of the CGU (less costs to sell) and the value in use (VIU) of the CGU. The value in use for Food and Funeral CGUs has been determined using discounted cash flow calculations. The key assumptions in the value in use calculations are as follows:

Assumption	Food Segment	Funeral Segment
Structure of a CGU	Each individual food store is deemed to be an individual CGU.	A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub.
Cash flow years / assumptions	<p>Future cash flows derived from Board approved three-year plan cash flow assumptions.</p> <p>These forecasts are extrapolated over a period of 2 years and then subject to a long term growth rate of 1.9% (2020: 0%) reflecting the UK's long-term post war growth rate which is in-line with industry norms for the period of the lease. Where lease terms are shorter than this, the remaining lease terms have been used. Perpetuities are included in cash flows with 0% growth (2020: 0%) where stores are expected to be operated beyond their current lease term.</p> <p>Cash flows include estimated store capital maintenance costs based on the square footage of the store.</p> <p>The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.</p>	<p>Future cash flows derived from Board approved three-year plan cash flow projections.</p> <p>These cash flows are extrapolated over the remaining lease term for leasehold properties or into perpetuity for freehold properties.</p> <p>Perpetuities included in cash flows where the Hub is expected to be operational beyond its current lease terms.</p> <p>A growth rate of 1.9% (2020: 0%) is applied beyond Board approved three-year plan horizon (reflecting the UK's long-term post war growth rate which is in-line with industry norms).</p> <p>The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.</p>
Discount rate	<p>Post tax discount rate representing the Food segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 7.3% (2020: 8.2%).</p> <p>Post tax WACC calculated using the capital asset pricing model.</p> <p>Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material.</p> <p>In each of the current and comparative years, sensitivity analysis has been performed in relation to our store impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.</p> <p>Sensitivity analysis has also been performed on our goodwill impairment testing, see note 13.</p>	<p>Post tax discount rate representing the Funeralcare segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 8.8% (2020: 9.5%).</p> <p>Post tax WACC calculated using the capital asset pricing model.</p> <p>Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material.</p> <p>In each of the current and comparative years, sensitivity analysis has been performed in relation to our Funeralcare Hub impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.</p> <p>Sensitivity analysis has also been performed on our goodwill impairment testing, see note 13.</p>

Notes to the financial statements continued

11 Property, plant and equipment continued

Accounting policies

Where parts of an item of property, plant and equipment have materially different useful economic lives, they are accounted for as separate items of property, plant and equipment. Cost includes purchase price plus any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided on the cost or valuation less estimated residual value (excluding freehold land) on a straight-line basis over the anticipated working lives of the assets. The estimated useful lives are as follows and where appropriate would also include our assessment of the expected impact on asset lives of our plan to move to net zero by 2040:

Property

Freehold buildings - 50 years

Leasehold property - shorter of period of lease or 50 years

All properties are measured at cost less accumulated depreciation and impairment losses.

Plant & equipment

Plant and machinery - 3 to 13 years

Vehicles - 3 to 9 years

We no longer include property, plant and equipment in our balance sheet when the Group loses the right to the future economic benefits associated with the asset. For property, this usually happens when we have exchanged contracts on an unconditional basis to sell it.

Impairment

For the Food segment, the Group treats each store as a separate cash-generating unit for impairment testing of property, plant and equipment and right-of-use assets. The Group allocates goodwill to groups of cash-generating units. The lowest level at which goodwill is monitored by management is at a total Food segment level.

For the Funerals segment, the Group treats a local network of interdependent branches, known as a Funeralcare Hub, as a separate cash-generating unit for impairment testing of property, plant and equipment, right-of-use assets and goodwill.

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Impairment losses are recognised in the income statement.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Food stores, the CGU is deemed to be each trading store. For Funeralcare, the CGU is deemed to be a local network of interdependent branches. Where an individual branch within a local network is to be closed, the individual branch is defined as the CGU, rather than being included with the network of interdependent branches. This is because the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount is returned to what it would have been, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements continued

12 Leases

What does this show? This note shows the value of our leased assets and the corresponding value of our lease liabilities. The tables show how these balances have moved in the period from additions, disposals, payments, interest charges and impairments.

A. As a lessee

Right-of-use assets	Property	Plant and equipment	Total
	£m	£m	£m
Balance at 2nd January 2021	952	79	1,031
Depreciation charge for the year	(105)	(17)	(122)
Additions	226	10	236
Disposals	(5)	-	(5)
Reclassified to Investment properties (see Note 26)*	(28)	-	(28)
Transfer to Assets held for sale (see Note 19)	(1)	-	(1)
Impairment	(25)	-	(25)
Balance at 1st January 2022	1,014	72	1,086
Balance at 4th January 2020	979	66	1,045
Depreciation charge for the year	(98)	(15)	(113)
Additions	93	28	121
Disposals	(9)	-	(9)
Transfer to assets held for sale (see Note 19)	(2)	-	(2)
Impairment	(11)	-	(11)
Balance at 2nd January 2021	952	79	1,031

*During the year, we reviewed how we identify Investment properties and have reclassified £28m (2020: £nil) of Right-of-use assets to Investment property (see Note 26).

The Group leases many assets, principally it leases properties for its food retail stores and funeral branches as well as some vehicles and other equipment. The leases of retail stores are typically between 1 and 20 years in length (2020: 1 and 20 years), and leases of funeral branches are typically between 1 and 8 years in length (2020: 1 and 8 years). Vehicle and equipment leases are typically between 1 and 4 years in length (2020: 1 and 4 years) and in some cases the Group has options to purchase the assets at the end of the contract term.

Lease liabilities	2021	2020
	£m	£m
Current	(210)	(191)
Non-current	(1,306)	(1,234)
Lease liabilities included in the Consolidated balance sheet	(1,516)	(1,425)

Lease liabilities	2021	2020
	£m	£m
At the start of the period	(1,425)	(1,470)
Additions	(244)	(114)
Disposals	17	26
Interest expense	(79)	(77)
Transfer to liabilities held for sale (see note 19)	2	5
Payments	213	205
Total lease liabilities	(1,516)	(1,425)

The Group recognised rent expense from short-term leases of £2m (2020: £3m).

Notes to the financial statements continued

12 Leases continued

Extension and termination options

Some leases of retail stores contain extension or termination options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension and termination options in new leases to provide operational flexibility. The extension and termination options held are typically exercisable only by the Group and not by the lessors.

The Group assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As at 1 January 2022, potential discounted future cash outflows of £150m (2020: £139m) have not been included in the lease liability because it is not reasonably certain that the Group will exercise the extension option. Included within the lease liability are discounted future cash outflows of £107m (2020: £125m) where the group holds termination options but it is not reasonably certain to execute those termination options.

Sale and leaseback

During the year the Group completed sale and leaseback transactions on some of its freehold buildings used within food retail and our funerals business. Aggregate consideration of £12m (2020: £7m) was received, a net lease liability of £6m (2020: £2m) was recognised and net book value of £3m (2020: £3m) disposed creating a profit on disposal of £3m (2020: £2m).

B. As a lessor

Lease income from lease contracts in which the Group acts as a lessor is as below:

	2021 £m	2020 £m
Operating lease (i)		
Lease income	10	12
Finance lease (ii)		
Finance income on the net investment in the lease	3	3

i. Operating lease

The Group leases out its investment properties. The Group classifies these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2021 £m	2020 £m
Less than one year	6	7
One to two years	5	6
Two to three years	4	5
Three to four years	4	4
Four to five years	3	4
More than five years	35	45
Total undiscounted lease payments receivable	57	71

ii. Finance lease

The Group also subleases some of its non-occupied leased properties. The Group classifies the sublease as a finance lease, where the period of the sublease is for substantially the remaining term of the head lease. The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

	2021 £m	2020 £m
Less than one year	12	12
One to two years	9	11
Two to three years	9	8
Three to four years	8	7
Four to five years	7	7
More than five years	23	31
Total undiscounted lease payments receivable	68	76
Less: Unearned finance income	(17)	(21)
Present value of minimum lease payments receivable	51	55
Impairment loss allowance	(9)	(10)
Finance lease receivable (net of impairment allowance)	42	45

Notes to the financial statements continued

12 Leases continued

B. As a lessor - continued

ii. Finance lease - continued

	2021 £m	2020 £m
Current	12	11
Non-current	30	34
Finance lease receivable as per Consolidated balance sheet	42	45

The average term of finance leases entered into is 10 years (2020: 8 years).

Impairment of finance lease receivable

The Group estimates the loss allowance on finance lease receivables at an amount equal to lifetime expected credit losses. The lifetime expected credit losses are estimated based upon historical defaults on subleases, the credit quality of current tenants and forward-looking factors.

Accounting policies

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the financial statements continued

13 Goodwill and intangible assets

What does this show? Intangible assets have long-term value but no physical presence, such as software or customer relationships. This note shows how the amount we include on our balance sheet for these assets has changed over the period.

For period ended 1 January 2022	Goodwill	Computer software	Acquired customer relationships and other intangibles	Total
	£m	£m	£m	
<u>Cost:</u>				
At 2 January 2021	1,277	316	43	1,636
Additions	-	30	-	30
Transferred to Assets held for sale (see Note 19)	(3)	-	-	(3)
Disposals	(29)	-	-	(29)
At 1 January 2022	1,245	346	43	1,634
<u>Accumulated amortisation and impairment:</u>				
At 2 January 2021	384	110	37	531
Charge for the period	-	28	1	29
Transferred to Assets held for sale (see Note 19)	-	-	-	-
Disposals	(1)	-	-	(1)
Impairment	-	-	-	-
At 1 January 2022	383	138	38	559
Net book value:				
At 1 January 2022	862	208	5	1,075

For period ended 2 January 2021	Goodwill	Computer software	Acquired customer relationships and other intangibles	Total
	£m	£m	£m	
<u>Cost:</u>				
At 4 January 2020	1,295	264	43	1,602
Additions	-	60	-	60
Transferred to Assets held for sale (see Note 19)	(4)	(8)	-	(12)
Disposals	(14)	-	-	(14)
At 2 January 2021	1,277	316	43	1,636
<u>Accumulated amortisation and impairment:</u>				
At 4 January 2020	383	96	36	515
Charge for the period	-	16	1	17
Transferred to Assets held for sale (see Note 19)	-	(2)	-	(2)
Disposals	(4)	-	-	(4)
Impairment	5	-	-	5
At 2 January 2021	384	110	37	531
Net book value:				
At 2 January 2021	893	206	6	1,105

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Goodwill

The components of goodwill are as follows:

	2021	2020
	£m	£m
Food	840	866
Other businesses	22	27
	862	893

The goodwill within other businesses principally relates to the goodwill recognised in the Funeral and Legal Services businesses.

Critical accounting estimates and judgements

Goodwill impairment - sensitivity testing

For the Food goodwill impairment review, the Food segment's future cash flow projections have been taken from the board approved three-year plan, taken into perpetuity and discounted to present value at a pre-tax rate of 7.3% (2020: 8.2%). A long term growth rate of 1.9% has been applied beyond the three-year plan period (2020: 0%). In each of the current and comparative years, sensitivity analysis has been performed on this assumption, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities the cash flows remain well in excess of the current carrying value. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified which will then be reflected in our financial models and plans as appropriate and in line with the Group's integrated approach to a changing climate.

For the Funerals goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the three-year plan. Although inherently uncertain this also includes our best estimate of future death rates including the recent impact of Covid-19. Cash flows have been projected based on the three-year plan and into perpetuity from year four and discounted back to present value using a pre-tax discount rate of 8.8% (2020: 9.5%). A long term growth rate of 1.9% has been applied beyond the three-year plan period (2020: 0%). Sensitivity analysis has been performed with the discount rate increased by 1% and a decrease in growth by minus 1%, and under these sensitivities no further material amounts of impairment are calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Accounting policies

Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Group.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying value of goodwill is included in the carrying amount of the investment in the associate. Where impairment is required the amount is recognised in the income statement and cannot be written back.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Acquisition costs are expensed to the income statement when incurred.

Computer software

Computer software is stated at cost less accumulated amortisation and impairment. Costs directly attributable to the development of computer software for internal use are capitalised and classified as intangible assets where they are not an integral part of the related hardware and amortised over their useful life up to a maximum of seven years. We have considered the impact of guidance issued in March 2021 by the IFRS Interpretations Committee, which clarified IAS 38 guidance around what costs should and should not be capitalised specifically in relation to Software as a Service ('SaaS') contracts, and concluded that our policy continues to be compliant with the standard.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is charged to the income statement as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software development costs: 3 – 7 years
- Other intangible assets: 1 - 10 years

Impairment

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates.

Food:

In the Food business, the CGUs to which goodwill has been allocated and the level at which it is monitored is deemed to be the Food segment as a whole as goodwill arising on acquisitions reflects synergies (principally buying benefits) that benefit the whole business. Accordingly, impairment testing for all store goodwill balances is carried out using all the food stores as the group of CGUs.

Other businesses:

The majority of goodwill within other businesses is allocated to the Funerals business.

In the Funerals business, a CGU to which goodwill has been allocated is determined as a local network of interdependent branches.

Where an individual branch within a local network is to be closed, the CGU attributable to that branch is redefined as being solely that individual branch on the basis that the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

Notes to the financial statements continued

14 Funeral plan investments

What does this show? Our Funerals business holds some investments in relation to funeral plans. This note provides information on these investments and how they are accounted for.

Funeral plan investments as per the balance sheet:	2021 £m	2020 £m
Current	-	-
Non-current	1,372	1,331
Funeral plan investments	1,372	1,331

Funeral plan investments held by the Group are as follows:	2021 £m	2020 £m
Fair value through the income statement:		
Funeral plan investments (see below)	1,372	1,331
Total Funeral plan investments	1,372	1,331

Funeral plan investments:	2021 £m	2020 £m
At start of period	1,331	1,271
Net plan investments (including ongoing instalments)	92	86
Plans redeemed or cancelled	(105)	(107)
Unrealised fair value movement on funeral plan investments (Note 6)	54	81
At end of period	1,372	1,331

See Note 29 for further detail on the accounting policy for funeral plans.

Notes to the financial statements continued

14 Funeral plan investments continued

The Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts (<5% of total). The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funerals on a portfolio basis. The most recent valuation was performed as at 30 September 2021 and the headroom achieved on a portfolio basis is shown in the table below.

The plan investments are financial assets which are recorded at fair value each period using valuations provided to Co-op by the policy provider. The plan values reflect the amount the policy provider would pay out on redemption of the policy at the valuation date with the main driver being underlying market and investment performance. The investment strategy is targeted to deliver appropriate returns on the plan investments over the medium term to match expected inflationary increases in the cost to deliver a funeral. Assets include UK and overseas equities, gilts, corporate bonds, property and cash.

Funeral Plan Investments Actuarial Valuation (pre tax)	30th September 2021 £m	30th September 2020 £m
Total Assets	1,397	1,287
<u>Liabilities:</u>		
Present value (wholesale basis)	1,102	1,158
Total Liabilities (pre tax)	1,102	1,158
Headroom (pre-tax)	295	129
Headroom as a % of liabilities (pre-tax)	27%	11%

Wholesale costs have only increased slightly during the year and have been exceeded by actual investment returns. There has also been an increase in both longer term inflation and investment return expectations. The group continues to manage funeral plans for the medium to long term given, in the normal course of business, this is when the majority of the liability will crystallise. We estimate that the pre-tax wholesale cost surplus at 31 December 2021 would be approximately £310m.

Key assumption	30th September 2021 £m	30th September 2020 £m
Average total wholesale costs per plan funeral	£2,652	£2,646

Sensitivities

The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. The headroom percentage is expressing the surplus as a percentage of total liabilities. Each 0.1% increase in the inflation assumptions would reduce the surplus by approximately £19m (2020: £21m). Each 0.1% fall in the discount rate would reduce the surplus by approximately £14m.

The "wholesale" actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Group fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus. At 30 September 2021, on a pre-tax marginal cost basis, liabilities would reduce to £662m, giving a £735m surplus (111% of liabilities). On this pre-tax marginal cost basis, each 0.1% increase in the inflation assumptions would reduce the surplus by approximately £12m.

Accounting policies

See Note 29 Financial Instruments for the accounting policies relating to funeral plans.

Notes to the financial statements continued

15 Deferred taxation

What does this show? Our tax charge is made up of current and deferred tax as explained in note 8. We show a net asset or net liability in the balance sheet to reflect our deferred tax. This note shows how those items are calculated and how they affect the income statement. Additional explanatory footnotes are included to explain the key items.

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25.0% (2020: 19.0%). Temporary differences arise because sometimes accounting and tax requirements mean that transactions are treated as happening at a different time for accounting purposes than they are for tax purposes.

	2021	2020
	£m	£m
Net deferred tax in the balance sheet comprises:		
Deferred tax asset - continuing operations	429	336
Deferred tax liability - continuing operations	(743)	(497)
Deferred tax liability - discontinued operation	-	-
Net deferred tax liability	(314)	(161)
Comprised of:		Footnote:
Other temporary differences	(i)	1
Retirement benefit obligations	(ii)	(565)
Capital allowances on fixed assets	(iii)	327
Unrealised gains on investment properties, rolled-over gains and historic business combinations	(iv)	(155)
Tax losses	(v)	23
IFRS 16 transition adjustment taken through Opening Reserves	(vi)	55
	(314)	(161)

	2021	2020
	£m	£m
The movements in the net deferred tax liability during the period are set out below:		
At beginning of the period	(161)	(122)
Income statement (charge) / credit:		
Group (see Note 8)	(vii)	(24)
Adjustment in respect of deferred tax classified as assets held for sale (see Note 8)	-	(3)
Additions / disposals	1	
Charged to equity:		
Retirement benefit obligations (see Note 8)	(ii)	(128)
Investment property revaluation movement	(2)	-
Fair value through other comprehensive income assets - Insurance (see Note 8)	-	3
At end of the period (continuing operations)	(314)	(161)

Following last year's Budget, on 3 March 2021, the Chancellor announced the enacted corporation tax rate of 19% would increase to 25% with effect from 1 April 2023. To the extent the above deferred tax assets and liabilities are expected to crystallise after this date they should be valued using 25% rather the current corporation tax rate of 19%. The bulk the deferred tax assets and liabilities, as shown in Note 15, are expected to crystallise over a much longer time frame, being mainly the retirement benefit obligations, capital allowances on fixed assets and unrealised gains on investment properties, rolled-over gains and historic business combinations. An assessment of the amount of deferred tax assets and liabilities that are expected to crystallise prior to 1 April 2023 is considered to be immaterial when compare to total net deferred tax liability, being less than 2% of the total amount. Due to this assessment being based on projected forecasts and the potential uncertainties inherent in using these, utilising a flat rate of 25% is seen as a fair approximate and has been used to determine the actual net deferred tax liabilities.

The impact of recognising the net deferred tax liabilities at 25% rather than 19% has increased the liability by £75m of which £62m has been charged to equity and the remaining £13m has been charged to the income statement.

Notes to the financial statements continued

15 Deferred taxation - continued

Footnotes:

i) This amount includes deferred tax liabilities that arose on the acquisition of Nisa Retail Limited in 2018 and the adoption of IFRS 9, also in 2018. These are offset by a deferred tax asset in respect of provisions. Expenses that have not yet been incurred are able to be recorded in the accounts as provisions. However, of these certain expenses don't receive tax relief until they have been paid for and so the related tax relief is delayed to a future period.

ii) This amount represents the theoretical future tax cost to the Group in respect of the current pension scheme surplus. The overall increase in 2021 was £213m. This is primarily due to the impact of the rate change going from 19% to 25%, leading to a £136m increase in the liability. In addition there is a £76m increase in liability for the movement in the total schemes' surpluses during the year.

iii) A deferred tax asset arises on capital allowances where the tax value of assets is higher than the accounts value of the same fixed assets. The reason the Group has a higher tax value for these fixed assets is due to the fact the Group has not made a full claim to its maximum entitlement to capital allowances since 2013 due to reduced levels of trading profits in the intervening years. However, impairment, disposals and depreciation have continued to reduce the accounts value for our assets. The Group expects to use these allowances to reduce future trading profits. The £72m increase in the asset over the year is mainly due to the £80m impact of the rate change.

iv) This amount represents the theoretical amount of tax that would be payable by the Group on (a) the sale of all investment properties, (b) the sale of properties that have been restated at their fair value on historic mergers and transfers of engagements and (c) the sale of any property that has had an historic capital gain 'rolled into' its base cost (which is an election available by statute designed to encourage businesses to reinvest proceeds from the sale of trading properties into new trading properties and ventures). The £30m increase in the liability over the year is mainly due to the £37m impact of the rate change.

v) The Group has incurred trading losses and interest losses that were in excess of taxable profits in the past. These losses can be used to reduce future trading profits and capital gains which are included in future tax forecasts for the Group. The restriction on the amount of losses that can be used in any one year post 1 April 2017, being £5m plus 50% of any surplus taxable profits above this amount, is not expected to limit the use of these losses other than extend the time over which they will be claimed.

The increase in asset of £4m is mainly due to £5m impact from the rate change less £1m in respect of amounts offset against taxable profits this year.

vi) Deferred tax that arose on the adoption of IFRS 16 in 2019 will unwind over a number of years and reduce taxable profits in those future years. The increase in asset of £10m is mainly due to £13m impact from rate change less £3m in respect of the unwind during the year.

vii) This movement is made up of a net £5m current year utilisation of temporary differences, £6m prior year adjustments and £13m impact from rate change, see Note 8 for more detail.

Accounting policies

Deferred tax is provided for, with no discounting, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available to use the asset against. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements continued

16 Inventories

What does this show? This note shows the stock we hold at the period end. This is mainly the goods we're planning to sell, held either at Food stores or distribution centres. We also hold stocks of store consumables (such as plastic bags) as well as work in progress relating to funeral caskets.

Inventories include the following:	2021 £m	2020 £m
Raw materials, consumables and work in progress	4	4
Finished goods and goods for resale	484	456
	488	460

The period end inventory provision is £29m (2020: £23m) and a net charge of £6m (2020: £3m) has been made within operating expenses in the income statement. Inventory held at fair value less cost to sell is not material in either period. There was no inventory pledged as security for liabilities in the current or prior period.

Accounting policies

Inventories are stated at the lower of cost, including attributable overheads, and net realisable value.

17 Trade and other receivables

What does this show? This note shows amounts we are owed and amounts we have paid in advance for services which will be received over a period of time. It also shows a reduction to reflect amounts we think may not be repaid. They are split between current items (which will be settled within one year) and non-current items (which will be settled after more than one year).

	2021 £m	2020 £m
Non-current	214	203
Current	551	546
	765	749

	2021 £m	2020 £m
Trade receivables	309	277
Prepayments	25	9
Accrued income	128	139
Other receivables	313	336
	775	761
Allowance for expected credit losses	(10)	(12)
	765	749

Trade receivables are non-interest bearing and the Group's standard payment terms are between 7 and 60 days.

Non-current debt includes £199m (2020: £178m) that relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £37m (2020: £41m) of current debt also relates to pre-paid funeral plan instalments which are £236m (2020: £219m) in total. Non-current debt also includes £15m of deferred consideration receivable in respect of the agreement with Markerstudy to provide marketing and distribution services for motor and insurance products with an additional £10m included in current. These balances are all included within Other receivables.

Within trade receivables is £52m (2020: £48m) of supplier income that is due from Food and Wholesale suppliers. Accrued income includes £116m (2020: £120m) in relation to supplier income that has been recognised but not yet billed. As at 7th April 2022, £45m (2020: £46m) of the trade receivables balance had been invoiced and settled and £112m (2020: £111m) of the accrued income balance has been invoiced and settled.

Notes to the financial statements continued

17 Trade and other receivables - continued

The table below shows the movement in the allowance for expected credit losses for trade and other receivables:

	2021 £m	2020 £m
Opening allowance for expected credit losses	12	8
Charge to the income statement	7	12
Credit to the income statement	(9)	(8)
Closing allowance for expected credit losses	10	12

The Group has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The Group has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables. More information on credit risk and the use of a provision matrix is provided in Note 29 which outlines our approach to financial risk management.

Accounting policies

Refer to Note 29 Financial Instruments for the accounting policies relating to trade receivables and allowances for expected credit losses.

18 Contract assets

What does this show? This note shows the costs we've incurred in setting up funeral plans (fulfilment costs). We hold these on the balance sheet as contract assets until the funerals have been performed and we're entitled to receive payment, then we transfer them to the income statement in line with when the revenue is recognised.

	2021 £m	2020 £m
Current	5	6
Non-current	43	60
Total	48	66

	2021 £m	2020 £m
Opening contract assets	66	58
Fulfilment costs - incurred on new funeral plan sales	12	12
Fulfilment costs - transferred to contract liabilities in respect of membership discount*	(24)	-
Fulfilment costs - transferred to the income statement on funeral plan redemptions	(3)	(3)
Fulfilment costs - transferred to the income statement on funeral plan cancellations	(3)	(1)
Closing contract assets	48	66

*During the year we reassessed the treatment of discounts given to members on inception of a plan and now classify them as a reduction against the contract liability (Note 23) whereas previously they were held as contract assets in the table above.

No provision for expected credit losses has been recognised against contract assets in either the current or prior year.

Accounting policies

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) associated with delivering the funeral are deferred and shown in the consolidated balance sheet as a contract asset until the funeral is performed (at which point the costs are recognised in the income statement in-line with when the revenue is recognised).

Notes to the financial statements continued

19 Assets and liabilities held for sale

What does this show? This shows the value of any assets or liabilities that we hold for sale at the period end (these generally relate to properties or businesses that we plan to sell soon). When this is the case, our balance sheet shows those assets and liabilities separately as held for sale.

Assets and liabilities classified as held for sale	2021	2020	2021	2020
	£m	£m	£m	£m
	Assets held for sale		Liabilities held for sale	
Goodwill and Intangible assets	3	10	-	-
Right-of-use assets (leases)	1	2	-	-
Lease liabilities	-	-	(2)	(5)
Property, plant and equipment	3	9	-	-
	7	21	(2)	(5)

Accounting policies

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. After that, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss. See also accounting policy in Note 9 (Loss on discontinued operation, net of tax).

Notes to the financial statements continued

20 Cash and cash equivalents

What does this show? The tables below show a breakdown of the cash and cash equivalent balances that the Group holds at the balance sheet date and the accounting policies explains what is and what isn't classified as cash and cash equivalents.

	2021 £m	2020 £m
Cash and cash equivalents		
Cash in hand	59	99
Cash at banks	1	170
Cash and cash equivalents	60	269
 Cash and cash equivalents (as above)	 60	 269
Bank overdrafts	(4)	-
Net cash and cash equivalents	56	269

The Group has a right of off-set as part of a pooling arrangement with its principal bank and the bank overdraft figure above reflects the net position across those accounts.

Bank overdrafts includes amounts receivable from banks for credit card and debit card transactions of £38m (2020: £35m) which clear the bank shortly after the transaction takes place.*

Bank overdrafts also includes £6m (2020: £6m) of non-distributable cash held on behalf of customers in the process of purchasing funeral plans.

Accounting policies

Cash and cash equivalents in the consolidated balance sheet comprise cash in hand, cash in transit and cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

In the statement of consolidated cash flows, cash and cash equivalents includes bank overdrafts as they are repayable on demand and deemed to form an integral part of the Group's cash management.

Amounts held in trustee-administered bank accounts of the Group of £25m (2020: £28m), which can only be utilised to meet liabilities in respect of funeral plans, are classed as Funeral plan investments (see Note 14) and not Cash and cash equivalents.

* At its meeting on 15 September 2021, the IFRS Interpretations Committee (IFRS IC) reached a tentative agenda decision (TAD) on a submission concerning Cash received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments). The TAD looks at the timing of when it is appropriate to recognise a financial asset (the cash) in relation to EFT transactions that are not received in the bank until a few days later. Should the TAD come into force then the Group would need to consider the impact on its financial statements which would most likely see such balances recorded as amounts due from customers (rather than cash) until the monies are received in the bank.

Notes to the financial statements continued

Section C - what are our major liabilities?

This section of the accounts (notes 21 - 24) outlines the key liabilities that we have at the balance sheet date.

21 Interest-bearing loans and borrowings

What does this show? This note provides information about the terms of our interest-bearing loans. This includes information about their value, interest rate and repayment terms and timings. Details are also given about other borrowings and funding arrangements such as corporate investor shares and leases. All items are split between those that are due to be repaid within one year (current) and those which won't fall due until after more than one year (non-current).

Non-current liabilities:	2021 £m	2020 £m
£105m 7.5% Eurobond Notes due 2026 (fair value)	123	128
£245m 7.5% Eurobond Notes due 2026 (amortised cost)	258	259
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	299	298
£109m 11% Final repayment subordinated notes due 2025	109	109
£20m 11% Instalment repayment notes (final payment 2025)	7	9
Total (excluding lease liabilities)	796	803
Lease liabilities	1,306	1,234
Total Group interest-bearing loans and borrowings	2,102	2,037

Current liabilities:	2,021 £m	2020 £m
£245m 7.5% Eurobond Notes due 2026 (amortised cost) - interest accrued	9	9
£300m 5.125% Sustainability Bond due 2024 (amortised cost) - interest accrued	2	2
£20m 11% Instalment repayment notes (final payment 2025)	2	2
£400m Sustainable revolving credit facility (RCF)	163	-
Corporate investor shares	4	3
Total (excluding lease liabilities)	180	16
Lease liabilities	210	191
Total Group interest-bearing loans and borrowings	390	207

See Note 29 for more information about the Group's exposure to interest rate and foreign currency risk, and a breakdown of the Group's borrowings by the three-level fair value hierarchy (which reflects different valuation techniques) as defined within IFRS 13 (Fair Value Measurement).

Notes to the financial statements continued

21 Interest-bearing loans and borrowings - continued

Reconciliation of movement in net debt

Net debt is a measure that shows the amount we owe to banks and other external financial institutions less the cash that we have and any short-term deposits. Some of our Eurobond borrowings are held as financial liabilities at fair value through the income statement. The fair value movement on these liabilities is shown under non-cash movements in the tables below.

For period ended 1 January 2022	Start of period	Non cash movements		Cash flow	End of period
		New leases	Other		
Interest-bearing loans and borrowings:					
- current	(16)	-	-	(164)	(180)
- non-current	(803)	-	5	2	(796)
Lease liabilities					
- current	(191)	(34)	(198)	213	(210)
- non-current	(1,234)	(210)	138	-	(1,306)
Total Debt	(2,244)	(244)	(55)	51	(2,492)
Group cash:					
- cash & overdrafts	269	-	-	(213)	56
Group Net Debt	(1,975)	(244)	(55)	(162)	(2,436)

For period ended 2 January 2021	Start of period	Non cash movements		Cash flow	End of period
		New leases	Other		
Interest-bearing loans and borrowings:					
- current	(200)	-	(54)	238	(16)
- non-current	(803)	-	-	-	(803)
Lease liabilities					
- current	(193)	(15)	(188)	205	(191)
- non-current	(1,277)	(99)	142	-	(1,234)
Total Debt	(2,473)	(114)	(100)	443	(2,244)
Group cash:					
- cash & overdrafts	308	-	-	(39)	269
Group Net Debt	(2,165)	(114)	(100)	404	(1,975)

Details of the Group's bank facilities are shown in Note 29.

Notes to the financial statements continued

21 Interest-bearing loans and borrowings - continued

Terms and repayment schedule

The 2026 £350m 7.5% bond has an original value of £350m (carrying amount of £381m). This bond has been paying an additional 1.25% coupon since 8 July 2013 following the downgrade of the Group's credit rating to sub-investment grade. On maturity this bond will be repaid at par.

The Group also has two subordinated debt instruments in issue - £109m 11% final repayments notes due 2025 and £20m 11% instalment repayment notes, final repayment 2025. As at 1 January 2022 the £109m 11% final repayments notes had an outstanding value of £109m. The £20m 11% instalment repayment notes had an outstanding value of £9m.

The Group issued a £300m Sustainability Bond in May 2019. The bond is repayable in May 2024 and has an interest rate of 5.125%. As at 1 January 2022 (and as at 2 January 2021), the bond proceeds had been fully allocated against the cost of purchasing Fairtrade products for resale.

The £400m revolving credit facility (RCF) facility now matures in September 2024, following the exercise of the Group's second extension option in September 2021. The RCF has been agreed on a sustainable basis with rates of interest linked to the Group's CO2 emission targets.

Further details of the Group's remaining banking facilities are given in Note 29.

Corporate investor shares

Corporate investor shares represent borrowings the Group has with other co-operative societies. The borrowings are split into Variable Corporate Investor Shares (VCIS) and Fixed Corporate Investor Shares (FCIS). The VCIS are repayable on demand and the FCIS are fixed term borrowings.

Accounting policies

The Group measures its interest-bearing loans and borrowings in two main ways:

1) Fair value through the income statement. Debt is restated as its fair value each period with the fair value movement going through the income statement. The hedged portion of the Eurobond quoted debt is accounted for in this way. This is because the Group has used interest rate swaps to hedge the impact of movements in the interest rate and the movement in the fair value of the quoted debt is partially offset by the fair value movement in the interest rate swaps (notes 6, 7 and 30). The un-hedged portion of the Eurobond quoted debt is accounted for at amortised cost in accordance with IFRS 9. This approach applies to those borrowings taken out prior to the adoption of IFRS 9 in 2018. Any subsequent borrowings are measured at amortised cost as noted below.

2) Amortised cost. Borrowings are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. The effective interest rate is calculated when borrowings are first taken out and is the rate that exactly discounts the estimated future cash payments associated with the borrowings to the value when they are initially recognised.

For more general information on accounting policies on financial instruments, refer to Note 29.

Notes to the financial statements continued

22 Trade and other payables

What does this show? This note shows how much we owe, and includes amounts we owe to suppliers for goods and services we've bought, as well as taxes we owe and other sundry liabilities.

	2021 £m	2020 £m
Current	1,472	1,747
Non-current	44	214
	1,516	1,961

	2021 £m	2020 £m
Trade payables	1,013	1,118
Value Added Tax, PAYE and social security	16	42
Accruals	317	425
Deferred income	66	79
Deferred consideration	6	38
Other payables	98	259
	1,516	1,961

Further details on the maturity profile of trade and other payables can be found in Note 28.

Deferred income includes £55m (2020: £78m) in relation to the 13 year marketing and distribution arrangement entered into with Markerstudy following the sale of our Insurance underwriting business (CISGIL). Accruals includes capital expenditure accruals of £52m (2020: £85m), payroll accruals of £110m (2020: £127m) as well as standard cost accruals of £155m (2020: £213m).

Deferred consideration includes £6m (2020: £38m) in respect of the Nisa acquisition and is contingent on the level of trade that passes through Nisa.

Other payables also includes £30m (2020: £30m) of rewards earned through our membership offer that have either not been redeemed by members or have not yet been paid out to local causes. During the year a £1m charge (2020: £1m release) of member reward earned has been charged / written back to the income statement in line with a prudent assessment of the likelihood that members won't redeem their rewards. In the prior year; Other payables included an amount owed to The Co-operative Bank of £147m in respect of historic group relief and this liability has been settled in full during the year (see Note 6 for further details).

The Group operates a supplier financing arrangement with Prime Revenue, under which suppliers can obtain accelerated settlement on invoices from the finance providers signed up to the programme. The Group settles these amounts in accordance with each supplier's agreed payment terms. The Group's trade creditors balance includes £33m (2020: £57m) relating to payments due to Co-op suppliers under these arrangements. During the year ended 1 January 2022, the maximum facility was £120m.

Accounting policies

Refer to Note 29 Financial instruments for the accounting policies relating to trade payables.

Notes to the financial statements continued

23 Contract liabilities

What does this show? When a customer buys a funeral plan from us we invest the money they give us and we recognise that we have an obligation to provide a funeral in the future. We include a liability on our balance sheet for this and we recognise an effective interest charge on the monies received from a customer in each year until the plan is redeemed at which point the revenue is recognised as the total of the monies received from the customer and the interest charged. This note shows these liabilities and how they have changed during the period. Further detail on our accounting policy for funeral plans is given in Note 29.

	2021 £m	2020 £m
Contract liabilities - Funeral plans	1,778	1,737
Current	164	167
Non-current	1,614	1,570
	1,778	1,737

Contract liabilities - Funeral plans comprise £1,366m (2020: £1,309m) relating to fully paid plans, £253m (2020: £214m) on instalment plans and £159m (2020: £214m) of deferred income. Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £348m (2020: £261m). This relates to 65,754 live plans (2020: 52,095 live plans). Refer to Note 29 for further details of the accounting policies for funeral plans, contract liabilities and LCIPs.

Contract Liabilities:	2021 £m	2020 £m
Opening contract liabilities	1,737	1,641
New plan additions	98	96
Interest accruing on funeral plan liabilities	61	60
Transferred from Contract assets in respect of membership discount (see Note 18)*	(24)	-
Plans cancelled or redeemed outside of the Group	(49)	(6)
Recognised as revenue in the period	(45)	(54)
Closing contract liabilities	1,778	1,737

*During the year we reassessed the treatment of the discount given to our members on inception of a plan and now classify them as a reduction against the contract liability (in the table above) whereas previously they were held as contract assets (Note 18).

Notes to the financial statements continued

24 Provisions

What does this show? We recognise a provision when a liability has been incurred but there is some uncertainty about when the liability will be settled or how much it may cost us. This note provides an analysis of our provisions by type, and shows how the value of each provision has changed during the period.

		2021	2020
		£m	£m
Non-current		74	85
Current		52	46
		126	131

2021	Uninsured claims £m	Property provisions £m	Restructuring & integration £m	Regulatory / other £m	Total £m
At beginning of the period	40	67	7	17	131
Credit to income statement	(6)	(12)	(2)	(4)	(24)
Charge to income statement	24	27	19	3	73
Payments	(21)	(9)	(21)	(2)	(53)
Transfer to payables	-	(1)	-	-	(1)
At end of the period	37	72	3	14	126

2020	Uninsured claims £m	Property provisions £m	Restructuring & integration £m	Regulatory / other £m	Total £m
At beginning of the period	38	94	11	14	157
Credit to income statement	(3)	(16)	(5)	(2)	(26)
Charge to income statement	24	35	6	7	72
Discounting	-	1	-	-	1
Payments	(19)	(47)	(5)	(1)	(72)
Transfer to payables	-	-	-	(1)	(1)
At end of the period	40	67	7	17	131

Critical accounting estimates and judgements

Uninsured claims

This provision relates to potential liabilities arising from past events which are not covered by insurance. It includes a wide variety of known claims and potential claims from accidents in our depots and stores. The provision includes an assessment, based on historical experience, of claims incurred but not reported at the period end. The claims are expected to be settled substantially over the next three years.

Property provisions

Property provisions are held for onerous contractual obligations for leasehold properties that are vacant or not planned to be used for ongoing operations. The provisions represent the least net cost of exiting from the contracts. Provisions include an assessment of dilapidation and return of lease obligations, and other service costs that are explicitly excluded from the measurement of lease liabilities in accordance with IFRS 16. The Group considers that where it has entitlement to possession of a property, even if vacant, it retains a statutory obligation to pay the related business rates that have been determined to be levies as defined in IFRIC 21. Accordingly, the estimate of the least net costs of exiting from the contracts excludes future business rates of £24m, which instead under IFRIC 21 are recognised when the event that triggers the payment of the levy arises (as a periodic cost). Property provisions are expected to be utilised over the remaining periods of the leases which range from 1 to 97 years.

Restructuring and integration

Provisions of £5m were recognised in 2020 following the sale of our insurance underwriting business (CISGIL) on 3 December 2020. The expected costs reflected latest estimates of programme delivery costs associated with the sale and £2m has been incurred in 2021. Provisions of £17m (2020: £nil) relating to organisational changes to colleague structures within our food store teams (under the Fit for Future programme) have been recognised in the period with £nil remaining at 1 January 2022. The remaining provisions are expected to be utilised within one year.

Regulatory / other

This provision relates to costs from a number of past events that are expected to be incurred within the next one to three years. Typically, these cover potential legal or regulatory claims.

Accounting policies

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements continued

Section D - other notes to the accounts

This section (notes 25 - 34) contains additional notes to the accounts.

25 Members' share capital and reserves

What does this show? This note shows the amounts our members have paid to become owners of the business and provides information on their rights as shareholders. It also shows our reserves which, together with our share capital, form the total capital resources of the business.

	2021 £m	2020 £m
Individual shares of £1 each	65	65
Corporate shares of £5 each	9	9
Share capital	74	74
Other reserves	6	1
Retained earnings	2,859	2,594
Total Retained earnings and Other reserves	2,865	2,595
Total Capital resources	2,939	2,669

Members' share capital (Issued and paid-up value)

Members' share capital is made up of corporate and individual shares. The rights attached to shares are set out in the Society's rules. Shares held by Independent Society Members (corporate shares) are not withdrawable and are transferable only between Independent Society Members with the consent of the Society's Board. Shares held by individual members (individual shares) are withdrawable on such period of notice as the Society's Board may from time to time specify. IFRIC 2 (Members' Shares in Co-operative Entities and Similar Instruments) determines the features that allow shares to be classified as equity capital. As the Board has an unconditional right to refuse redemption of both classes of shares, both corporate and individual shares are treated as equity shares.

Both classes of share maintain a fixed nominal value with corporate shares attracting a limited rate of interest. Under the Society's current rules, voting for Independent Society Members is in proportion to trade with the Society, with Independent Society Members totalling 21.9% (2020: 21.9%) of the vote at the Annual General Meeting. Each individual member has one vote with individual members totalling 78.1% (2020: 78.1%) of the vote at the Annual General Meeting.

For individual shares, new members are required to contribute a minimum of £1 when they join the Society. Each member has 1 individual share although contributions of up to £100,000 per member are allowed. No interest is earned on member capital. Members can withdraw money from their share account upon request (to a minimum of £1) or they can withdraw their £1 when they leave the Society. Share capital increased by £0.4m in the period being the net of new member contributions of £0.5m and withdrawals of £0.1m. There are 17.0m individual member records on the share register.

Notes to the financial statements continued

25 Members' share capital and reserves - continued

Other reserves (2021)	Revaluation Reserve £m	Total £m
Balance at 2 January 2021	1	1
Gain on revaluation of right-of-use assets prior to transfer to Investment property*	5	5
Balance at 1 January 2022	6	6

Other Reserves (2020)	Revaluation Reserve £m	Investments held at FVOCI £m	Total £m
Balance at 4 January 2020	1	14	15
Gains less losses on fair value of insurance assets	-	6	6
Fair value gains on insurance assets transferred to the income statement	-	(2)	(2)
Disposal of CISGIL	-	(18)	(18)
Balance at 2 January 2021	1	-	1

Revaluation reserve - property, plant and equipment

This reserve relates to the surplus created following the revaluation of certain assets in previous periods. Any surplus relating to a revalued asset is transferred to retained earnings at the point the asset is disposed of.

* During the year, we reviewed how we identify Investment properties and reclassified £28m from Right-of-use assets (Note 12) to Investment properties (see Note 26). Prior to the transfer from right-of-use-assets a £5m uplift to fair value was recorded through other comprehensive income.

Investments held at fair value through other comprehensive income (FVOCI)

We sold our Insurance underwriting business (CISGIL) on 3 December 2020. Prior to disposal CISGIL held certain debt securities as investments at fair value through other comprehensive income. Subsequent valuation was at fair value with differences between fair value and carrying value recognised in other comprehensive income as they arise. The balance of this reserve has been disposed of as part of the sale of CISGIL and the Group no longer holds any investments at FVOCI.

Distribution of reserves in the event of a winding-up

The Society's rules state that any surplus in the event of a winding-up shall be transferred to one or more societies registered under the Co-operative and Communities Benefit Act 2014. Such societies must be a member of Co-operatives UK Limited and have the same or similar rule provisions in relation to surplus distribution on a dissolution or winding-up as we have. If not transferred to another society in this way, the surplus shall be paid or transferred to Co-operatives UK Limited to be used and applied in accordance with co-operative principles.

Capital management

The Group defines capital as its share capital and reserves. The Group's policy is to maintain a strong base and to be more prudent than industry 'normal' levels as it is not able to raise equity externally. The Group still recognises the need to maintain a balance between the potential higher returns that might be achieved with greater borrowing levels and the advantages and security coming from a sound capital position.

The Group manages capital to make sure we have the right balance between investing in the future growth of the Group and making member and community payments. Following the launch of the membership offer in 2016, the Group has made payments to members and communities of £40m in 2021 (2020: £58m). See Note 33 for more details. It has also invested in future growth through cash capital expenditure additions of £325m (2020: £313m) and still kept within its net debt limits. Total member funds increased during the period by £270m (2020: decreased £16m).

Notes to the financial statements continued

26 Investment properties

What does this show? We own properties that we don't occupy or trade from and which we rent out to generate income or hold for capital growth. These properties are revalued at each period end and this note shows how that valuation has changed during the year as well as showing other changes in our investment property holdings.

	2021 £m	2020 £m
Valuation at beginning of period	17	16
Disposals	(9)	-
Reclassification from Property, plant and equipment (Note 11)*	5	-
Reclassification from Right-of-use assets (Note 12)*	28	-
Revaluation gain recognised in the Consolidated income statement	9	1
Revaluation gain recognised in the Consolidated statement of comprehensive income**	5	-
Valuation at end of period	55	17

*During the year, we reviewed how we identify Investment properties and have reclassified £5m of assets from Property, plant and equipment (Note 11) and £28m from Right-of-use assets (Note 12) to Investment properties.

**Prior to the transfer from Right-of-use-assets a £5m uplift to fair value was recorded through the Consolidated statement of comprehensive income.

Accounting policies

Properties held for long-term rental yields that are not occupied by the Group or properties held for capital growth are classified as investment property. Investment properties are freehold land and buildings and Right-of-use assets. These are carried at fair value which is determined by either independent valuers or internally each year on a three-year cyclical basis in accordance with the RICS Appraisal and Valuation Manual. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement.

If we start to occupy or trade from one of our investment properties, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. Other disclosures required by IAS 40 (Investment Properties) are not considered to be material.

Notes to the financial statements continued

27 Pensions

What does this show? This note provides information about our pension schemes. It explains the types of pension scheme we have, the assets and liabilities they hold, the assumptions used in valuing the pension schemes and the key risks faced in connection with the schemes.

	2021 £m	2020 £m
Pension schemes in surplus	2,262	1,931
Pension schemes in deficit	(4)	(77)
Closing net retirement benefit surplus	2,258	1,854

Defined benefit (DB) plans

The Group operates three funded DB pension schemes all of which are closed to future accrual. This means that colleagues can no longer join or earn future benefits from these schemes. The assets of these schemes are held in separate trustee-administered funds to meet future benefit payments.

The Group's largest pension scheme is the Co-operative Group Pension Scheme ('Pace') which accounts for approximately 85% of the Group's pension assets. The DB section of Pace ('Pace Complete') closed to future service accrual on 28 October 2015. Further information about Pace is set out below.

Defined contribution (DC) plans

Since the closure of the DB schemes, the Group provides all colleagues with DC pension benefits through the DC section of Pace. Colleagues are able to select the level of contributions that they wish to pay. The contribution paid by the Group varies between 1% and 10% of pensionable salary depending on the contribution tier that the scheme member has selected.

Contributions are based on the scheme member's basic pay plus any earnings in respect of overtime, commission and shift allowance.

The Pace DC section provides benefits based on the value of the individual colleague's fund built up through contributions and investment returns. The Group has no legal or constructive obligation to pay contributions beyond those set out above. There is therefore no balance sheet items for DC pension benefits except for any accrued contributions.

Balance sheet position for DB plans

The table below summarises the net surplus in the balance sheet by scheme:

	Net 2021 £m	Net 2020 £m
Schemes in surplus		
The Co-operative Group Pension Scheme (Pace)	2,087	1,854
Somerfield Pension Scheme	108	71
United Norwest Co-operatives Employees' Pension Fund	67	0
Yorkshire Co-operatives Limited Employees' Superannuation Scheme*	-	6
Total schemes in surplus	2,262	1,931
Schemes in deficit		
United Norwest Co-operatives Employees' Pension Fund	-	(43)
The Plymouth and South West Co-operative Society Limited Employees' Superannuation Fund*	-	(29)
Other unfunded obligations	(4)	(5)
Total schemes in deficit	(4)	(77)
Total schemes	2,258	1,854

* In March 2021 the Yorkshire and Plymouth funds merged both their assets and liabilities into Pace. Further info is detailed overleaf.

Recognition of accounting surplus

Any net pension asset disclosed represents the maximum economic benefit available to the Group in respect of its pension obligations. The Group has carried out a review of the provisions for the recovery of surplus in its pension schemes. This review concluded that the Group can recoup the benefits of the surplus via a right to refunds and this is reflected in the balance sheet position.

Notes to the financial statements continued

27 Pensions continued

Events arising during the year - Mergers of Plymouth and Yorkshire Schemes into Pace

During March 2021 the Plymouth and Yorkshire funds merged into the Pace scheme, effectively meaning these two Schemes had all their assets and liabilities transferred into Pace, with the two transferring schemes being wound up. As a consequence the Co-op was no longer required to pay deficit contributions in respect of the Plymouth and Yorkshire schemes; the combined Pace funding surplus, post merger, meant that any deficit contributions in respect of the Plymouth and Yorkshire Schemes were stopped with immediate effect.

Events arising during the year - Trivial commutation and Small pots exercises

During 2021 both Pace and United carried out trivial commutation exercises, whilst Somerfield carried out a small pots exercise. These exercises involved writing out to members with very small benefits to offer them a one off lump sum payment in lieu of future pension payments. Across the three schemes the take up rate was c3,000 members opting to take the lump sum with a total value paid out of c£60m. The impact of these exercises is a settlement gain of £2m and a resulting interest cost remeasurement gain of £3m. Together these result in a net P&L gain of £5m.

Events arising during the prior year - Revisiting historic transfer values to account for GMP Equalisation

In 2018 an allowance was made in the accounts in respect of revisiting Guaranteed Minimum Pensions (GMPs) in light of the judgement on the back of the Lloyds case. A second hearing in November 2020 concluded that schemes must top-up past transfer payments paid since 17 May 1990 that failed to take account of the obligation to equalise for GMPs. In the prior year a charge of £3m was made and included within one off items in the Consolidated income statement.

Pace - nature of scheme

As Pace represents around 85% of the Group's pension assets, further information has been included on Pace below. As all of the DB schemes will be exposed to similar risks to Pace, we have not provided additional commentary on each scheme. Benefits accrued in Pace between 6 April 2006 and 28 October 2015 are calculated based on an individual's average career salary. Benefits accrued prior to 6 April 2006 are linked to final salary until scheme members end their pensionable service.

Pace - funding position

A valuation of the Co-op section of Pace DB was carried out as at 5 April 2019, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The results of the valuation showed that the Co-op section of Pace DB had a surplus of £907m. On completion of the actuarial valuation in July 2020 the Group and the Trustee agreed that no contributions would be required.

Pace - multi-employer provisions following sectionalisation

Pace is a multi-employer scheme but following sectionalisation of the scheme in 2018, the Group accounts only for the Co-op section of Pace. CFSMS, a subsidiary of the Group, participates in the Co-op's section with a material share of accrued DB obligations. There are other participating employers in the Group section which include Group subsidiaries, non-associated and associated entities, but these do not have a material share. Non-associated entities account for pension contributions in respect of the scheme on a DC basis.

As a multi-employer pension scheme, Pace exposes the participating employers to the risk of funding the pension obligations associated with the current and former colleagues of other participating employers. The sectionalisation of Pace largely removes The Co-operative Bank's (the 'Bank's) 'last man standing' obligation to the rest of the Pace scheme but an obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section's pension liabilities. The Bank element of Pace is fully funded on both an IAS 19 accounting and a statutory funding basis. At 31 December 2021, the Bank reported an overall defined benefit pension scheme surplus of £833m (2020: £643m). This included £601m (2020: £509m) in relation to the Pace scheme consisting of assets of £2,129m (2020: £2,169m) and liabilities of £1,528m (2020: £1,660m). Given this surplus position then the 'last man standing' risk for the Group is very limited.

Legislative framework for DB schemes - pension scheme governance

As required by UK legislation, the Group's three DB schemes are run by Trustee boards which operate independently from the Group. The Trustees are responsible for the development and implementation of appropriate policies for the investment of the scheme assets and for negotiating scheme funding with the Group. The Trustees consult with the Group in developing investment strategy and delegates the responsibility for implementing and monitoring the strategy to Investment Committees.

Each Trustee board has at least one professional Trustee and there is also a requirement for the boards to have some member representation. The Pace Trustee Board is made up of three professional independent Trustee Directors appointed by the Group and a further professional Independent Trustee Director appointed by the Bank. Other Trustee Boards are made up of professional independent Trustee Directors, Co-op appointed Trustee Directors and Member Nominated Directors elected by scheme members. The Chair is appointed by the Trustee Directors.

Legislative framework for DB schemes - scheme funding regime

Under the scheme specific funding regime established by the Pensions Act 2004, trustees of DB pension schemes have to undertake a full actuarial valuation at least every three years. The purpose of the valuation is to determine if the scheme has sufficient assets to pay the benefits when these fall due. The valuation targets full funding (scheme assets equal to the value of pension liabilities) against a basis that prudently reflects the scheme's risk exposure. The basis on which DB pension liabilities are valued for funding purposes differs to the basis required under IAS19. The Group may therefore be required to pay contributions to eliminate a funding shortfall even when a surplus is reported in the IAS19 disclosure.

Any shortfall in the assets directly held by the Group's DB schemes, relative to their funding target, is financed over a period that ensures the contributions are reasonably affordable to the Group.

Notes to the financial statements continued

27 Pensions continued

Legislative framework for DB schemes - scheme funding regime continued

Deficit contributions over the 2021 financial year totalled £27m (with £16.9m pa paid from October 2021 onwards). Deficit contributions to Pace and Somerfield have now ceased but contributions are still required to the United scheme. All schemes target a more prudent level of funding than the target stipulated under IAS19 which is included in these financial statements. Therefore the funding levels are not comparable and it is possible to have a surplus under IAS19 and yet still be required to pay deficit contributions. We also cannot use a surplus in one scheme to offset the requirement to pay cash contributions to fund a deficit in another scheme. In 2022, deficit contributions will continue at a rate of £16.9m (2021: £25m) until the point at which the United scheme becomes fully funded.

The average duration of the liabilities is approximately 21 years. The benefits expected to be paid from the schemes take the form of a cash lump sum paid at retirement followed by a stream of pension payments.

The effective date of the last full valuations of the schemes are shown below:

The Co-operative Pension Scheme ('Pace')	5 April 2019
Somerfield Pension Scheme ('Somerfield Scheme')	31 March 2019
United Norwest Co-operatives Employees' Pension Fund ('United Fund')	31 January 2020

Risks associated with DB pension schemes

The liability associated with the pension schemes is material to the Group, as is the cash funding required. The Group and Trustees work together to address the associated pension risk - in particular, steps have been taken to significantly reduce the investment risk in the schemes.

The key risks in relation to the DB schemes are set out below, alongside a summary of the steps taken to mitigate the risk:

Risk description	Mitigation
Risk of changes in contribution requirements - When setting the contributions that are paid to a scheme, the Group and Trustee are required to consider the funding level at a specified valuation date. The funding level at future valuation dates is uncertain and this leads to uncertainty in future cash requirements for the Group.	The closure of the DB schemes has reduced the exposure of the Group to changes in future contributions, as has the merger of Yorkshire and Plymouth into Pace. In addition, the Group and Trustee have taken steps to reduce the volatility of the funding level (as set out below). The Group monitors the funding level of the schemes in order to understand the likely outcome of valuations and the Trustee is required to obtain agreement from the Group to funding assumptions and deficit recovery contributions.
Interest rate risk - Pension liabilities are measured with reference to yields on bonds, with lower yields increasing the liabilities. The schemes are therefore exposed to the risk of falls in interest rates.	All of the schemes invest in liability-driven investment (LDI) products which increase (decrease) in value when yields on government bonds fall (rise), providing protection against interest rate risk. Across all schemes, approximately 95% of the liability is currently protected from movements in yields on government bonds. LDI involves investing in assets which are expected to generate cashflows that broadly mirror expected benefit payments from the scheme.
Risk associated with volatility in asset value - The market value of the assets held by the pension schemes, particularly the assets held in return-seeking assets such as equity, can be volatile (and, for example, may be affected by environmental, social or corporate governance ("ESG") failures at investee companies and/or sovereign states - including the physical and transition risks of climate change). This creates a risk of short-term fluctuations in funding level.	This risk has been mitigated by reducing the exposure of the pension schemes to those asset classes which have the most volatile market values. In particular, the schemes have limited allocation to return-seeking assets such as equity. Analysis undertaken by the Pace Trustee shows that the low risk investment strategy of Pace DB means the exposure of the scheme's assets to climate risk is limited. In addition, the Trustees of the Co-op's pension schemes have responsible investment policies in place, and aligned with those policies exclude specific investments (where appropriate and viable). Management of ESG risks is considered when appointing investment managers and in their ongoing monitoring, and the schemes' equity assets are explicitly managed with a consideration of such risks, including climate change.
Inflation risk - Many of the benefits paid by the schemes are linked to inflation. Therefore, the pension liabilities reflect expectations of future inflation with higher inflation leading to higher liabilities.	All of the schemes invest in liability driven investment products which increase (decrease) in value when expectations of future inflation rates increase (fall), thus providing protection against inflation risk. Across all schemes, approximately 95% of the liability is currently protected from movements in inflation.
Risk associated with changes in life expectancy - Pensions paid by the schemes are guaranteed for life, and therefore if members are expected to live longer, the liabilities increase.	All of the schemes' funding targets incorporate a margin for prudence to reflect uncertainty in future life expectancy. During 2020, the Group reduced its exposure to longevity risk in the Pace Scheme via three separate pensioner insurance buy-in contracts.

Notes to the financial statements continued

27 Pensions continued

Critical accounting estimates

For IAS 19 disclosure purposes, DB obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

Financial assumptions	2021	2020
Discount rate	1.90%	1.47%
RPI Inflation rate	3.48%	3.10%
Pension increases in payment (RPI capped at 5% p.a.)	3.37%	3.04%
Future salary increases	3.73%	3.35%

The discount rate has been derived by reference to market yields on sterling-denominated high quality corporate bonds of appropriate duration consistent with the schemes at that date.

Demographic assumptions

The Group has used best estimate base mortality tables which reflect the membership of each scheme. Allowance has been made for future improvements in line with the Continuous Mortality Investigation (CMI) 2020 projections and a long-term future improvement rate of 1.25% p.a. (2020: CMI 2019 1.25% p.a.). The actuaries considered no adjustment necessary in respect of COVID experience.

For illustration, the average life expectancy (in years) for mortality tables used to determine scheme liabilities for Pace is as follows. These are broadly similar to the life expectancies used for other schemes.

Life expectancy from age 65	2021	2020
Male currently aged 65 years	21.0	21.0
Female currently aged 65 years	23.4	23.4
Male currently aged 45 years	22.0	22.0
Female currently aged 45 years	24.7	24.6

Sensitivities

The measurement of the Group's DB liability is particularly sensitive to changes in certain key assumptions, which are described below. The methods used to carry out the sensitivity analysis presented below for the material assumptions are the same as those the Group has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will also increase. However, it enables the reader to isolate one effect from another. It should also be noted that because of the interest rate and inflation hedges, changes in the liability arising from a change in the discount rate or price inflation would be expected to be largely mitigated by a change in assets. It's impossible to predict future discount rates or inflation with any real certainty and so the sensitivities shown are for illustration purposes only and in reality more significant movements could be experienced.

Sensitivities	2021 £m	2020 £m
Change in liability from a 0.1% increase in discount rate	(176)	(197)
Change in liability from a 0.1% decrease in RPI inflation	(122)	(147)
Change in liability from a 0.25% increase in long-term rate of longevity improvements	122	129

Changes in the present value of the defined benefit obligation (DBO)	2021 £m	2020 £m
Opening defined benefit obligation	9,854	9,304
Interest expense on DBO	157	179
Remeasurements:		
a. Effect of changes in demographic assumptions	(42)	22
b. Effect of changes in financial assumptions	(316)	958
c. Effect of experience adjustments	(57)	(251)
Past service costs	-	3
Settlements (trivial commutation exercises)	(2)	-
Benefit payments from plan	(400)	(361)
Closing defined benefit obligation	9,194	9,854

Notes to the financial statements continued

27 Pensions continued

Changes in the fair value of the plan assets	2021 £m	2020 £m
Opening fair value of plan assets	11,708	11,168
Interest income	187	216
Return on plan assets (excluding interest income)	(65)	646
Administrative expenses paid from plan assets	(5)	(5)
Employer contributions	27	44
Benefit payments from plan	(400)	(361)
Closing fair value of plan assets	11,452	11,708

The fair value of the plan assets at the period end were as follows. The assets have been split to show those which have a quoted market price in an active market and those which are unquoted.

	2021	2021	2021	2020	2020	2020
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equity instruments	197	-	197	276	-	276
Liability driven investments	4,304	-	4,304	4,139	-	4,139
Real estate	-	-	-	17	-	17
Investment grade credit	2,978	-	2,978	3,014	-	3,014
Illiquid / other credit	-	1,300	1,300	-	1,377	1,377
Alternative investments**	-	351	351	-	374	374
Cash and cash equivalents*	63	28	91	69	1	70
Insurance buy-in contracts*	-	2,231	2,231	-	2,441	2,441
Fair value of plan assets	7,542	3,910	11,452	7,515	4,193	11,708

*The cash and cash equivalents figures in the prior year have been represented in the table above such that the Insurance buy-in contracts value is now shown separately (whereas previously they were disclosed as combined within the unquoted column of cash and cash equivalents line). The impact of the representation is shown in our Accounting Policies and basis of preparation (see page 191). The insurance buy-in contracts are in respect of Pace and Somerfield £2,231m (2020: £2,441m).

**Alternative investments consist of private equity, private debt and inflation-linked property.

Amounts recognised in the balance sheet	2021 £m	2020 £m
Present value of funded obligations	(9,190)	(9,849)
Present value of unfunded liabilities	(4)	(5)
Fair value of plan assets	11,452	11,708
Net retirement benefit asset	2,258	1,854

Amounts recognised in the income statement and other comprehensive income	2021 £m	2020 £m
Interest expense on defined benefit obligations	(157)	(179)
Interest income on plan assets	187	216
Administrative expenses and taxes	(5)	(5)
Settlements (trivial commutation exercises)	(2)	-
Past service cost	-	(3)
Total recognised in the income statement	23	29
Remeasurement losses on employee pension schemes	350	(83)
Total recognised in other comprehensive income	350	(83)
Total	373	(54)

Notes to the financial statements continued

27 Pensions continued

Accounting policies

The Group operates various defined contribution and defined benefit pension schemes for its colleagues as stated above. A defined contribution scheme is a pension plan under which the Group pays pre-specified contributions into a separate entity and has no legal or constructive obligation to pay any further contributions. A defined benefit scheme is a pension plan that defines an amount of pension benefit that a colleague will receive on retirement. In respect of the defined benefit pension scheme, the pension scheme surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The calculation of the defined benefit obligations is performed annually by qualified actuaries (and half-yearly for Pace) using the projected unit credit method. Plan assets are recorded at fair value. When the calculation results in a potential asset for the Group, the recognised asset reflects the present value of the economic benefits that will arise from the surplus in the form of any future refunds from the plan or reductions in future contributions to the plan. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Remeasurements of the surplus / liability of each scheme (which comprise actuarial gains and losses and asset returns excluding interest income) are included within other comprehensive income. Net interest expense and other items of expense relating to the defined benefit plans are recognised in the income statement. Administrative costs of the plans are recognised in operating profit. Net interest expense is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined asset / liability at that point in time taking into account contributions within the period.

Notes to the financial statements continued

28 Financial risk management

What does this show? This note explains the main financial risks we face and how we manage them. These include: credit risk, interest rate risk, foreign currency risk and liquidity risk.

Financial risk management

The main financial risks facing the Group are set out below. Overall Group risks and the strategy used to manage these risks are discussed in the Principal Risks and Uncertainties section on pages 45 - 49.

Credit risk

Credit risk arises from the possibility of customers and counterparties failing to meet their obligations. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The Group does not require security in respect of financial assets. The majority of businesses in the Group have cash-based rather than credit-based sales and so customer credit risk is relatively small.

Co-op will ensure that it earns an appropriate return on its invested cash, whilst ensuring that there is minimal risk over the security of that cash. Investments are only allowed with the Group's syndicate banks or counterparties that have a credit rating of Investment Grade. Transactions involving derivative financial instruments are with counterparties with whom the Group has signed an ISDA agreement (a standard contract used to govern all over-the-counter derivatives transactions) as well as sound credit rating (as per Treasury Policy). Given the policy on credit ratings, management has no current reason to expect that any counterparty will fail to meet its obligations.

Funeral Plan funds are invested in whole-of-life insurance policies which pay out a lump sum when the insured person dies. Any provider of these policies to the Group must be authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. There are also some funds relating to plans taken out prior to 2002 that are held in interest-bearing trustee-administered bank accounts which can only be utilised to meet liabilities in respect of funeral plans.

At the balance sheet date there were no significant concentrations of credit risk. Information regarding the age profile of trade receivables is shown in Note 17. The carrying value of all balances that attract a credit risk, which represents the maximum exposure, is set out below:

	Carrying amount	Carrying amount	
		2021	2020
		£m	£m
Trade and other receivables (excluding prepayments and accrued income)	612	601	
Interest rate swaps	(2)	3	
Foreign exchange contracts and commodity swaps (net)	1	(1)	
Funeral plan investments	1,372	1,331	
Finance lease receivables	42	45	
Cash	60	269	

Interest rate risk and hedging

Interest rate risk arises from movements in interest rates that impact on the fair value of the assets and liabilities and related finance flows. The Group adopts a policy of ensuring that 50-90% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The fixed proportion as at 1 January 2022 was 69% (at 2 January 2021: 86%). Interest rate swaps, denominated exclusively in sterling, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. The swaps mature over the next five years following the maturity of the related bond and have fixed swap rates ranging from 0.10% to 0.72% (at 2 January 2021: 0.72% to 0.80%). At 1 January 2022, the Group had interest rate swaps with a notional contract amount of £105m (at 2 January 2021: £105m).

The Group does not designate interest rate swaps or forward foreign exchange contracts as hedging instruments. Derivative financial instruments that are not hedging instruments are classified as held for trading by default and so fall into the category of financial assets at fair value through the income statement. Derivatives are subsequently stated at fair value, with any gains and losses being recognised in the income statement. See Note 29.

The net fair value of swaps at 1 January 2022 was a net liability of £2m (2020: net asset of £3m) comprising assets of £nil (2020: £3m) and liabilities of £2m (2020: £nil). These amounts are recognised as fair value derivatives on the face of the Consolidated balance sheet.

In-line with the Group's strategic response to the risk of climate change the £400m revolving credit facility (RCF) has been agreed on a sustainable basis with rates of interest linked to the Group's CO2 emission targets. This arrangement demonstrates the Groups' commitment to tackling climate change through the alignment of this strategic goal to our financial performance.

Notes to the financial statements continued

28 Financial risk management continued

Foreign currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than sterling. The key currencies giving rise to this risk are Euros and US Dollars.

The Group manages the impact of market fluctuations on its currency exposures and future cash flows by undertaking rolling foreign exchange hedges. These are executed on a monthly basis in a layered approach based on forecast requirements.

In respect of other monetary assets and liabilities held in currencies other than sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

At 1 January 2022, the Group had forward currency transactions in Euros and US Dollars with a notional contract amount of £100m (2020: £89m).

Liquidity risk

This is the risk that the Group will not have sufficient facilities to fund its future borrowing requirements and will require funding at short notice to meet its obligations as they fall due. The Group's funding maturity profile is managed to ensure appropriate flexibility through a mix of short, medium and long term funding together with diversified sources of finance, at a reasonable cost, to meet the Group's needs.

As at 1 January 2022, the Group had available borrowing facilities totalling £1,168m (2020: £1,170m), which was made up of uncommitted facilities of £nil (2020: £nil) and committed facilities of £1,168m (2020: £1,170m). These are detailed below:

Bank facilities as at 1 January 2022	2021		2020	
	Expiry	£m	Expiry	£m
Sustainable Revolving Credit Facility	Sept 2024	400	Sept 2023	400
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	May 2024	300	May 2024	300
£109m 11% Final repayment subordinated notes due 2025	December 2025	109	December 2025	109
£20m Instalment repayment notes (final payment 2025)	December 2025	9	December 2025	11
£350m 7.5% Eurobond notes due 2026	July 2026	350	July 2026	350
		1,168		1,170

Notes to the financial statements continued

28 Financial risk management continued

The following are the maturities of financial liabilities as at 1 January 2022:

	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
	£m	£m	£m	£m	£m	£m	£m
Non-derivative financial liabilities							
£105m 7.5% Eurobond 2026 (fair value)	(123)	(105)	-	-	-	-	(105)
£245m 7.5% Eurobond 2026 (amortised cost)	(267)	(254)	-	(9)	-	-	(245)
£300m Sustainability Bond 2024 (amortised cost)	(301)	(302)	(2)	-	-	-	(300)
£109m 11% Final repayment subordinated notes 2025	(109)	(109)	-	-	-	-	(109)
£20m Instalment repayment notes (final payment 2025)	(9)	(9)	-	(2)	(2)	(5)	-
Lease liabilities	(1,516)	(2,011)	(99)	(97)	(187)	(507)	(1,121)
Trade and other payables	(1,516)	(1,516)	(1,376)	(54)	(40)	(15)	(31)

The following are the maturities of financial liabilities as at 2 January 2021:

	Carrying amount	Contractual cash flows	6 months or less	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years
	£m	£m	£m	£m	£m	£m	£m
Non-derivative financial liabilities							
£105m 7.5% Eurobond 2026 (fair value)	(128)	(105)	-	-	-	-	(105)
£245m 7.5% Eurobond 2026 (amortised cost)	(268)	(254)	-	(9)	-	-	(245)
£300m Sustainability Bond 2024 (amortised cost)	(300)	(302)	(2)	-	-	-	(300)
£109m 11% Final repayment subordinated notes 2025	(109)	(109)	-	-	-	-	(109)
£20m Instalment repayment notes (final payment 2025)	(11)	(11)	-	(2)	(2)	(7)	-
Lease liabilities	(1,425)	(1,948)	(91)	(90)	(179)	(489)	(1,099)
Trade and other payables	(1,961)	(1,961)	(1,685)	(64)	(23)	(62)	(127)

Sensitivity analysis

Interest rate risk

The valuations of the Group's quoted debt and interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. This is then adjusted by a +1% increase to the interest rate yield curve and a 1% reduction in the interest rate yield curve to show the impact of changes in interest rates on the value of our debt and swaps. At 1 January 2022 if sterling (GBP) market interest rates had been 1% higher / lower with all other variables held constant, there would have been no material impact to post-tax profit. Profit is generally less sensitive to movements in GBP interest rates due to the level of borrowings held at fixed rates as described in the Interest rate risk and hedging section.

Foreign exchange risk

At 1 January 2022 and 2 January 2021, if the Euro and US dollar had strengthened or weakened by 10% against sterling (GBP) with all variables held constant, there would have been no material impact to post-tax profit.

Guarantees

In the course of conducting its operations, the Group is required to issue bank guarantees and bonds in favour of various counterparties. These facilities are provided by the Group's banking syndicate and as at 1 January 2022 the total amount of guarantees / bonds outstanding is £8m (2020: £38m).

Notes to the financial statements continued

29 Financial instruments, derivatives and valuation of financial assets and liabilities

What does this show? This note shows how our financial assets and liabilities are valued, including our interest rate swaps.

Derivatives

Derivatives held for non-trading purposes for which hedge accounting has not been applied are as follows:

	2021			2020		
	Contractual/ notional amount	Fair value assets	Fair value liabilities	Contractual/ notional amount	Fair value assets	Fair value liabilities
	£m	£m	£m	£m	£m	£m
Interest rate swaps	105	-	(2)	105	3	-
Foreign exchange contracts	100	-	(3)	89	-	(1)
Commodity swaps (diesel)	22	4	-	14	-	-
Total recognised derivative assets / (liabilities)	227	4	(5)	208	3	(1)

The interest rate swaps mature in 2026 and as such are held in non-current liabilities. The majority of the foreign exchange contracts and diesel swaps mature within 1 year so are shown in current liabilities and current assets respectively.

The following summarises the major methods and assumptions used in estimating the value of financial instruments reflected in the annual report and accounts:

a) Financial instruments at fair value through the income statement

Investments in funeral plans

Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques (refer to accounting policy (section iv) of this note for further details).

Derivatives

Forward exchange contracts, such as the Group's interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. The Group's derivatives are not formally designated as hedging instruments but under IFRS 9 (Financial Instruments) they are used to match against a proportion of the Eurobond liabilities carried at fair value through the income statement, showing as a cost of £5m in 2021 (2020: £4m gain) see Note 7 (2020: Note 6).

Through our Co-op Power business the Group enters into forward contracts for the purchase of energy from third party suppliers for use by Co-op itself as well as by the customers of Co-op Power. Energy contracts for own use are not required to be accounted for as derivatives. Any part of the forward contracts that relate to volumes purchased on behalf of third parties are not accounted for as derivatives on the Group's balance sheet as we are not party to the forward contract between the supplier and the end customer. Co-op Power adopts a layered hedging procurement policy for energy contracts over a period of 3 years to a maximum of 80% of Co-op Group forecast demand. At the 2021 year end we had 80% (electricity) and 66% (gas) coverage of our forecast demand for 2022.

Fixed rate sterling Eurobonds

The fixed rate sterling Eurobond values are determined in whole by using quoted market prices.

b) Interest-bearing loans and borrowings - amortised cost

These are shown at amortised cost which presently equate to fair value or are determined in whole by using quoted market prices. Fair value measurement is calculated on a discounted cash flow basis using prevailing market interest rates.

c) Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial. For further details see the Accounting Policy section at the end of this note.

The table below shows a comparison of the carrying value and fair values of financial instruments for those liabilities not carried at fair value.

Financial liabilities	Carrying value 2021 £m	Fair value 2021 £m	Carrying value 2020 £m	Fair value 2020 £m
Interest-bearing loans and borrowings	853	915	691	769

Notes to the financial statements continued

29 Financial instruments, derivatives and valuation of financial assets and liabilities continued

The table below analyses financial instruments by measurement basis:

2021	Fair value through income statement £m	Amortised cost £m	Loans and receivables £m	Total £m
Assets				
Other investments	1,372	-	-	1,372
Trade and other receivables	-	-	612	612
Derivative financial instruments	4	-	-	4
Cash and cash equivalents	-	56	-	56
Total financial assets	1,376	56	612	2,044
Liabilities				
Interest-bearing loans and borrowings	123	853	-	976
Derivative financial instruments	5	-	-	5
Trade and other payables	-	1,133	-	1,133
Total financial liabilities	128	1,986	-	2,114

2020	Fair value through income statement £m	Amortised cost £m	Loans and receivables £m	Total £m
Assets				
Other investments	1,331	-	-	1,331
Trade and other receivables	-	-	601	601
Derivative financial instruments	3	-	-	3
Cash and cash equivalents	-	269	-	269
Total financial assets	1,334	269	601	2,204
Liabilities				
Interest-bearing loans and borrowings	128	691	-	819
Derivative financial instruments	1	-	-	1
Trade and other payables	-	1,457	-	1,457
Total financial liabilities	129	2,148	-	2,277

The following table provides an analysis of financial assets and liabilities that are valued or disclosed at fair value, by the three-level fair value hierarchy as defined within IFRS 13 (Fair Value Measurement):

• Level 1	Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
• Level 2	Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
• Level 3	Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As pricing providers cannot guarantee that the prices they provide are based on actual trades in the market then all of the corporate bonds are classified as Level 2.

Notes to the financial statements continued

29 Financial instruments, derivatives and valuation of financial assets and liabilities continued

Valuation of financial instruments

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	-	-	1,372	1,372
- Derivative financial instruments	-	4	-	4
Total financial assets at fair value	-	4	1,372	1,376
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed rate sterling Eurobond	-	123	-	123
- Derivative financial instruments	-	5	-	5
Total financial liabilities at fair value	-	128	-	128

Funeral plan investments are classified as level 3 under the IFRS 13 hierarchy. Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs). The vast majority of our funeral plan investments are held in Whole of Life (WoL) insurance policies. The plan investments are financial assets which are recorded at fair value each period using valuations provided to Co-op by the policy provider. The plan values reflect the amount the policy provider would pay out on redemption of the policy at the valuation date with the main driver being underlying market and investment performance.

The value of the Eurobonds carried at amortised cost is disclosed in Note 21. The equivalent fair value for the unhedged proportion of bonds that are now carried at amortised cost would be £287m (2020: £296m) for the 2026 Eurobond.

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements. For other financial assets and liabilities of the Group including cash, trade and other receivables / payables then the notional amount is deemed to reflect the fair value.

2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	-	-	1,331	1,331
- Derivative financial instruments	-	3	-	3
Total financial assets at fair value	-	3	1,331	1,334
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed rate sterling Eurobond	-	128	-	128
- Derivative financial instruments	-	1	-	1
Total financial liabilities at fair value	-	129	-	129

Notes to the financial statements continued

29 Financial instruments, derivatives and valuation of financial assets and liabilities continued

Interest rates used for determining fair value

Third-party valuations are used to fair value the Group's bond and interest rate derivatives. The valuation techniques use inputs such as interest rate yield curves with an adequate credit spread adjustment.

Accounting policies

The Group classifies its financial assets as either:

- fair value through the income statement; or
- loans and receivables at amortised cost.

i) Recognition of financial assets

Financial assets are recognised on the trade date which is the date it commits to purchase the instruments. Loans are recognised when the funds are advanced. All other financial instruments are recognised on the date that they are originated. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value, with the exception of trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them. For financial assets which are not held at fair value through the income statement, transaction costs are also added to the initial fair value. Trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them are measured at the transaction price determined under IFRS 15 (Revenue from Contracts with Customers). See accounting policies for revenue and IFRS 15 in Note 2.

ii) Derecognition of financial assets and financial liabilities

Financial assets are derecognised (removed from the balance sheet) when:

- the rights to receive cash flows from the assets have ceased; or
- the Group has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market which we do not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently these are measured at amortised cost. The amortised cost is the initial amount at recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, less impairment provisions for incurred losses.

iv) Financial investments and instruments at fair value through the income statement

Funeral plans

When a customer takes out a funeral plan the initial plan value is recognised as an investment asset in the balance sheet and at the same time a liability is also recorded in the balance sheet representing the deferred income to be realised on performance of the funeral service covered by each of the funeral plans. The investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The plan investment is a financial asset, which is recorded at fair value each period through the income statement using valuations provided by the insurance policy provider or reflecting the trust cash balances. The performance obligation to deliver the funeral is treated as a contract liability (deferred income) under IFRS 15. The deferred amount is subject to adjustment to reflect a significant financing component which is charged to the income statement each period. The liability accretes interest in-line with the discount rate applied to the plan on inception. The discount rate applied is based on an estimated borrowing rate between the customer and the Group at the point the contract is entered into. The contract liability is held on the balance sheet as additional deferred income until the delivery of the funeral at which point the revenue is recognised.

Notes to the financial statements continued

29 Financial instruments, derivatives and valuation of financial assets and liabilities continued

Funeral benefit options (FBOs)

FBOs are attached to Guaranteed Over 50's life insurance plans (GOFs) sold by the Group's third party insurance partners. An FBO is the assignment of the sum-assured proceeds of a GOF policy to Funeralcare for the purposes of undertaking their funeral. In exchange the GOF customer is awarded a discount on the price of the funeral.

No revenue is recognised by the Group at the point of assignment and instead an element of the costs that have been incurred in obtaining the FBO are deferred onto the balance sheet. These are then expensed at the point of redemption when the revenue is recognised. Any plans that are cancelled are written off at the point at which Funeralcare are made aware of the cancellation. A separate provision is also made to cover the expected cancellations of FBOs. No investment or liability is recognised for FBOs as the option does not guarantee a funeral and the liability for which remains with the insurance partner. Any difference between the funeral price and the sum assured at the point of redemption is the liability of the deceased estate or whoever takes responsibility for arranging the funeral.

Low Cost Instalment Funeral Plans (LCIPs)

LCIPs can be paid for by instalments over between 2 and 25 years or they can be paid off in full at any time during this period without any penalties. If the plan holder dies before the instalments have been made in full (and provided that the plan has been in place for at least 12 months or the cause of death was as a result of an accident) then the funeral will still be provided by Funeralcare and the customer will not have to settle the outstanding balance on any instalments and the balance of any monies owed will be waived. Any outstanding amounts owed to Funeralcare (the difference between the full value of the plan and the amount paid up to death by the customer) are covered by an assured benefit from a third party insurer. The assured benefit is between Funeralcare and the 3rd party insurer and has nothing to do with the customer. Funeralcare continue to apply instalment monies received against customers' individual funeral plans until such time as a plan is redeemed and/or cancelled.

Until fully paid, LCIPs are judged to represent insurance contracts and as such fall under the scope of IFRS 4 (Insurance Contracts). The assured benefit between Funeralcare and the 3rd party is judged to represent a reinsurance contract under IFRS 4. In line with IFRS 4 Funeralcare account for the LCIPs in the same way as a normal funeral plan (see accounting policy above).

Interest rate swaps

The Group uses derivative financial instruments to provide an economic hedge to its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives entered into include swaps, forward rate agreements, commodity (diesel) swaps and energy contracts. Derivative financial instruments are measured at fair value and any gains or losses are included in the income statement. Fair values are based on quoted prices and where these are not available, valuation techniques such as discounted cash flow models are used.

Interest payments or receipts arising from interest rate swaps are recognised within finance income or finance costs in the period in which the interest is incurred or earned.

v) Credit risk, liquidity risk and Impairment of financial assets

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk from balances with banks and financial institutions is managed by the Group's Treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year subject to approval of the Risk and Audit Committee. The limits are set to minimise the concentration of risk. Financial assets held at fair value through the income statement are primarily held in low-risk investments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, Eurobonds and leases.

Notes to the financial statements continued

29 Financial instruments, derivatives and fair values of financial assets and liabilities continued

Trade receivables and contract assets

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (for example, by business division, customer, coverage by letters of credit or other forms of credit insurance).

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not insured or subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in trade and other receivables (Note 17).

Impairment of financial assets carried at amortised cost

The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write-off is made when all or part of an asset is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write-offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write-off charge in the income statement once they are received.

Provisions are released at the point when it is deemed that following a subsequent event the risk of loss has reduced to the extent that a provision is no longer required.

Notes to the financial statements continued

30 Commitments and contingencies

What does this show? This note shows the value of capital expenditure that we're committed to spending in the future as at the end of the period. If appropriate then it also shows potential liabilities which aren't included in our balance sheet as it's only possible, rather than probable, that we'll have to pay them.

- a) Capital expenditure that the Group is committed to but which has not been accrued for at the period end was £6m (2020: £14m).
- b) In common with other retailers, the Group has received Employment Tribunal claims from current and former food store colleagues alleging their work is of equal value to that of distribution centre colleagues and differences in pay and other terms are not objectively justifiable. The claimants are seeking the differential in pay (and other terms) together with equalisation going forward. There are circa 1,600 claims. The claims are at an early stage; the number of claims, merit, outcome and impact are all highly uncertain. No provision has been made as it is not possible to assess the likelihood nor quantum of any outcome. There are substantial factual and legal defences to the claims and the Group intends to defend them robustly.

31 Related party transactions and balances

What does this show? Related parties are companies or people which are closely linked to the Co-op, such as members of our Board or Executive (or their families), or our associates and joint ventures. This note explains the nature of the relationship with any related parties and provides information about any material transactions and balances with them.

	Relationship	2021 £m	2020 £m
Subscription to Co-operatives UK Limited	(i)	0.7	0.7

i) The Group is a member of Co-operatives UK Limited.

The Group's Independent Society Members (ISMs) include consumer co-operative societies which, in aggregate, own the majority of the corporate shares with rights attaching as described in Note 25. The Co-operative Group has a 76% shareholding in Federal Retail and Trading Services Limited which is operated as a joint buying group by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this and the arrangement is run on a cost recovery basis and therefore no profit is derived from its activities. Sales to ISMs, on normal trading terms, were £1,756m (2020: £1,813m) and the amount due from ISMs in respect of such sales was £134m at 1 January 2022 (2020: £138m). No distributions have been made to ISMs based on their trade with the Group in either the current or prior periods.

Transactions with directors and key management personnel

Disclosure of key management compensation is set out in the Remuneration Report. A number of small trading transactions are entered into with key management in the normal course of business and are at arm's length. Key management are considered to be members of the Executive and directors of the Group. No such key management personnel transactions were noted in the year (2020: £2,000). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2020: £nil). Total compensation paid to key management personnel is shown below.

Key management personnel compensation	2021 £m	2020 £m
Short-term employee benefits	3.8	6.4
Post-employment benefits	0.3	0.4
Other long-term benefits	1.3	1.6
Total	5.4	8.4

Notes to the financial statements continued

32 Principal subsidiary undertakings

What does this show? This note shows the main companies and societies we own, what percentage we own and the type of business they are involved in.

All of the principal subsidiary undertakings as at the period end are registered in England and Wales and their principal place of business is the UK. See general accounting policies section on page 191 for a Group structure diagram.

	Society holding %	Nature of business
Angel Square Investments Ltd*	100	Holding company
CFS Management Services Ltd*	100	Service company
Co-operative Group Holdings (2011) Ltd	100	Property management
Co-operative Group Food Ltd	100	Food retailing
Co-operative Foodstores Ltd	100	Food retailing
Nisa Retail Ltd	100	Food wholesaling
Co-op Insurance Services Limited*	100	Insurance (marketing)
Funeral Services Ltd	100	Funeral directors
Co-op Funeral Plans Ltd	100	Funeral plan services
Co-operative Legal Services Ltd	100	Legal services
Rochpion Properties (4) LLP	100	Holds property

All of the above have been fully consolidated into the Group's accounts. There are no non-controlling interests in any of these entities.

Notes

- i) All of the principal subsidiaries are audited by EY LLP.
- ii) *Entities noted with an asterisk have a year end of 31 December as they report on a monthly cycle rather than a periodic Saturday close cycle which is used by the other Group businesses. See also general accounting policies section on page 191 for further details on accounting dates. CFS Management Services Ltd ceased trading on 31 December 2021.
- iii) All transactions between entities are in the usual course of business and are at arms length.

Notes to the financial statements continued

33 Membership and community reward

What does this show? This note shows the number of active members that we have at the end of the period as well as the benefits earned by those members for themselves and their communities during the period. Active members are defined as those members that have traded with one or more of our businesses within the last 12 months.

Members	2021		2020	
	(unaudited)	m	(unaudited)	m
Active members		4.2		4.3

Membership and community rewards (within the income statement)	£m	£m
Member reward earned	21	45
Community reward earned	19	13
Total reward	40	58

From October 2020 Member and Community rewards are earned at 2% (prior to that Member reward was 5% and Community was 1%).

Full details of our overall investment in our Communities can be found in our Co-operate Report.

34 Events after the reporting period

What does this show? This note gives details of any significant events that have happened after the balance sheet date but before the date that the accounts are approved. These are things that are of such significance that it is appropriate to give a reader of the accounts further detail as to the impact of such events on the financial statements or any expected likely impact in future periods.

Conflict in Ukraine - the Group continues to monitor the ongoing tragic conflict in Ukraine and resulting international relationships, to understand how we can respond as a Co-op and potential effects upon our Group. Our immediate direct financial exposure to the fallout from the conflict is limited and we do not expect there to be a material impact on the valuation of the Group's assets or liabilities going forward.

IBM - post the balance sheet date, on 4 April 2022, the Court of Appeal handed down judgment in a claim brought by CIS General Insurance Limited (CISGIL), a former subsidiary of Co-operative Group Limited, against IBM United Kingdom Limited on appeal from the Technology and Construction Court, relating to a failed programme to implement an IT platform. CISGIL was awarded an amount of approximately £81m plus an interim payment on account for costs, less an amount of approximately £13m which was awarded by the Technology and Construction Court in 2021 and has already been paid by IBM in 2021. During 2019, CISGIL assigned in equity the proceeds of the litigation with IBM to Co-operative Group Limited, resulting in a payment being due to Co-operative Group Limited of approximately £68m as a result of the judgment. £68m has not been recorded as an asset in the financial statements as the outcome of the judgment was not known at the year end date.

Accounting policies and basis of preparation

What does this show? This section outlines the general accounting policies that relate to the financial statements as a whole. Details of other accounting policies are included within the notes to the financial statements to which they relate. This allows readers easy access to the relevant policy. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

General information

Co-operative Group Limited ('the Group') is a registered co-operative society domiciled in England and Wales. The address of the Group's registered office is 1 Angel Square, Manchester, M60 0AG, and the trading locations of all stores and branches can be located on our website <https://finder.coop.co.uk/food>.

Basis of preparation

The Group accounts have been prepared in accordance with international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 and additionally in accordance with international financial reporting standards adopted in the UK for the 52 week period ended 1 January 2022. As permitted by statute, a separate set of financial statements for the Society are not included.

The accounts are presented in pounds sterling and are principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy in the notes. Amounts have been rounded to the nearest million.

The accounting policies set out in the notes have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

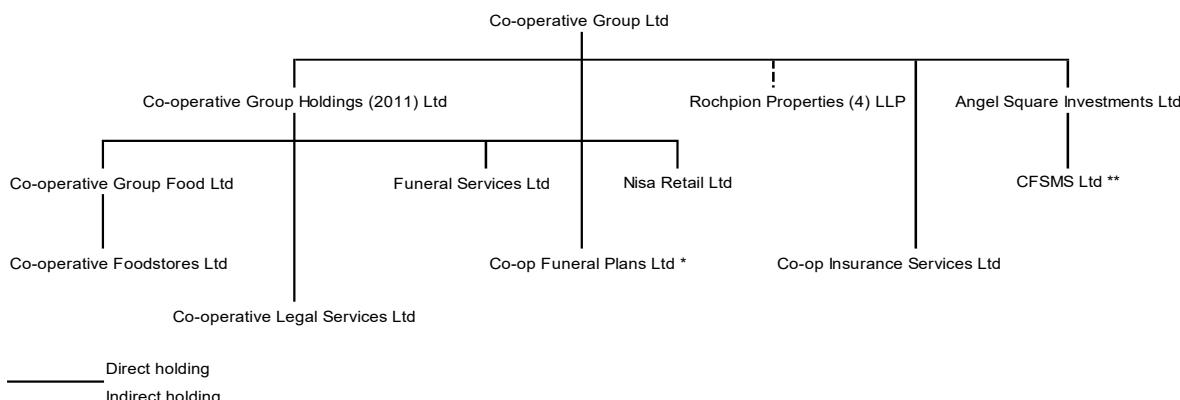
The accounts are prepared on a going concern basis. See later section on '**Going Concern**'.

In preparing the Groups' Consolidated Financial statements management has considered the impact of climate change covering both the financial statements and the disclosures included in the Strategic report. This included an assessment of the potential impact of, and associated responses to, climate change, and how that could impact the non-current assets that we hold as well as our expectations of future trading conditions. This assessment did not identify any requirement to shorten asset lives of the Group's asset base and neither did it identify any material risks arising from climate change, accordingly there has been no material impact on the valuation of the Group's assets or liabilities or the cashflow forecasts used to assess the going concern basis and the viability statement. Furthermore, our forecasts do not include any material spend in relation to climate change. The Group will keep this assessment under review and continue to monitor developments in the future.

Basis of consolidation

The financial statements consolidate Co-operative Group Limited, which is the ultimate parent society, and its subsidiary undertakings. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The diagram below shows the composition of the Group and its principal subsidiaries. Further details can be found in note 32. A full list of subsidiaries that make up the Group for the purposes of these financial statements can be found at: <http://www.co-operative.coop/corporate/aboutus/oursubsidiaries/>



All shareholdings are 100% owned unless otherwise stated.

* Co-op Funeral Plans Ltd is owned 33% by Co-operative Group Ltd and 67% by Co-operative Group Holdings Ltd.

** CFSMS Ltd ceased trading on 31 December 2021.

Accounting dates

The Group and its main trading subsidiaries prepare their accounts to the first Saturday of January unless 31 December is a Saturday. These financial statements are therefore prepared for the 52 weeks ended 1 January 2022. Comparative information is presented for the 52 weeks ended 2 January 2021. Since the financial periods are virtually in line with calendar years, the current period figures are headed 2021 and the comparative figures are headed 2020.

Co-operative Insurances Services Limited and certain small holding companies have prepared accounts for the period ended 31 December 2021. This differs from the Group and the other subsidiaries. For the period ending 1 January 2022, there are no significant transactions or events which need to be adjusted for to reflect the difference in reporting dates.

One-off items and non-GAAP (Generally Accepted Accounting Procedures) measures

One-off items include costs relating to activities such as large restructuring programmes and costs or income which would not normally be seen as costs or income relating to the underlying principal activities of the Group.

To help the reader make a more informed judgement on the underlying profitability of the Group, a non-GAAP measure: underlying profit before tax, has been presented. This is shown at the bottom of the income statement and we show the adjustments between this measure and operating profit. In calculating this non-GAAP measure, property and business disposals (including individual store impairments), the change in value of investment properties, net finance income/costs from funeral plans and one-off items are adjusted for.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements that comply with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Key judgements:

In the process of applying the Group's accounting policies, management has made the following key judgements which have the most significant impact on the consolidated financial statements:

- *Determination of accretion rate: Funeral plans*

A significant accounting judgement is present in deriving a suitable accretion rate to apply to the monies received from a customer when they purchase a funeral plan. The accretion rate is required to reflect the borrowing rate that would be applied between the Group and the customer in a separate financing transaction reflecting similar credit characteristics and similar security at the point the contract is entered into. These rates are then fixed for the duration of the plan and we have plans which are up to 36 years old. We derive the relevant accretion rates based upon UK AA rated average corporate bond yields. When a customer enters into a funeral plan, the monies they pay to the Co-op, less an admin fee, are invested in whole of life insurance policies with FCA regulated institutions protected by the Government's financial services compensation scheme. For further protection, the proceeds of the investments are held on trust by an independent trustee, Apex Corporate Trustees (UK) Limited, to ensure that the customer is entitled to the benefit of the invested monies in the event that the Group goes out of business. Given this protection and security, a UK AA rated average corporate bond yield is considered to have a similar risk profile as that of a separate financing transaction between the Group and a customer and hence a suitable reference point for an accretion rate.

- *Determining the lease term of contracts with extension and termination options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

- *Co-op Power energy contracts – agent versus principal*

Through our Co-op Power business the Group enters into forward contracts for the purchase of energy from third party suppliers for use by Co-op itself as well as by the customers of Co-op Power. Energy contracts for own use are not required to be accounted for as derivatives. For any part of a forward contract that relates to volumes purchased on behalf of third parties the Group applies a judgement that we are not party to the forward contract between the supplier and the end customer and that Co-op instead acts as an agent rather than as the principal in the arrangement. Consequently we do not account for contracts on behalf of third parties as derivatives on the Group's balance sheet. If our judgement was different and we deemed Co-op to be acting as principal in these arrangements then we would have recognised a derivative asset of £11m on the Group balance sheet as at 1 January 2022 with a corresponding liability due from the customers for whom the energy contract had been entered into.

Key estimates and assumptions:

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Group based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

- *Pensions (note 27)* – the Group's defined benefit pension obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The most significant assumptions relate to the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the Group's defined benefit obligation is highly sensitive to changes in these assumptions. Further details of the financial and demographic assumptions that have been used are shown in note 27 along with associated sensitivities to those assumptions.

- *Impairment of non-financial assets (notes 11, 12 & 13)* - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets, goodwill and intangibles) are reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated.

The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

The Group has considered whether the COVID-19 pandemic and the accompanying economic uncertainty has the potential to represent a significant impairment indicator as at 1 January 2022. Despite additional associated costs of responding to the pandemic, which are expected to be temporary, the Group's main business areas have proved resilient and the performance of the Group's cash-generating units has remained strong. Therefore, management conclude that the impact of COVID-19 on the longer term outlook for these cash-generating units does not constitute an indicator of significant impairment and hence a full impairment test across all CGUs is not required.

The Group estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a pre-tax rate of between 7-9% (2020: 8-10%) dependent on the business.

The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in notes 11 and 13.

The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.

- *Provisions (note 24)* – a provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Group relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See note 24 for further details.
- *Pre-need funeral plan obligations (note 14 & note 23)* – the Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts.

The investments are also subject to an annual actuarial valuation at a portfolio level. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The headroom (pre-tax) is estimated to be £295m (2020: £129m), see note 14. The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. It's not possible to reasonably forecast future inflation rates with any certainty but to aid the reader and for illustrative purposes a 0.1% increase in the inflation assumptions would reduce the surplus by approximately £23m (2020: £24m).

The "wholesale" actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Group fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus. At 30 September 2021, on a pre-tax marginal cost basis, liabilities would reduce to £662m, giving a £735m surplus

(111% of liabilities). On this pre-tax marginal cost basis, a 0.1% increase in the inflation assumptions would reduce the surplus by approximately £12m.

Representation

The comparative figures presented within these financial statements for the financial year ended 2 January 2021 have been restated. Full detail of the restatements is shown in Note 35. Additionally, the comparative figures presented within these financial statements for the financial year ended 2 January 2021 have been represented in the following areas of the 2020 accounts:

Co-op Insurance - the results of our Insurance business (marketing and distribution) are now shown as a separate operating segment (note 1). For the 52 weeks ended 2 January 2021 they were included in Other Businesses. This follows the sale in December 2020 of our insurance underwriting business (CISGIL) and now that our Insurance business (marketing and distribution) has reached sufficient maturity. This is in-line with the way that information is now reported to our Board. The tables below show the impact on those line items in the Consolidated income statement affected by the representations:

Operating Segments (for period ended 2 January 2021)

£'m	Other Businesses (as reported)	CISL (presented separately)	Other Businesses (represented)
Revenue from external customers	8	6	2
Underlying segment operating profit	(11)	(2)	(9)
Operating profit / (loss)	(12)	(2)	(10)
Additions to non-current assets	-	-	-
Depreciation and amortisation	-	-	-

Pensions – plan assets and Insurance buy-in contracts - in the prior year the value of Insurance buy-in contracts was included within the unquoted cash and cash equivalent figures noted in the table of fair value of pension assets. These are now shown on a separate line and the prior period figure for cash and cash equivalents has been adjusted accordingly. There is no net impact on the overall pension asset values and no impact on the Consolidated balance sheet, the Consolidated income statement or the Consolidated statement of cashflows.

£'m	Pension plan assets (as reported)	Representation	Pension plan assets (represented)
Cash and cash equivalents (unquoted)	2,442	(2,441)	1
Insurance buy-in contracts	-	2,441	2,441
Total	2,442	-	2,442

New and amended standards adopted by the Group:

The Group has considered the following standards and amendments that are effective for the Group for the period commencing 3 January 2021 and concluded that they are either not relevant to the Group or do not have a significant impact on the financial statements :

- Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16)
- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 1 January 2022 reporting periods and the Group has not early adopted the following standards and statements.

The adoption of these standards is not expected to have a material impact on the Group's accounts:

- Amendments to IFRS 3 Reference to the Conceptual Framework *
- Amendments to IAS 16 Property, Plant and Equipment (Proceeds before Intended Use) *
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, and IAS 41 Agriculture) *
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current **
- Amendments to IAS 8 Definition of Accounting Estimates **
- Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies **
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction **
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture **

* Effective for annual periods beginning on or after 1 January 2022 and ** 1 January 2023.

The adoption of the following standards will or may have a material impact on the Group's accounts when adopted and the Group's assessment of the impact of these new standards and interpretations is set out below:

Title	IFRS 17 Insurance Contracts
Nature of the change	<p>IFRS 17 is a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts.</p> <p>In contrast to IFRS 4, the new standard provides a comprehensive model (the general model) for insurance contracts, supplemented by the premium allocation approach (which is mainly for short-duration contracts such as certain non-life insurance contracts). IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.</p>
Impact	<p>The standard will be effective for annual periods beginning on or after 1 January 2023 and management are currently assessing the impact of the new standard. Should the Group determine that any of its funeral products fall fully in scope of IFRS 17 then the impact will likely be material from a balance sheet perspective. The area most likely to potentially be impacted by the new standard would be our low cost instalment funeral plans (LCIPs) which are currently shown within Contract Liabilities (Note 23) of the financial statements to a value of £348m.</p>
Date of adoption by the Group	<p>Applicable to annual reporting periods beginning on or after 1 January 2023 - for the Group this is not next year's financial statements (2022) but the following years being (2023).</p>
Title	IAS 37 Onerous contracts (amendments re cost of fulfilling contract)
Nature of the change	<p>IAS 37 requires an entity to recognise an onerous contract where the unavoidable costs of meeting a contractual obligation exceeds the economic benefits expected to be received under a contract. In such circumstances the present value of the obligation under the contract is recognised as a provision. In May 2020 the IASB issued a revision to IAS 37. The IASB now specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'; both the incremental costs of fulfilling that contract as well as an allocation of other costs that relate directly to fulfilling a contract.</p>
Impact	<p>Management is currently assessing the impact of the amendment to the standard upon the Group's funeral plans. Based on an initial assessment using 2021 costs, the wholesale cost would be lower than the revised IAS 37 cost, and so that would be the appropriate basis for the assessment. Our initial assessment is that the revision to the accounting standard could result in an immaterial onerous contract (£7.9m) being recognised in relation to one plan type, however there would remain an overall significant surplus across the portfolio as a whole. This will be revisited in the next financial year based on 2022 actual costs.</p>
Date of adoption by the Group	<p>Applicable to annual reporting periods beginning on or after 1 January 2022 - for the Group this will be next year's financial statements (2022).</p>

Going concern

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in note 21 to the accounts. In addition, notes 21 and 28 also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities. The directors have specifically considered the ongoing impact of Covid-19, the Ukraine / Russia conflict, rising energy costs and inflation as explained in more detail in the Directors' Report.

In making their assessment the Directors have noted that the consolidated group accounts show a net current liability position, primarily due to the working capital cycle of the business. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 28, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Group, prepared for the period to 30 June 2023 (the forecast period), and adjusted for sensitivities considered by the Board to be sever but plausible in relation to both trading performance and cash flow requirements, indicate that the Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due. Sensitivities have been applied to the market conditions of each of our trading businesses, as well as applying sensitivities to our key strategic activities and in respect to the ongoing energy cost increases, inflation and supply constraints, as well as taking into account mitigating actions available.

Further details of the Director's assessment, including reverse stress testing, can be found in the Going concern and Longer term viability sections of the Directors' report on pages 104 - 108.

After making all appropriate enquiries, the Directors have not identified any material uncertainties and have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CO-OPERATIVE GROUP LIMITED

Opinion

In our opinion:

- Co-operative Group Limited's consolidated financial statements (the "financial statements") give a true and fair view of the state of the Group's affairs as at 1 January 2022 and of the Group's income and expenditure for the period then ended; and
- the financial statements have been properly prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014;

We have audited the financial statements of Co-operative Group Limited for the period ended 1 January 2022 which comprise:

Group

Consolidated balance sheet as at 1 January 2022

Consolidated income statement for the 52 week period ended 1 January 2022

Consolidated statement of comprehensive income for the 52 week period ended 1 January 2022

Consolidated statement of changes in equity for the 52 week period ended 1 January 2022

Consolidated statement of cash flows for the 52 week period ended 1 January 2022

Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards in conformity with the requirements of the Co-operative and Communities Benefit Societies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Group financial statements in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included the following:

We confirmed our understanding of the Group's going concern assessment process as well as the review process over the going concern model and management's related Board memoranda;

We assessed the adequacy of the going concern assessment period to the end of 30 June 2023, considering whether any events or conditions foreseeable after the assessment period indicated a longer review period would be appropriate;

We obtained the base case, and severe yet plausible downside, cash flow forecasts covering the going concern assessment period prepared by management and used by the Board in its assessment. These forecasts included an assessment of available debt facilities, the adequacy of liquidity headroom and EBITDA headroom related to compliance with debt covenant test ratios.

We checked the arithmetical accuracy of the cash flow forecast models and assessed the Group's historical forecasting accuracy;

With the assistance of our specialists, we considered the adequacy of liquidity headroom, appropriateness of the cost savings model and available facilities plus cash generation as per the base and downside case forecasts and applied sensitivity analysis. The specialists' inputs have provided an insight into the additional industry specific macro-economic environment and ongoing challenges faced by the retail industry. By using inputs from our specialists, external sources of information and our understanding of the retail industry, we challenged the appropriateness of the inputs and key assumptions used in the forecast models including:

- like for like sales ratios in the Food and Funeral segments, food inflationary pressure and cost inflation in relation to energy prices;
- the working capital assumption of the Group, given it is in a net current liability position, that the current debtors cycle will continue to be significantly shorter than the working capital cycle for the current liabilities;
- sensitivities of the projected cost savings;

We obtained a copy of the facility agreements, understood the terms and conditions including those related to covenant test ratio requirements and checked the calculation of headroom in respect of the financial covenant test ratios;

We assessed the Group's forecast banking covenant compliance and other obligations through to the end of the review period by re-computing covenant calculations;

We considered for management's downside case whether the downside risks captured reasonable scenarios that had a higher than remote possibility of occurring, including the possible downside risks related to climate change, the conflict in Ukraine and the related economic impact as a result of that conflict;

We considered management's reverse stress test, which breached liquidity and covenant headroom, specifically whether these scenarios had a remote possibility of occurring;

We assessed management's ability to execute feasible mitigating actions available to respond to the downside scenarios based on our understanding of the Group and sector; and

We assessed the appropriateness of the going concern disclosures in describing the risks associated with the Group's ability to continue as a going concern for the review period to the end of 30 June 2023.

Key observations

In making the going concern assessment, we have considered the following:

The Group has net current liabilities of £960m (2020: £857m), which is common in the retail industry due to the working capital cycle.

The Group has net debt of £2,436m (2020: £1,975m) of which £976m (2020: £819m) is subject to covenant testing twice a year.

Cash generated from operating activities was £178m (2020: £672m) and was lower than prior year primarily due to the fall in operating profit driven by the adverse economic environment.

We identified the following significant judgements made by management as part of their going concern assessment:

- Achievement of the projected cost saving initiatives;
- Sufficient committed financing in place throughout the Going Concern assessment period;
- Assumption regarding the extent to which the significant inflationary pressure on product costs and energy prices will be passed through to consumers.

Based on the work we have performed, we have not identified material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for the period to 30 June 2023. Going concern has also been determined to be a key audit matter.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. Going concern has also been determined to be a key audit matter.

Overview of our audit approach

Audit scope	<ul style="list-style-type: none">• We performed an audit of the complete financial information of the Food, Wholesale, Funeralcare, Corporate and Insurance components and specific audit procedures on material balances for the Property component. Further to this, we performed specified procedures on the Legal and CFS Management Services (CFSMS) components.• The components where we performed full or specific audit procedures accounted for 94% of Profit before tax, 100% of Revenue and 99% of Total assets.
Key audit matters	<ul style="list-style-type: none">• Revenue recognition• Supplier income• Accounting for pre-need funerals• Impairment of Property, Plant and Equipment in Food• Group IT environment• The Going Concern Basis of Preparation
Materiality	<ul style="list-style-type: none">• Overall Group materiality of £47m which represents 0.5% of adjusted Revenue.

An overview of the scope of the Group audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each component.

In assessing the risk of material misstatement to the financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the nine (2020: eleven) reporting components of the Group, we selected eight (2020: ten) components covering entities, which represent the principal business units within the Group.

Of the eight components selected, we performed an audit of the complete financial information of the Food, Wholesale, Funeralcare, Corporate and Insurance components ("full scope components") which were selected based on their size or risk characteristics. For the Property component ("specific scope component"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The remaining two components, Legal and CFSMS, were designated as specified audit procedures scope.

The below tables summarise the coverage which has been obtained in respect of the Group's Profit before tax, Adjusted Revenue and Total Assets in both the current and prior audit periods.

The audit scope of the Specific scope component may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining two components that together represent 0.4% of the Group's adjusted revenue, none are individually greater than 0.5% of the Group's adjusted revenue. For these components, we performed other procedures, including detailed analytical review, testing of cash balances, testing of trade payables balances, testing of expenses and testing of intercompany balances to respond to potential risks of material misstatement to the financial statements.

The tables below illustrate the coverage obtained from the work performed by our audit teams.

Current period coverage

Components	Profit before tax	Adjusted revenue ¹	Total assets
Full scope components (5)	75%	100%	98%
Specific scope components (1)	19%	0%	1%
Other procedures (3)	6%	0%	1%
Total	100%	100%	100%

Prior period coverage

Components	Profit before tax	Adjusted revenue ¹	Total assets
Full scope components (4)	99%	99%	92%
Specific scope components (2)	5%	0%	3%
Other procedures (4)	(4%)	1%	5%
Total	100%	100%	100%

¹ Adjusted revenue was calculated as total Group revenue less revenue generated by the Federal Joint Buying Group (Federal per Note 1 of the accounts) as this revenue is passed through at nil margin therefore does not represent revenue the Group has performed services to obtain from which it derives an economic benefit.

Changes from the prior period

Based on the findings of the prior period audits and the growth of the Insurance component we have revised our scoping to increase the scope assigned to the Insurance component from specified procedures to full scope in the period. In the current period, the Insurance component revenue represented 0.3% of adjusted revenue and the profit from this component represented 13% as a proportion of the Group's profit before tax. We also revised our scope for the Legal component from review scope to specified procedures in the period and for the CFSMS Component, our scope was revised from specific scope to specified procedures.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY firms operating under our instruction. Of the five full scope components, audit procedures were performed on one of these directly by the primary audit team, the rest were performed by the component audit teams except for certain centrally-managed balances audited directly by the primary audit team. For the specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the audit, an EY Group-wide team planning event was held with representatives from all full and specific scope component teams in attendance which involved discussing the approach with the component teams. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, discussed issues arising from their work, attended closing meetings with component management, reviewed key working papers and were responsible for the scope and direction of the audit process. During the current period's audit cycle, the Food component team was based together with the primary team in the Head Office in Manchester which allowed the Group audit partner to meet regularly with the component team during the performance of the audit. The Food team also made visits to the Wholesale component based in Scunthorpe. The other full scope components: Funeralcare, Corporate and Insurance were led by the Group audit partner. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the financial statements.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Group. The Group has determined that the future impacts from climate change on their operations will be from changes in regulations, increased awareness and changing attitudes of members, customers, suppliers and partners, increasing competitive environment on sustainability and sustainability impacts on food sources and materials used in the business. These are explained on pages 45 - 49 in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in the consolidated financial statements, policy, technology and market changes in response to climate change are still developing, and these are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted international accounting standards.

Our audit effort in considering the impact of climate-related risks on the financial statements was focused on assessing the Company's conclusion that the current known impacts of the Group's climate related plans and pledges have been reflected in the valuation of assets and liabilities, the useful economic lives of Property, Plant & Equipment and the cashflow forecast used in the assessment of the going concern basis and viability statement.

The Group have stated their commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050. Within the "other information", the Group disclose details of their "10 Point Climate Plan" which sets out how they are working to transition to a lower carbon future and become a net-zero business before 2040. The Group has disclosed that this is an evolving area and the work undertaken by the Group will inform their response to the risks and opportunities identified. This currently reflects the known impacts of climate change and will continue to be reflected in their financial models and plans to reflect the future economic impact on their business model, operational plans and customers. Therefore, as set out above, the potential impacts of future plans are not fully incorporated in these financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
<p>Revenue recognition (2021: £11,151 million; 2020: £11,472 million)</p> <p><i>Refer to Note 2 of the Consolidated Financial Statements (page 136)</i></p> <p>The timing of when revenue is recognised is relevant to the reported performance of the Group. There remains opportunity through management override of controls, such as the posting of manual journals, to overstate revenue throughout the period</p> <p>The risk has remained the same in the current year as there continues to be a focus on the level of performance of the business. We responded to the differing circumstances by focusing our attention on potential overstatements of revenue in the current year, compared with the prior year where we were focussed on both potential overstatements and understatements of revenue.</p> <p><i>Refer to the Risk and Audit Committee Report (page 71); Accounting Policies (pages 191 and 197); and note 2 of the Consolidated Financial Statements (pages 136).</i></p>	<p>Applicable to all material revenue streams</p> <ul style="list-style-type: none"> • We gained an understanding of and documented the key processes used to record revenue transactions by performing a walkthrough of the processes. • We performed analytical review procedures over revenue in the period, comparing results with our expectations and corroborated differences. In particular, we have performed procedures in the month preceding and subsequent to the period-end. • We tested whether the Group's revenue recognition policy is in line with the criteria set out in IFRS 15: Revenue from Contracts with Customers. • We tested manual journals to revenue during the period and around period-end to a lower threshold and evaluated explanations provided by management for any unexpected fluctuations. • We involved our Forensic specialists to support our journal entries testing with a specific focus on searching for patterns susceptible to fraudulent activities. • We performed testing of manual consolidation adjustments. <p>Food- Store revenue</p> <ul style="list-style-type: none"> • We tested manual journals relating to instances where stores recognised revenue outside the normal automated store EPOS process and to identify instances of duplication of store revenue postings within the population or unusual amounts of revenue recognised. • We performed journal analysis to identify sales journals that have not resulted in cash receipts and have tested a sample of these to supporting evidence to ensure revenue has been recognised correctly. • We challenged manual adjustments made in relation to "non-polled" store data adjustments by comparing these against averages for those stores.

Risk	Our response to the risk
	<p>Wholesale</p> <ul style="list-style-type: none"> • We tested manual journals to revenue and other transactions to the revenue account that do not follow the expected critical path from revenue to debtors to cash to identify any material instances of misallocation between periods. <p>CISL</p> <ul style="list-style-type: none"> • We tested the appropriateness of recognition of deferred consideration as revenue during the period. <p>We performed full and specified scope audit procedures over this risk area, which covered 99 % of the risk amount.</p>

Key Observations to the Risk and Audit Committee
<p>Revenue has been recognised appropriately in accordance with IFRS 15: Revenue from Contracts with Customers. We did not identify instances of management override of controls in relation to revenue.</p>

Risk	Our response to the risk
<p>Supplier Income (2021: £727 million; 2020: £788 million)</p> <p><i>Refer to Note 4 of the Consolidated Financial Statements (pages 138 and 139)</i></p> <p>The Group receives money back from suppliers specifically through the Food and Wholesale divisions. This supplier income is categorised as bonus income, promotional income and long-term agreements (LTAs). The terms of agreements with suppliers can be complex and varied. There can be performance conditions or promotional periods that span the Group's reporting date.</p> <p>Due to the complexity and judgement required in relation to bonus income and LTA income, there is a risk that an error in the calculation of income may occur either accidentally or purposefully through management override of</p>	<ul style="list-style-type: none"> • We focused our audit procedures on the areas where management apply judgement, where the processing is either manual or more complex and where the value of agreements is high. • With the help of our forensic team, we held enquiries with management to understand specific supplier arrangements entered in the period, with a particular focus on short-term supplier arrangements given the increase in supply chain disruption in the second half of the period to assess risks of material misstatement due to unusual contract arrangements. • We performed a walkthrough of the process for recording the three different arrangement types, additionally we tested controls over Bonus and LTA Income. However, for promotional income the control environment is not yet robust enough to enable a controls-based approach and instead we completed a fully substantive audit. • For a sample of supplier income recognised in the income statement during the period, we issued direct requests to third party vendors and confirmed the

Risk	Our response to the risk
<p>controls and this could arise at any time during the period.</p> <p>Promotional Income relates to short time promotions which are less complex and settled through offset in the period. The risk of misstatement through the period is reduced, however, the risks related to manipulation at period-end to inflate profit remains.</p> <p>The risk has remained the same in the current year as the facts and circumstances around the arrangements and their complexity is similar year on year.</p>	<p>terms of arrangement and sales volumes used in the calculation of the income recognised. We also recalculated the income recognised for this sample.</p> <ul style="list-style-type: none"> • We selected a sample of period-end balances from the trade receivables ledger and requested third party balance confirmations. • For cut-off purposes, we tested an additional sample of supplier income recognised during December to agreement terms and volume submissions from suppliers to ensure the related income was recognised in the correct period. • We tested a sample of credit notes received during January 2022 and assessed whether any of these related to arrangements in respect of 2021. • We performed analytical review procedures over supplier income compared to cost of sales throughout the period to identify any unusual or unexpected trends and then investigated any discrepancies. • Using the data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier income. • We tested provisions in place for queries and disputes by comparing the period-end provisions to the proportion of disputes settled in favour of vendors throughout the period and investigated the post period-end outcome of a sample of disputes. We also investigated aged unpaid supplier billings and ensured the provisions in place for these amounts were sufficient. • We reviewed management's disclosure with respect to supplier arrangement amounts recorded in the Income Statement and Balance Sheet. • We verified that management's allocation of supplier income earned jointly with other independent societies through the member buying Group was applied appropriately. <p>We performed full scope audit procedures over this risk area in the Food and Wholesale components, which covered 100% of the amounts subject to this risk.</p>

Key Observations to the Risk and Audit Committee

Supplier income arrangement amounts are appropriately recognised in the Income Statement and Balance Sheet and the disclosures included are appropriate. We did not identify instances of management override of controls in relation to supplier income.

Risk	Our response to the risk
<p>Accounting for pre-need funeral plans under IFRS 15/IFRS 9</p> <p><i>Funeral revenue (2021: £264m, 2020: £272m)</i></p> <p><i>Funeral plan liabilities (2021: £1,778m, 2020: £1,737m)</i></p> <p><i>Finance Cost (2021: £59m, 2020: £51m)</i></p> <p><i>Funeral plan investment asset (2021: £1,372m, 2020: £1,331m)</i></p> <p><i>Finance Income (2021: £54m, 2020: £81m)</i></p> <p>The accounting for pre-need funeral plans is inherently complex, contains a number of estimations and judgements and involves manual processes which are more susceptible to error.</p> <p>The determination of the accretion rate is a critical judgement as it is applied throughout the lifetime of the contract until the funeral is provided at which time the value that has been accreted is recognised as revenue in the income statement. During the lifetime of the contract, the increase in the value of the liability is taken to the income statement as a finance expense. There is a risk of misstatement to the valuation of the funeral plan liability and measurement of revenue and finance cost recognised in the Consolidated income statement should the accretion rate not reflect an appropriate borrowing rate as required under IFRS 15. As this is a critical judgement, there is opportunity that management may influence the determination of this rate to achieve a desired outcome.</p> <p>In addition to the accretion rate determination discussed above, we considered the risks in respect of accounting for pre-need funeral plans to be most prominent in the following areas:</p>	<ul style="list-style-type: none"> • We performed a walkthrough of the accounting processes for pre-need funeral plans to confirm our understanding of the way in which transactions are initiated, recorded, processed and reported. We tested the design effectiveness of the key controls noted within the process. • We understood and evaluated the key data points in management's accounting policy for the pre-need funeral plans. The key data points under the accounting policy were determined to be the effective date of plans, the cash value of the plans at inception, the cancellation or redemption dates of plans and the accretion rate applied by management. • We involved our valuation specialists to assist us in challenging the appropriateness of the liability accretion rate by reference to industry practice and external sources of lending rates with risk characteristics similar to the risk profile of the liabilities. • We performed testing to assess the completeness and accuracy of data inputs to the model prepared by management to calculate the liability accretion expense in the current period. • We built a sophisticated data analytics tool which aided in recalculating the accreted liability for all funeral plans and assessing the sensitivity of the accretion rate applied by management. • We tested period-end funeral plan investment balances and the associated finance income by performing substantive analytical review and obtaining third party confirmations of period-end balances. • We obtained evidence of after-date cash for a sample of plan debtors using lower testing thresholds to confirm the plans were not cancelled. • We compared the plan debtor's ledger at two discrete points in time to identify plans with no account activity which is an indicator of a cancelled plan.

Risk	Our response to the risk
<ul style="list-style-type: none"> • Valuation of Funeral Plan Investments under IFRS 9 and the associated finance income • Valuation of Funeral Plan contract liabilities under IFRS 15 and the associated finance cost • Existence of Funeral plan debtors and Funeral plan liabilities to ensure cancelled plans are eliminated <p>We have broadened the scope of the risk in the current year to include the existence of funeral plan debtors and plan liabilities because of the significant audit effort spent in that area in the current and prior periods.</p> <p>Refer to the Risk and Audit Committee Report (page 71); and notes 1 and 23 of the Consolidated Financial Statements (pages 133 and 168).</p>	<ul style="list-style-type: none"> • We performed procedures to identify plans which should have been cancelled but were not detected as a result of direct debits being processed by the system but subsequently not collected due to customer default. • We challenged the completeness of the adjustment required for the plans which were identified by management as cancelled. • We checked that there is an appropriate insurance structure in place for the low-cost incentive plans. • We tested the reasonableness of management's actuarial models used to assess the profitability of the overall funeral plan portfolio, including splitting the portfolio into pools with similar underlying characteristics. We engaged our EY Actuarial specialists to assist us in assessing the key assumptions used and appropriateness of the valuation methodology applied by management. We reviewed the results of the work to identify indicators of material onerous funeral plans. • We checked the appropriateness of the funeral plan disclosures in the financial statements. This included but was not limited to: assessing the finance income and finance expense presented in the P&L, checking the redemption and cancellation assumption that is used to classify balances between short term and long term and evaluating the funeral plan onerous contract assessment disclosure, including the disclosure of sensitivities on key assumptions in the assessment. <p>We performed full scope audit procedures over this risk area in the Funeralcare component, which covered 100% of the amounts subject to this risk.</p>

Key Observations to the Risk and Audit Committee

Accounting for pre-need funeral plans is in accordance with IFRS 15 and IFRS 9. The impact of cancelled plans was appropriately eliminated from Funeral plan debtors and Funeral plan liabilities.

Risk	Our response to the risk
<p>Food Retail: Impairment of Property Plant and Equipment</p> <p>The Food division operates the Group's largest Property, Plant and Equipment ('PPE') portfolio £2,583m (FY20: £2,496m). During the year, management recognised an impairment of £22m (FY20: £36m) mainly relating to stores in city centre locations.</p> <p>PPE is split into Cash Generating Units ('CGUs'), being the individual stores. CGUs are required to be tested for impairment when indicators of impairment are identified. Such indicators include loss-making stores, low profit-making stores where they may not be sufficiently profitable to support the CGU value or stores that have received a refit but have yet to improve performance.</p> <p>In the current period, the risk of impairment is elevated due to the difficult trading environment in the sector due to external influences such as the ongoing impact of COVID-19, inflation and pricing pressure, supply chain disruption and a competitive labour market. The disruption in the last two years due to the COVID pandemic has also made evaluation of store performance for stores opened since 2019 more judgmental. Management identified indicators of impairment in 127 (FY20: 114) stores based on trading data to Period 10 of the current year.</p> <p>The impairment models are based on the latest forecasts prepared by management which include the return to pre-COVID revenue levels in certain city centre locations and improvement in cost ratios. The ability to achieve the forecast store performance in the impairment models depends upon assumptions underlying discount rates, revenue growth and cost reductions, each of which are susceptible to the risk of management override.</p> <p>Refer to the Risk and Audit Committee Report (page 71); Accounting Policies (pages 191 and 197); and notes 11 and 12 of the Consolidated Financial Statements (pages 146 and 150).</p>	<ul style="list-style-type: none"> • We have obtained and discussed with management the impairment models and compared this to the requirements of IAS36 'Impairment of assets'. • We understood the design and implementation of management's key controls over the impairment assessment process. • We evaluated management's assessment of the existence of impairment indicators and challenged the completeness of this assessment where we identified additional stores that we considered should be tested for impairment, including: <ul style="list-style-type: none"> ◦ stores first opened in 2019 which were excluded from management's review for indicators of impairment on the basis that they had not yet achieved maturity; ◦ stores based on actual full-year trading data that were below management's thresholds; and ◦ stores that were close to meeting management's threshold for impairment indicators but not assessed for impairment. • We tested the integrity and logic of management's impairment model calculations as well as the verifiable input data. • We challenged and assessed the assumptions applied in calculating 2022 and 2023 revenue amounts for all stores tested, including <ul style="list-style-type: none"> ◦ understanding the process of allocating 2022 budgeted revenue from the national level forecast to individual stores; ◦ assessing where judgment was applied that store performance will return to pre-COVID-19 levels; and ◦ comparing revenue growth assumptions to external benchmarks. • For a sample of stores assessed for impairment by management where we identified a higher risk of misstatement, we performed a detailed analysis of forecast cash flows, including revenues and cost to revenue ratios, compared to both historical data and performance to date. • We assessed the long-term growth rates applied over the lease term as well as the assumptions and judgment used when a store is expected to be operated beyond the current lease term. • We engaged our valuation experts to assist us in assessing the reasonableness of the discount rates used by management by comparing the discount rates used to entities with similar risk profiles and external market information. • We confirmed that the disclosure in the financial statements is in line with the requirements of IAS 36: Impairment of assets.

Risk	Our response to the risk
	We performed full scope audit procedures over the full population of Food Retail stores.

Key Observations to the Risk and Audit Committee
The net book value of the Food Retail store portfolio has been appropriately updated to reflect the impact of impairment provisions recognised in the year. The disclosures related to the impairment assessment and related sensitivities are in accordance with the requirements of IAS 36 "Impairment of Assets".

Risk	Our response to the risk
<p>Group IT environment</p> <p>The Group is dependent upon a significant number of IT systems. Some of these legacy systems are complex, have been built up over time and there are varying levels of integration between them. The systems are important to the ongoing operations of the business and to the integrity of the financial reporting processes.</p> <p>As part of Retail Business Transformation (RBT), there is an ongoing programme in Food Retail to replace or upgrade existing IT systems and in the Funeralcare business a programme to replace the existing IT systems commenced in the period.</p> <p>These programmes are complex, multi-year projects involving management judgement in the design, configuration, customisation of the IT platforms and software and there is a risk to the integrity of the financial reporting processes if the new IT systems are inappropriately designed or implemented.</p> <p>There are limitations in the functionality of certain of the Group's IT systems which</p>	<ul style="list-style-type: none"> • We involved our IT specialists to assist us in understanding changes in the IT systems, the level of integration between systems and the ability to rely on IT general controls for the key systems impacting the accurate recording of transactions and the presentation of the financial statements. • We did not take controls reliance in our audit approach due to the limitations in the IT environment. • We enhanced our testing of manual journals posted as part of financial close process due to limitations in the Group's IT systems. • We involved our Forensic specialists to support our journal entries testing with a specific focus on searching for patterns susceptible to fraudulent activities. • We have performed audit procedures on the accuracy and completeness of data migration as part of RBT. The key procedures involved in this included: <ul style="list-style-type: none"> – Selecting a sample from the data transferred and testing to underlying source documentation. – Obtaining reports in the old system and new system and performing a comparison of the

Risk	Our response to the risk
<p>necessitates dependence upon manual interventions. These include workbooks reconciling the general ledger to the sub-ledger and key control account reconciliations.</p> <p>Manual interventions are susceptible to the risk of management bias or error. The IT limitations in the Funeralcare business also impact the significant risk "Accounting for pre-need funeral plans under IFRS 15/IFRS 9" due to the complexity of the calculations. This risk is addressed in the matter above.</p> <p>The risk has increased in the current year as a result of the scale of the transformation programmes which were ongoing in the year as well as the challenges faced during the year by the Group in relation to the integration of these systems.</p>	<p>details to test the consistency of the two systems.</p> <ul style="list-style-type: none"> – Obtaining the final reports from the new system, testing the product details and recalculated values back through to the old system. • In response to the limitations in the systems which affected the applications and databases within the scope of our audit, we performed the following audit procedures over information provided to us by the Group: <ul style="list-style-type: none"> – Tested a sample of transactions within the data processed by the IT systems to underlying source documentation to ensure that the extracted data is accurate. – Tested the data extracted from the IT systems to the general ledgers to ensure accuracy. – Reconciled trial balance movement in the period to the list of journals posted to ensure completeness. – Observed/tested the input parameters being entered to ensure appropriateness of the data extracted from the IT systems for the intended purpose. – Recalculated the computations and categorizations performed by the IT systems for a sample of transactions in the extracted data report to ensure the data is accurate. • Due to the lack of systems integration and the presence of manual interventions, we tested a higher number of reconciling items in both complex and non-complex areas of accounting.

Key Observations to the Risk and Audit Committee

We completed additional substantive testing in order to mitigate the risk of material misstatement due to limitations in the functionality of certain of the Group's IT systems and did not identify material misstatements.

In the prior period, our auditor's report included the following key audit matters:

- Reclaim Fund Limited
- Wholesale (Nisa) Component Audit

In the previous period, the Group determined that they did not have control over the subsidiary, Reclaim Fund Limited, as defined by the criteria set out in IFRS10, and recorded a prior year adjustment to remove the balances relating to the subsidiary from the consolidated financial statements. The

subsidiary was disposed of on 30 March 2021 for a nominal consideration and was not considered a key audit matter in the current period.

Weaknesses were identified in the control environment of the Wholesale segment in 2019 and an improvement programme was initiated by management at that time. The programme resulted in improvements in the control environment and we no longer consider this as a key audit matter.

Our application of materiality

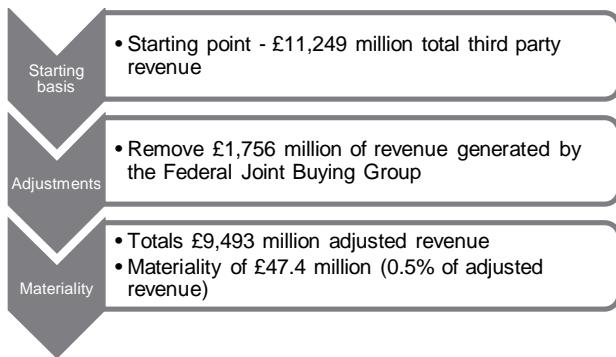
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £47.4 million (2020: £48.7 million), which is 0.5% (2020: 0.5%) of adjusted revenue. Revenue is a key performance indicator used by management to monitor the Group's performance and also the figure which we believe to be relevant to the members when assessing the performance of the Group. However, we considered adjusted revenue to be a more appropriate performance metric on which to base our materiality calculation. Adjusted revenue was calculated as total Group revenue less revenue generated by the Federal Joint Buying Group (Federal per Note 1 of the accounts). We concluded it was appropriate to deduct Federal revenue as it is passed through at nil margin and therefore does not represent revenue the Group has performed services from which it derives an economic benefit.

In concluding on this benchmark, we considered that the primary users of the financial statements were the Members. Meaningful Membership benefits, employee discounts and charitable contributions are key performance indicators for Members. These amounts are a function of revenue. Accordingly, we consider revenue to be a more relevant performance benchmark than profit before tax. This benchmark is consistent with the prior period.



During the course of our audit, we reassessed initial materiality based on the final figures used per the financial statements and this led to no change in our materiality levels.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, including the Group's IT environment, our assessment of the Group's overall control environment, conversations with the Group risk and internal audit function and

the number of audit misstatements identified in the prior period, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £23.7m (2020: £24.3m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current period, the range of performance materiality allocated to components was £4.7m to £17.8m (2020: £2.4m to £18.3m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2.3m (2020: £2.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we have been requested to report in accordance with our engagement letter

The directors have instructed us to express an opinion on whether, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement on page 68 is in compliance with the following provisions: Section 2 provision 3, Section 5 provisions 1, 3, 5 and 6 of the Co-operative Corporate Governance Code issued in November 2019 ('the Code'). We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- The Society has not kept proper books of account; or
- The Society has not maintained a satisfactory system of control over its transactions; or
- The financial statements are not in agreement with the books of account; or
- We have not received all the information and explanations we require for our audit.

Corporate Governance Statement

International Standards on Auditing (ISAs) require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 104;
- Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 107;
- Directors' statement on fair, balanced and understandable set out on page 112;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 112;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 41; and;
- The section describing the work of the audit committee set out on page 71

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 112, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional

misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the direct laws and regulations relating to elements of company law and tax legislation, and the financial reporting framework i.e. UK adopted international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014. Our considerations of other laws and regulations that may have a material effect on the financial statements include the Groceries Supply Code of Practice (GSCOP), FCA Disclosure Guidance and Transparency Rules (DTR), the UK Corporate Governance Code 2018, Health and Safety at Work Act 2015, National Minimum Wage Act 1998, Food Hygiene Regulations 2006 and Money Laundering Regulations 2019.
- We understood how the Group is complying with those frameworks by making enquiries with management, internal audit, and those responsible for legal and compliance matters. We also: read correspondence between the Group and various UK regulatory bodies; inspected minutes of the Board and Risk and Audit Committee; and gained an understanding of the Group's approach to governance. This final point was demonstrated by the board of directors' approval of the governance framework and its review of the risk management framework and internal control processes. Throughout the above procedures we noted that there was no contradictory evidence to the enquiries held.
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that might otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement including complex transactions, performance targets, economic or external pressures and the impact that these have on the control environment. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk, refer to the Key Audit Matters section for further details. Our procedures in response to fraud risk included involvement of our Forensic specialists to support our journal entries testing with a specific focus on searching for patterns susceptible to fraudulent activities and testing of manual journals designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved; making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Society's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with regulatory authorities. We communicated relevant items from these procedures to the relevant component teams who performed sufficient and appropriate audit procedures on these areas, supplemented by audit procedures performed at the Group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

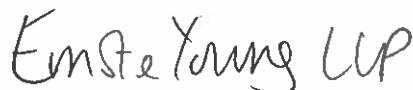
Other matters we are required to address

Following the recommendation from the Risk and Audit Committee we were appointed by the Society on 21 May 2016 to audit the financial statements for the 52-week period ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 6 periods, covering the 52-week periods ending 31 December 2016, 5 January 2019, 4 January 2020, 2 January 2021 and 1 January 2022, and one 53-week period ending 6 January 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and we remain independent of the Group in conducting the audit.
- The audit opinion is consistent with the additional report to the Risk and Audit Committee.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014 and our engagement letter dated 13 January 2021. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

A handwritten signature in black ink that reads "Ernst Young LLP".

*Christopher Voogd (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
7 April 2022*

Jargon buster (unaudited)

There are lots of technical words in our accounts which we have to use for legal and accounting reasons. We've set out some definitions in the jargon buster table below to help you understand some of the difficult phrases accountants like to use. When a word is in bold in the jargon buster table that means you can also find the definition of that word in this table.

There is also a "What does this show?" introduction to every note to the accounts describing in simple terms what the note is trying to show.

Initially though we define and explain some of the Alternative Performance Measures (APMs) that we use throughout the Annual Report and Accounts.

Alternative Performance Measures (APMs)

Our Annual Report and Accounts includes various references to Alternative Performance Measures (APMs). These are financial ratios and metrics that are not defined by International Financial Reporting Standards (IFRS) and as such they may not be comparable with the APMs that are reported by other entities.

We include our APMs in the Annual Report and Accounts as we think they give useful information to our members to help them better understand the underlying performance and financial health of their Co-op. We don't however think the APMs that we provide are better than the statutory measures noted under IFRSs and they are not meant to replace them.

The table below explains in simple terms how the APMs are calculated and why we think they are useful measures to use. Where possible we also call out the nearest equivalent IFRS measure and cross-refer to the section of the financial statements where we reconcile between the APM and that IFRS measure. Our choice of APMs has been consistent year-on-year.

APM	
Like-for-like sales	<p><u>Definition and Purpose:</u> Like-for-like sales growth relates to growth in sales at those Food stores that have been open for more than one year (with any sales from stores that have closed in the year being removed from the calculation and prior year figures). The calculation includes VAT on sales but excludes fuel sales from our petrol forecourts. For Wholesale then the like-for-like metric relates to those partners (stores) that have been with Co-op for more than one year (with any sales from partners who have left in the year being removed from the calculation).</p> <p>The measure is used widely in the retail sector as a relative indicator of current trading performance versus the prior year. It is also helpful to our members in comparing our underlying performance and growth against the wider market as well as against other retailers (as it removes the impact that opening and closing stores may have on absolute sales levels).</p> <p><u>Closest IFRS equivalent:</u> There is no close equivalent to this measure under IFRS.</p>

	<p><u>Where reconciled in the financial statements:</u> Not applicable as there is no close equivalent to this measure under IFRS.</p>
2 year like-for-like sales	<p>We've introduced a new 2 year like-for-like sales metric in the 2021 financial statements. This is in-line with many other major retailers as we think it helps with the understanding of comparative performance given the impact of CV-19 in the first half of 2020.</p> <p>The metric is calculated in a similar way to the standard like-for-like definition (see above) except that it compares 2021 to 2019 (rather than 2020) and includes those Food stores that have been open for this time period since 2019. This is because the first half of 2020 was so heavily distorted by the impact of the pandemic and we think using 2019 (which was not impacted by CV-19) gives a more helpful comparison of underlying performance.</p>
Underlying operating profit before tax	<p><u>Definition and Purpose:</u> Underlying operating profit reflects our operating profit before the impact of property and business disposals (including individual store and branch impairments), the change in the value of investment properties and one-off items. We exclude these items as they are not generated by our day-to-day trading and by excluding them it is easier for our members to see and understand how our core businesses are performing.</p> <p><u>Closest IFRS equivalent:</u> Operating Profit.</p> <p><u>Where reconciled in the financial statements:</u> Income statement – see page 129 and Note 1 (Operating segments) – see page 133.</p>
Underlying profit before tax (PBT)	<p><u>Definition and Purpose:</u> Our underlying PBT figure is simply our underlying operating profit (as calculated above) less our underlying interest (being the day-to-day interest we pay on our bank borrowings and lease liabilities). Other interest income or expense such as our net interest income or expense on funeral plans is either not generated by our day-to-day trading or is not considered by management in the day-to-day running of the business as it distorts the underlying trading performance of the Group. Such items are not included in our underlying PBT metric so it is easier for our members to see and understand how our core businesses are performing.</p> <p>Again the measure looks to remove those items that are not generated by our day-to-day trading (as per the definition noted above) but we also include the day-to-day finance costs of running of our businesses.</p> <p><u>Closest IFRS equivalent:</u> Profit before tax.</p> <p><u>Where reconciled in the financial statements:</u> Note 1 (Operating segments) – see page 133.</p>
Net debt (interest)	<p><u>Definition and Purpose:</u> Net debt is made up of our of bank borrowings and overdrafts off-set by our cash balances. The figure excludes any lease liabilities.</p> <p>The metric provides a useful assessment of the Group's overall indebtedness which in turn reflects the strength of our balance sheet and consequently the financial resources available to us to employ and direct on behalf of our members.</p> <p><u>Closest IFRS equivalent:</u></p>

bearing loans and borrowings only)	<p>Interest bearing borrowings less cash and cash equivalents.</p> <p><u>Where reconciled in the financial statements:</u></p> <p>Consolidated statement of cashflows – see page 132.</p>
Total debt (including lease liabilities)	<p><u>Definition and Purpose:</u> Total debt is made up of our of bank borrowings and any lease liabilities that we have. It excludes any cash or cash equivalent balances that we may hold.</p> <p>The metric provides a measure of the Group's gross indebtedness.</p> <p><u>Closest IFRS equivalent:</u> Interest bearing loans and borrowings plus lease liabilities.</p> <p><u>Where reconciled in the financial statements:</u></p> <p>Consolidated statement of cashflows – see page 132.</p>

Jargon Buster (unaudited)

Accounting surplus (pensions)	<p>When a pension scheme has more assets than the amount it expects to pay out in the future (the present value of its liabilities) then it has an accounting surplus.</p>
Accrued income	<p>When we've performed a service but haven't billed the customer yet, we hold the amount due on the balance sheet as accrued income. Once we bill the customer the balance is then moved to receivables.</p>
Amortisation	<p>Similar to depreciation, but for intangible assets.</p>
Amortised cost	<p>We value some of our debt based on its amortised cost. This is the present value of the expected future cash flows in relation to the debt.</p>
Asset	<p>This is an amount on our balance sheet where we expect to get some sort of benefit in the future. It could be a building we use or are planning to sell, some cash or the amount of money a customer owes us.</p>
Assets held for sale	<p>Sometimes we have to sell things. When we've decided to make a large disposal before the year end but the asset hasn't been sold yet, we have to show it in this line on the balance sheet and reduce its value (impairment) if necessary.</p>
Assets in the course of construction	<p>These are assets that we're in the middle of building. They're on our balance sheet as we've spent money already building them, but they aren't ready for us to use them yet so we're not depreciating them.</p>
Associate	<p>When we have significant influence over a company (usually by owning 20-50% of a company's shares and/or having a seat on its Board), we call that company an associate.</p>
Balance sheet	<p>This shows our financial position – what assets we have and the amounts we owe (liabilities).</p>
Banking Syndicate	<p>We have an agreement in place with a collection of banks (known as our Banking Syndicate) that gives us quick access to borrowings should we need them.</p>
Benefit payments (pensions)	<p>This is the amount our pension funds pays out to pensioners.</p>
Capital expenditure	<p>When we spend money on items that will become assets (such as property or IT systems) this is shown as capital expenditure. The costs</p>

	are not shown in the income statement of the year it's spent – instead the costs are spread over the life of the asset by depreciation or amortisation .
Cash flow statement	This shows how much cash has come in or gone out during the year and how we've spent it.
Cash Generating Unit (CGU)	A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For our Food business this is defined as an individual store, and for our Funeral's business this is defined as a regional care centre and the funeral branches which it serves as they are heavily interrelated.
CISGIL	This is the society that operates the Insurance underwriting business – CIS General Insurance Limited. We sold this business on 3 December 2020.
Commitments	Where we've committed to spend money on something (such as building projects) but we're not technically liable to pay for it, we don't put the amount on the balance sheet but we disclose the amount in the commitments note.
Comprehensive income	This is our profit for the year plus other comprehensive income .
Consolidated	As this report is based on the financial performance and position of many societies and companies around the Group , we have to add up all those entities and the total is the consolidated position.
Contingent asset	This is an amount that we might get in the future. Unless it's almost certain that we'll get the amount, we're not allowed to put it on the balance sheet but we show the amount in the contingent assets and liabilities note.
Contingent liability	This is an amount that we might have to pay in the future. If it's only possible, rather than probable, that we'll have to pay the amount, then we won't show the amount on the balance sheet but we show the amount in the contingent assets and liabilities note.
Contract assets	These are costs we've incurred in advance of being entitled to receive payment from a customer under a contract, such as costs incurred in setting up a funeral plan . We hold these on the balance sheet until we've delivered all the services to our customer and are entitled to receive payment.
Contract liabilities	This is where a customer has paid us in advance of them receiving goods or services under a contract (for example, a funeral plan). We have to hold this on the balance sheet until the customer receives the service they've paid for.
Corporate investor shares	This is money that other societies invest with us and we pay them interest on it. The societies can get their money back at any time.
Credit	This is an increase in income/reduction in costs on the income statement or an increase in a liability /reduction in an asset on the balance sheet .
Current	An asset or liability that is expected to last for less than a year.
Current tax	This is the amount we expect to pay in tax for the year based on the profits we make.
Debenture	This is a type of loan that we've issued and are paying interest on.
Debit	This is a decrease in income/increase in costs on the income statement or a decrease in a liability /increase in an asset on the balance sheet .
Debt	Loans that we've issued and are paying interest on.
Deferred acquisition costs	These are amounts which our Insurance underwriting business pays to secure business. It then holds these costs on the balance sheet and amortises over the length of the insurance period.
Deferred consideration	This is an amount we'll be paying to a seller for businesses we've bought or an amount we'll be getting from a buyer for businesses that we've sold.

Deferred income	Occasionally we receive monies (or recognise deferred consideration following the sale of a business) in advance of when we will actually perform the service we are being paid for. When this happens we hold a liability on our balance sheet until the point at which we perform the service at which point we extinguish the liability and recognise the income.
Deferred tax	Sometimes our assets and liabilities are worth more or less on our balance sheet than they are for tax purposes. The tax on the difference in value is called deferred tax and can be an asset or liability depending on whether the value is greater in the balance sheet or for tax purposes.
Defined benefit schemes	This is a pension scheme where an amount is paid out to an employee based on the number of years worked and salary earned.
Defined contribution schemes	This is a pension scheme where an amount is paid into the scheme and at retirement the employee draws on the amount that has been invested over the years.
Depreciation	Some assets the Co-op will have for a while (such as vehicles). When we buy them the cost goes on our balance sheet and then depreciation spreads the cost of the asset evenly over the years we expect to use them in the income statement .
Derivatives	These are financial products where the value goes up or down based on an underlying asset such as currency, a commodity or interest rate.
Discontinued operations	When we sell a large business, we report its results at the bottom of the income statement so that it's easier for readers to see the performance of the Group's other continuing businesses.
Discount rate	This is the amount that we are discounting by. It's a percentage and varies based on what we expect interest rates or inflation to be in the future.
Discount unwind	Every year the amount that we're discounting is going to be worth more as we get nearer to paying or receiving it. We have to put that increase in value (the discount unwind) through our income statement .
Discounting	When we have to pay or receive cash in the future, accountants like to take off part of the amount if it's a big amount (like on our onerous leases). This is because cash we pay or receive in the future is going to be worth less than it is now – mainly because of inflation.
Disposals	When we have sold an asset .
EBITDA	This is operating profit excluding any depreciation or amortisation . The letters stand for earnings before interest, tax, depreciation and amortisation.
Effective tax rate (ETR)	This is the average tax rate we pay on our profits. This might be different to the standard corporation tax rate, for example, if we aren't allowed to deduct some of our costs for tax purposes.
Equity	This is the difference between the assets we own and the liabilities we owe – theoretically, this is how much money would be left for our members once every asset is sold and every liability is paid.
Eurobond Notes	This is our largest, fixed interest debt that we pay interest on to fund our businesses' operations.
Expected credit losses	This is an estimate of the amount of our receivables which will not be repaid.
Fair value movement	There are some things on our balance sheet which we have to revalue every year. This includes some of our debt , investment properties , our pension schemes and funeral plans . The change in value is called the fair value movement.
Federal	Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities. This is separate to our Wholesale business.

Finance costs	These are usually the interest we pay on our debt , but can also be other things such as the fair value movement on our debt or the discount unwind of liabilities .
Finance income	This mainly relates to the interest on our pension assets and the unrealised gains on funeral plan investments , but can also be other things such as the fair value movement on our debt or the discount unwind of receivables .
Finance lease	A finance lease is a way of providing finance. Effectively a leasing company (the lessor or owner) buys the asset for the user (usually called the hirer or lessee) and rents it to them for an agreed period.
Financial Conduct Authority (FCA)	The FCA regulates the financial services industry in the UK.
Financial instruments	A collective term for debt or derivatives that we have.
Financial Reporting Council (FRC)	The FRC regulate auditors, accountants and actuaries and they set the UK's Corporate Governance and Stewardship codes.
First Mortgage Debenture Stock	This is a small debt we owe that is secured against some properties – a bit like a mortgage.
Fuel	Refers to fuel sales generated from our petrol forecourts.
Funds in use invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us. 'Funds in use' is just the term for the amount we owe to the finance company.
Funeral plans	Our customers may not want their family to pay a large single sum for a funeral when he or she dies. Therefore, the customer can pay for it gradually or in lump sums over a number of years and the Group will invest that money.
Funeral plan investments	When a customer gives us money for their funeral in the future, we invest this money. The balance of these investments is held on the balance sheet .
Goodwill	When we buy a business or a group of assets , sometimes we pay more for it than what its assets less liabilities are worth. This additional amount we pay is called goodwill and we put it on our balance sheet .
(the) Group	This is Co-operative Group Limited and all companies and societies that it owns.
Hedging	Sometimes we want to protect ourselves in case we have to pay more in the future for something. This could happen if the value of the pound falls so we have to pay more when buying something abroad or if interest rates go up. We take out derivatives to protect us from this and this process is known as hedging.
IAS	International Accounting Standards. The Group use these as the accounting rules. There are many different IASs that cover various accounting topics (e.g. IAS 38 is for intangible assets)
IFRIC	International Financial Reporting Interpretations Committee. These are interpretations of IASs or IFRSs that the Group also has to abide by.
IFRS	International Financial Reporting Standards. Similar to IAS, but cover different subjects.
Impairment	Sometimes our assets fall in value. If a store, branch, business or investment is not doing as well, we have to revalue it and put the downward change in value as a cost in our income statement .
Income statement	This not only shows our income as the name suggests, but also what our costs are and how much profit we've made in the year.
Intangible asset	We have assets at the Co-op that we can't see or touch which are shown separately to other assets . These include things like computer software and goodwill .
Interest rate swaps	We like to know what interest we're going to be paying in the future so we can manage our businesses effectively. We enter into arrangements with banks so that we can do this – for example, if we have debt where the interest rate can vary, we can buy an interest rate swap which means that

	instead we'll pay a fixed rate of interest. The value of these swaps can go up or down depending on how the market expects interest rates to change in the future.
Inventories	This represents the goods (the stock) we're trying to sell. The cost of this is shown on our balance sheet .
Inventory provision	If some of our stock isn't selling, we write those costs off to the income statement and hold a provision against those goods on the balance sheet .
Investment properties	Properties that we don't trade from, and which we might rent out or hold onto because the value might go up, are called investment properties.
Invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us.
Joint ventures	When we own 50% of a company we call it a joint venture. Sometimes associates are called joint ventures commercially as they're ventures with other parties, but are called associates for accounting purposes. A joint venture is a company where we own exactly 50%.
Lease Liability	This represents the discounted future payments we are due to make to suppliers in exchange for the right to use their equipment or property.
Liability	This is an amount on our balance sheet which we'll have to pay out in the future.
Like-for-like sales	The measure of year-on-year sales growth for stores that have been opened for more than one year. This is a comparison of sales between two periods of time (for example, this year to last year), removing the impact of any store openings or closures.
Listed debt securities	People can trade some of our debt such as the Eurobonds fair. When this is the case, it's a listed debt security.
Member payments	This is an amount we've paid our members in the year and approved at the AGM such as dividends.
Member rewards	These are the benefits that members have earned for themselves during the year as part of the 2% membership offer.
Net assets	Same as equity .
Net debt	This is the debt we have less any cash that we might have.
Net operating assets	Net assets less investments, funeral bonds, deferred tax , pension surplus and drawn debt .
Non-controlling interest	This is the equity in a subsidiary which is owned by another shareholder. For example, if we only own 60% of a company, the other 40% is the non-controlling interest.
Non-current	An asset or liability that is expected to last for more than one year.
Non-GAAP measure	GAAP stands for Generally Accepted Accounting Principles. This is the common set of accounting principles, standards and procedures that companies must follow. Sometimes, companies want to provide different measures to help readers understand their accounts (such as underlying profit) where there isn't a standard definition – these measures are called non-GAAP measures.
One-off items	Items that are not regular in size or nature and would otherwise cloud the underlying profitability of the Group are stripped out. This could include a large IT project or a large restructuring exercise.
Onerous leases	When we close a store we sometimes still have to pay running costs until the lease runs out (such as rates). When this happens, we make a provision for the amount of the running costs we will have to pay in future and hold this on the balance sheet . Rental costs are excluded from this provision now we have adopted IFRS 16 (Leases) as those costs are included in the lease liability .
Operating profit	This is our profit before we have to pay any interest to our lenders or tax to the tax authorities. It is also stated before any net finance income / (costs) from funeral plans.

Operating segments	This is an accounting term for the different businesses we have. When the financial performance of one of our businesses is reviewed separately from the other businesses by our Board, we call that business an operating segment and its sales and profit are disclosed in Note 1.
Other comprehensive income	Sometimes we have big fair value movements on long term assets and liabilities . The income statement is meant to show the performance during the year, so to avoid this being distorted by these big changes, they are shown separately as other comprehensive income.
Parent	This is the owner of a subsidiary .
Payables	Another name for liabilities .
PAYE	Pay As You Earn. A tax which is paid on wages.
Pension interest	This is the interest that we're allowed to show in our income statement and is the discount rate used to discount the pension liabilities multiplied by the pension surplus or deficit last year.
Performance obligations	These are promises to provide distinct goods or services to customers.
Prepayment	When we pay in advance for a cost which relates to services that will be received over a future period of time (for example, rent or insurance), we hold that cost on our balance sheet as a prepayment and then spread the cost over the period of the service.
Present value	This is the value of a future cost or income in today's money and is arrived at by discounting .
Provisions	This is a liability , but one where we're unsure what the final amount we have to pay will be and when we'll have to settle it. We use our best estimate of the costs and hold that on the balance sheet .
Realised gains	This is when we sell an asset for a profit.
Receivables	When someone owes us some money, we hold that amount as a receivable on our balance sheet .
Reclaim Fund	This is an entity that helps money in dormant bank accounts to be used for charitable purposes.
Related party	This is a company or person that is closely linked to the Co-op. It's usually a member of our Board or Executive or their close family plus companies such as our associates and joint ventures .
Remeasurement gains / losses on employee pension schemes	There are lots of assumptions that are used when valuing pensions. If those assumptions change this can have a big effect on the size of the pension asset or liability . So that we don't distort the income statement , this effect is shown in other comprehensive income .
Repayment notes	This is a type of loan, which we repay either in instalments or in a lump sum at the end of the loan.
Reserves	This is the amount of equity we have, but excluding any share capital .
Restated	Sometimes we change the numbers that we showed in last year's accounts. This might be because we have changed where or how we record certain things or it could be that we have corrected an error. There are strict rules around what can be changed and when we make changes we explain why in the accounting policies.
Retained earnings	This is all the profits we've made since the beginning of time for the Co-op that have not yet been paid out to members.
Retirement benefit obligations	Another term for our pension liabilities .
Return on plan assets (pensions)	This is the income our pension assets have generated in the year.
Revaluation reserve	When we revalue a property upwards, we're not allowed to put this unrealised gain through our income statement or within retained earnings as law dictates that this can't be distributed to members until the property is sold. It's then ring-fenced as a specific reserve .

Revolving Credit Facility (RCF)	This is money that our lenders have agreed we can borrow if we need to. It works a bit like an overdraft.
Right of use asset (ROU)	This is an asset that we don't own legally, but which we lease from another party. The asset represents the value the Co-Op has in being able to use the asset over the length of a lease contract.
ROCE	Return on capital employed. This is based on our underlying profit we make in the year divided by the net operating assets we have.
Sale and leaseback	This is when an asset is sold to a third party and then immediately leased back under a lease agreement. For the Co-op, this usually relates to the sale of a building such as a store.
Sensitivity analysis	When an item on our balance sheet varies in value from year to year based on some estimates that we make, we show a sensitivity analysis which shows you how much the asset or liability would change by if we were to change the estimate.
Share capital	This is the amount of money that our members have paid us to become members less any amounts that we've repaid to them when they cancel their membership.
Society	The Co-operative Group Limited is a registered co-operative society. We sometimes refer to our collective whole as 'the Group' or 'the Society' and the terms are broadly interchangeable.
Subsidiary	This is a company or society that is owned by another company.
Supplier income	Sometimes our agreements with suppliers mean they will give us money back based on the amount of their products we buy and sell. We call this supplier income.
Underlying interest	This is the day-to-day interest we incur on our bank borrowings and lease liabilities and is what management consider in the day-to-day running of our Co-op. Non-underlying interest are those items that are not generated by our day-to-day trading or are not considered by management in the day-to-day running of the business (such as the interest on funeral plan liabilities or the fair value movement on the Group's quoted debt and interest rate swaps).
Unrealised gains	An asset may have gone up in value, but we've not sold it. If this is the case, the profit from the gain is unrealised as we've not sold the asset yet.
Unrealised gains – funeral plans	The funeral plan investments which we hold on behalf of our customers attract interest and bonus payments each year (depending upon market conditions). The gains or losses in the fair value of the plan investments is recognised within finance income /costs each year.
Wholesale	The Group's operating segment (trading Division) that sells direct to other retailers (rather than to individual members of the public). This primarily relates to the business we operate after we bought Nisa but it also includes any franchise stores. Wholesale is separate to our Federal segment.

Five year summary (unaudited)

	2021	2020	2019	2018	2017 (i)
£m					
Revenue					
Food	7,671	7,765	7,505	7,274	7,103
Wholesale	1,386	1,577	1,423	983	
Funerals	264	272	272	283	296
Insurance (marketing and distribution)	34	6	-	-	-
Legal	39	37	39	34	24
Federal	1,756	1,813	1,613	1,532	1,461
Other	1	2	12	56	59
Total revenue	11,151	11,472	10,864	10,162	8,943
Underlying (loss) / profit before tax					
Food	156	350	283	204	182
Wholesale	7	6	(10)	(21)	
Funerals	12	16	12	23	41
Insurance (marketing and distribution)	15	(2)	-	-	-
Legal	5	4	6	2	1
Other	(95)	(139)	(118)	(111)	(117)
Underlying segment operating profit	100	235	173	97	107
Underlying net interest expense on lease liabilities	(76)	(72)	(74)	-	-
Underlying interest	(56)	(63)	(64)	(64)	(64)
Underlying (loss) / profit before tax	(32)	100	35	33	43
EBITDA (ii)					
Underlying segment operating profit (above)	100	235	173	97	107
Depreciation (plant, property and equipment)	254	250	252	256	256
Depreciation (right-of-use assets)	122	113	110	-	-
Amortisation	29	17	17	15	8
Underlying segment EBITDA (ii)	505	615	552	368	371
Insurance (underwriting business) - (v)					
Revenue	12	273	315	323	331
Underlying PBT	(1)	19	(10)	(1)	11
Profit / (loss) on discontinued operation	13	5	(16)	(230)	(17)
Other performance items					
2% Member reward (vi)	(21)	(45)	(57)	(60)	(61)
2% Community reward (vi)	(19)	(13)	(11)	(12)	(13)
Profit / (loss) after tax - continuing operations	32	72	49	66	71
ROCE (ii)	3.2%	8.1%	6.0%	4.7%	5.7%
Balance sheet items (restated*)					
Total assets	9,180	8,986	9,913	9,547	9,203
Group net debt (excluding IFRS 16 leases)	(920)	(550)	(695)	(796)	(775)
Group net debt (including IFRS 16 leases)	(2,436)	(1,975)	(2,165)	-	-
Total equity	2,939	2,669	2,685	3,061	3,015
Net debt: EBITDA ratio (excluding leases)	1.82	0.89	1.26	2.16	2.09
Net debt: EBITDA ratio (including leases)	4.82	3.21	3.92	-	-
Total pension assets	11,452	11,708	11,168	10,271	10,538
Total pension liabilities	(9,194)	(9,854)	(9,304)	(8,412)	(8,985)
Total net surplus	2,258	1,854	1,864	1,859	1,553
Business-specific measures					
Total Food like-for-like sales increase	-2.9%	6.9%	1.9%	4.4%	3.4%
Number of Food stores	2,584	2,613	2,611	2,582	2,532
Total Food sales area ('000 sq ft) (iii)	8,276	8,407	8,327	8,292	8,307
Number of At-need funerals sold	90,768	100,943	90,630	95,363	99,925
Number of Pre-need funerals sold	44,751	42,497	49,066	55,593	68,969
Number of Funeral homes	830	840	998	1,049	1,079

(i) 53 week year.

(ii) See Jargon buster on page 217 for definition.

(iii) Quoted excluding petrol forecourt area.

(iv) Our Insurance business (marketing and distribution) is now shown separately (previously it was included within Other). For more details on the representation, refer to the general accounting policies section on page 191.

v) Our Insurance underwriting business has been held as a discontinued operation from 2018 and was sold on 3 December 2020.

vi) Our membership proposition was updated from October 2020 such that member and community rewards are earned at 2% (prior to that it was 5% and 1% respectively).