



Our Member-Owner 2023 Annual Report & Accounts



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A solid financial performance despite continued macro-economic volatility and inflationary headwinds. We were able to invest significantly in member pricing, colleague support and our communities, and still deliver a successful set of financial results.

2023 in brief

Group revenue *

£11.3_{bn}

Revenue down by £0.2bn on FY 2022 (£11.5bn).
Up by £0.5bn excluding the impact of the petrol forecourts sale.

Underlying operating profit **

£97_m

Underlying operating profit up by £14m on FY 2022 (£83m).

Group profit before tax **/**

£28_m

Group profit before tax down by £240m on FY 2022 (£268m).
Up by £79m excluding the petrol forecourts disposal profit from FY 2022.

Underlying EBITDA **

£468_m

Underlying EBITDA down by £5m on FY 2022 (£473m).

Group net debt ****

£82_m

Group Net debt improved by £240m on FY 2022 (£322m).

Net cash from operating activities

£602_m

Net Cash from Operating Activities up by £147m on FY 2022 (£455m).

* 2022 includes Group Revenue for the Petrol Forecourt business, which was strategically divested of in H2 2022, and both 2022 and 2023 include wholesale revenue transacted as part of the transition agreement.

** Statutory comparative figures for 2022 have been restated to reflect the new accounting treatment for funeral plans under IFRS17. FY 2023 onwards is accounted for on this basis.

*** Group Profit Before Tax in FY 2022 and consequently the variance in 2023 includes £319m profit on disposal following the strategic divestment of our Petrol Forecourt business in H2 2022

**** Net debt now reported and re-stated for 2022 excluding accrued interest on bond debt.

See page 252 for Jargon Buster.

Recruited over **one million member-owners**. The most we've recruited in a single year since 2017 and more than in 2021 and 2022 combined

Invested £90m (annualised) in **reducing our food prices** across **770 lines**, including exclusive member prices and promotions

Became the only Food retailer to offer **30% colleague discount** on own-brand products for colleagues

Continued to prioritise colleague safety through our **'Safer Colleagues, Safer Communities'** campaign. **We invested £18m** on security measures and continued to campaign with Government and work alongside local communities to help tackle the root causes of crime

Pension scheme net assets of **£0.4bn** (2022 £1.6bn) reflecting the successful pension "buy-in" agreed between the Trustee of the Co-operative "Pace" Pension Scheme and Rothesay Life plc, covering future pension liabilities and providing greater security to members of the scheme

Vision highlights

Our Co-op is the UK's largest consumer co-operative, with over five million active member-owners¹ and a presence in every postal area in the country.

We're a major food retailer and wholesaler; we're the largest funeral services provider in the UK; a major provider of regulated consumer legal services, particularly probate and wills, and provide a broad range of consumer insurance products.

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 member-owners and the communities in which we trade and we can only do this by running a successful co-operative 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-owners. 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 member-owners and their communities.

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. When you spend at Co-op it does good for you and your local community. Our commitment to ethical trading and international development also means our impact is wide reaching and around the world.

Our Vision '*Co-operating for a Fairer World*' has served us well for the last five years and it has driven all of the achievements across 2023 including the highlights below.

| | | | | | |
|--|--|--|---|---|--|
|  <p>We've met our target to increase the representation of ethnic minority leaders and now stand at 8%</p> |  <p>Over £23m-worth of funding has been brought together¹ by our partners and suppliers to support people from diverse backgrounds into apprenticeships</p> |  <p>95% of Co-op own-brand products met their calorie reduction targets?</p> |  <p>We are proud to have continued our impact through Fairtrade sourcing and in 2024 we are celebrating 30 years of Fairtrade</p> |  <p>Over 1m members joined us in 2023. The most we've recruited in a single year since 2017</p> | <p>Working in partnership:</p>  <p>Our colleagues, members and customers have gone BIG for Barnardo's and raised £1.2m</p> |
|  <p>Our social activity created value for 4m people in our members' communities, on issues member-owners care about*</p> |  <p>Our member-owners have taken action in support of our Vision over 2.5 million times</p> |  <p>Recognised at the Fairtrade Global Awards - winning the Climate Leader award</p> |  <p>26% removed from plastic footprint since 2018</p> |  <p>21% reduction in GHG emissions from our value chain (Scope 3) since 2016</p> |  <p>29% reduction in food waste since 2022</p> |

¹ Active member-owners are those who have traded with us in the past year in Co-op Food, Funeral and Life Planning, Insurance and Legal Services
 * 4m includes beneficiaries from our external partnerships with charities, our local community fund, our academies and through our Member Pioneers

Our Co-op continues to stand apart from other operators in its markets, demonstrating the power of co-operation. During 2023, our Co-op led the way across many areas:



Our pioneering work with organisations including the Net Zero Council, Government and local police forces, ensured we represented our member-owners' voices on the issues that matter most to them.

Our new Vision

The world has changed, and with it the needs of our member-owners and society. The cost of living crisis is driving a focus on pricing and value for every day and life essentials. We're proud to have been able to support our member-owners, customers and colleagues through this during 2023, whilst further strengthening our financial and operational position. We are excited for a new co-operative era in which our businesses can grow. While we developed our ambitious new strategy in 2023 to reflect this, we also knew it was time to re-define our Vision and align it with our plans for growth.

Our new Vision supports our ambitions of returning to our heritage and co-operative Values by continuing to place our member-owners firmly at the heart of all we do, every day.

**'Co-operating to build
more value for our
member-owners every day'.**

We look forward to updating you on the progress we've made towards our new Vision in next year's report.

For more information on our responsible business performance in 2023, please see our Co-operate Report at [co-operative.coop](https://www.co-operative.coop).



Chair's introductions

“ As we look to 2024, our Co-op is entering a new era of Co-operation, one that continues to place member-owners and the interests of their communities firmly at the heart of all that it does. ”



As I hand over the Chair of our Co-op to Debbie White, I do so knowing that she will lead and steer our Co-op with our co-operative Values and Principles and the very best interests of our member-owners, colleagues and the communities we serve at the forefront of her mind.

I also know that our Co-op is in the strongest position it has been in since I accepted the role of Chair nine years ago. We have faced many challenges during that time, but with the power of Co-operation and through the support of our amazing 56,000 colleagues, we have weathered them all and grown stronger as a result.

2023 was, as we predicted, another challenging year as economic uncertainty, inflationary pressures and heartbreaking global conflict placed increasing pressure on individuals and businesses.

I am therefore very proud of what our Co-op delivered for our member-owners during the last year and equally excited about what it can achieve in the future. A huge amount of credit needs to go to Shirine and her leadership team for delivering a strong commercial performance, which exceeded expectations, fulfilling our wider social commitments and developing a compelling future vision and strategy for our iconic business.

As we look to 2024, our Co-op is entering a new era of co-operation, one that continues to place member-owners and the interests of their communities firmly at the heart of all that it does.

We will be a Co-op that is true to its founding principles of existing to create and return value to member-owners, and that gives those member-owners a say in how it creates this. A Co-op that has the financial stability to power investments to support growth in the areas where it can add the most value for members. And with the ability to innovate and to look to the future.

A Co-op that will proudly continue to support the UK, its communities locally and around the world for many years to come.

Guided by its Co-op Difference and values, I have every confidence that it will deliver on its strategy, and in turn its Vision *'Co-operating to build more value for our member-owners every day'*.

Thank you to you all for your loyalty and support for our Co-op during the years, and for your continued support in the future.

A handwritten signature in black ink, appearing to read 'Allan Leighton'. The signature is stylized and written over a horizontal line.

Allan Leighton
Chair, The Co-op Group until 1 January 2024

“ I’m proud to be joining at a time where the Group is at the start of its next exciting phase, and will evolve during 2024 and beyond. ”



It is a pleasure to introduce our 2023 Annual Report in my first year as Chair.

Our co-operative Values and Principles align to my own and I am incredibly humbled and proud to take on this role at such an exciting time, as we begin the journey to grow our business.

Having led and been involved with businesses in many different sectors, including Interserve; global healthcare and government at Sodexo; Spire Healthcare Group PLC; Howdens Joinery Group PLC; and PAVmed Inc, I remain fascinated by and thrive within large people-centric, values-led businesses with significant opportunities to make a difference. I see that, and much more, within our Co-op and I am confident we can make significant progress together in the years to come.

I would like to give my heartfelt thanks to Allan for his counsel and support as I have developed my understanding of our Co-op. He has been a tremendous Chair and, on behalf of everyone at our Co-op, I'd like to thank him for everything that has been delivered over his nine year tenure. Thank you also to the Board, Shirine and her leadership team and everyone I have met on my induction for the warm and inclusive welcome I have received.

I have been in position as Chair Designate and Chair for a combined eight months now and can clearly see the impact of the last two years' hard work by our 56,000 colleagues to stabilise the business, establish a new Co-op Vision and strategy and ensure we have the right ways of working in place to deliver our ambition and plans for significant growth. As you will read in Shirine's update, we made significant progress in many areas in 2023 - our work in communities, with young people and our improvements in sustainability are at the heart of being a co-operative.

We thank Shirine and all our leaders - including Rachel Izzard our CFO, who we welcomed in 2023 - for what our Co-op has achieved within this report.

Economic uncertainty, global conflict and the cost of living crisis continue to affect our Co-op, member-owners and communities. Yet, our Co-op is secure and primed for growth in 2024.

Consistent determination and hard work at all levels throughout our organisation, has meant that our Co-op has not only endured but excelled during another challenging year. We have grown our membership base and improved our financial stability; a successful co-operative business must be commercial and focused on creating value for its member-owners - I believe we are getting much better at both of these aspects. I am delighted to be joining at a time when our Co-op is driving growth and performance in both these areas. Shirine covers this further in her 'Looking Ahead' on page 38.

And, as Allan steps down, so too do a number of our Board members who have also each delivered an impressive nine years of service to our Co-op. This year we sadly say goodbye to Member Nominated Director Paul Chandler, and Stevie Spring, Independent Non-Executive Director and Chair of our Remuneration Committee.

Sir Christopher Kelly, our Senior Independent Non-Executive Director, also served a full nine years and stepped down last November. All three, along with Allan, have made incredible and long-lasting contributions to our Co-op. I thank them for everything they have done, as well as their recent guidance and support.

Joining our Board during 2024 we welcome Moni Mannings as Senior Independent Non-Executive Director and Luke Jensen as Independent Non-Executive Director. I know they will both add incredible value to our Co-op and we all look forward to working with them closely in the years ahead.

I am excited about the future of our Co-op, it is my strong belief that it is only through working collaboratively together that we can achieve our Vision '*Co-operating to build more value for our member-owners every day*'.

Thank you for your continued support of, and engagement with, our Co-op.



Debbie White
Chair, The Co-op Group from 2 January 2024



Report from the President of the National Members' Council



In 2023, our Co-op continued to focus on what matters most: our members and the value we create for you. Although we've been up against challenges, it's remained an exciting time for us, which we've been building up to and working hard towards across our businesses for the last 12 months. And at the heart of it is you.

As a Co-op member, you own an equal part of our Co-op and we exist to meet the needs of our members and their communities, not a small group of shareholders. We're different. It's fantastic that we've reached the milestone of five million member-owners, and that our membership has been growing and diversifying alongside our businesses. Many of you have been with us for a while now and I can't thank you enough for your ongoing loyalty and commitment to our Co-op. I'd also like to take this opportunity to welcome everyone who became a member-owner in 2023, it's great to have you with us.

Our priority for 2023 was our Co-op membership and especially economic value. Many of our member-owners and customers told us that you believed our prices were too expensive. As your elected representatives, Council championed the importance of supporting our members and their families during the ongoing cost of living crisis.

Throughout the year, we heard from the Board and the business about different proposals to improve economic value for our members. We identified that there were better ways to increase value to member-owners. By reducing our standard pricing and through the introduction of Member Prices on a number of everyday essentials and own-brand favourites, we're now helping members to save almost three times more per week, compared to what they previously received in reward.

Being a member-owner of our Co-op is special. It is not a loyalty scheme, and as owners, you should have access to products and services from our Co-op at great prices. Your Council championed the importance of being different and recommended that our Member Prices scheme should focus on everyday essentials and the products that our members buy the most.

Since the Member Prices scheme was launched in August, we've seen members shopping with us more often and more members join our Co-op. We have been listening to you, our member-owners, as you have shared your thoughts about the changes to membership rewards and replacing the previous scheme with Member Prices. We know that many of you prefer Member Prices and will see greater benefits by instant access to permanently lower prices on essential everyday items. However, we acknowledge that some of our members, especially those who live in rural areas and do all their shopping with our Co-op, preferred to be rewarded through balances for each time they bought an own-brand product.

Throughout these changes, we have challenged the Board and Co-op Leaders on key areas such as the insight used about what our member-owners want and how they will benefit, and how we listen to and communicate our changes to them.

In 2024, your Council will continue to ask important questions and hold the Board to account for the economic value we provide for members, including making sure that you have access to member prices on products that you want to buy, and that these products are available wherever you live across the UK.

We will also have a significant focus on how we ensure that our Co-op membership is special and that we give you even more value every day.

With over five million member-owners, we know that each of you have different reasons for being a member of our Co-op. Some of you want to buy our products and services at the right price. Some of you are passionate about our ethical and sustainable commitments and work to reach to Net Zero. Some of you like getting involved in the work we do locally with your community. Some of you resonate with our unique ownership model and you want to have your say in how we are run. In 2024, we want to see this all come together in a single membership offer that everyone can make the most of, which demonstrates the value we can deliver when you choose us and what we can achieve with your views and support.

An example of the power of our Co-op member-owners, and what can be achieved when our Co-op is used as a platform for change, has been our 'Safer Colleagues, Safer Communities' campaign. Working in a safe environment, free from harm, is a fundamental right. As Council Members, we alerted our Board and Operating Board of our concerns about the reports of rising numbers of serious, organised theft in stores and violence against our store colleagues. We know this has been a big worry for our members and colleagues and Council has been at the forefront of keeping this issue high on our agenda. The Retail Crime Action Plan is a direct result of our Co-op listening to our member-owners and colleague member-owners. We have taken action together to lobby for changes to the law and to address how retail crime is handled and prioritised by the criminal justice system.

Some other examples of where your voice has shaped our Co-op has been through our AGM Motions. 'Creating a Fairer World for Young People', 'People Power and our Co-op Difference' and 'Championing Member Value through our Ethical and Sustainable Credentials' were the themes in 2023. We also had a motion from member-owners which asked our Co-op to consider options to strengthen our animal welfare policies and practices in relation to chickens. It's vital that our member-owners know what we're doing with their votes and why, and I'm really pleased that we've been able to achieve this through our motion video updates on Join In.

Your Council had three priorities in 2023: Cost of Living, Business Performance, and Member Participation and Community, which you can find out more about in our report on pages 130-135.

There is so much more to come this year. 2024 will see an even greater focus on membership and how we can ensure the value that we create for you is measured and shared. We're also going to champion you getting the right information at the right time on products and services, the social value members create together, and your rights as a member-owner.

Your National Members' Council is one of three parts of our Co-op's governance system. Both your Council and Board are elected and voted for by you, our member-owners. The Board, led by our new Chair, Debbie White, sets the direction and strategy for our Co-op and makes the big decisions. Our Operating Board, led by our CEO, Shirine Khoury-Haq, runs our Co-op on a day-to-day basis. Our role as your Council is to work co-operatively with our Board and Operating Board to hold them to account and influence and shape our future direction. Through this unique way of doing business, we can achieve the best for you. Our Council looks forward to continuing to work with our Board, our member-owners, and our colleagues. We will continue to provide support and challenge as we create a sustainable, successful co-operative business together with you at its heart.

I'd like to thank our outgoing Chair, Allan Leighton, and Sir Christopher Kelly for their service to our Co-op over the past nine years, in some of the most challenging times our Co-op has ever faced. I look forward to working with Debbie, Shirine and their teams as we move our Co-op into a position of growth.

All that's left for me to do is say a huge thank you to you, our members, for choosing us. I'd also like to thank Debbie Williams and Sam Webster, our Vice-Presidents, who do a brilliant job at leading Council alongside me, and our Senate, which makes sure we're doing the right thing as a Council and not missing important opportunities for our member-owners and our Co-op. I'd also like to thank every Council Member for their continued commitment to our shared cause, and our small-but-mighty Council Secretariat Team, who we couldn't function without. I look forward to working closely with all of you in 2024.



Denise Scott-McDonald
President, National Members' Council

Chief Executive's overview

“ Despite external headwinds, further strengthening of our financial position allowed us to do the right thing and invest in supporting our member-owners, colleagues and communities during the cost of living crisis. It also gave us the ability to plan strategically, so that our Co-op is set up to be commercially successful, sustainable and fit for future growth. ”



Our Co-op in 2023

It fills me with great pride to introduce our annual report to you, our member-owners. This is our main update to you on how the business you own has performed and it is also an opportunity to celebrate all that we have achieved together.

I must, as always, start by thanking my amazing 56,000 colleagues. Without their care, compassion and commitment, our Co-op wouldn't be where it is today. I know my colleagues are so proud to see their efforts reflected in the successes our Co-op has achieved across all of our businesses and the wider social impact we have been able to make into communities.

My thanks also go to Allan Leighton who, during the last nine years, has ably chaired our Co-op through some important moments in its history, whilst remaining a true co-operator and upholding our values. I am so grateful to Allan for his support and guidance as I took on the CEO role. His expertise, humility and sense of humour made the last two tumultuous years not only productive but also a great deal of fun. After nine years of service to our Co-op, he has left this incredible organisation in a much stronger position than when he started, and we all owe him a debt of gratitude.

My colleagues and I are also so honoured to welcome Debbie White as our new Chair and to introduce her to you in her first annual report. Debbie's experience and expertise speak for themselves, but it was her true connection with, and appreciation for, our Co-op and the values it embodies that made her stand out as an extraordinary Chair for this organisation. She has already contributed so much to our progress, and we are all looking forward to working with her as we continue to deliver more value to our member-owners every day.

This is my second annual report as CEO and sadly, as we all know, 2023 has been another year of tragic worldwide unrest and economic turmoil, globally and in the UK. This has brought challenging trading conditions, volatile markets and ongoing financial headwinds for all businesses. The resulting cost of living crisis continued to affect our member-owners, colleagues and customers.

Given these external influences, we have had to remain ruthlessly focused on maintaining financial and operational discipline while delivering on our strategy and investing in our growth. My thanks go to our operating board, leadership team and every single one of our colleagues for keeping focused on our objectives.

In the UK, the cost of living crisis has persisted and our improved financial strength has meant that we have been able to support our member-owners, colleagues, customers and local communities during this critical time, as only we can.

Our Co-op exists to create and give value back to our member-owners and the communities we serve. It has been at the heart of our co-operative Values and Principles since we were founded in 1844 and it has been our core focus during 2023. This will not change as we continue to move our Co-op into a position of growth, with our member-owners firmly at the heart of all we do. We are able to do this due to the strengthening of our balance sheet and operational performance, the clarity of our strategic ambition and the unique nature of our Co-op Difference and Vision.

Rachel Izzard, our Chief Financial Officer, shares the full detail on our financial performance in her update a little later in the report, along with updates from each of our businesses by our Managing Directors Matt Hood, Gill Stewart, Peter Batt, Caoilíonn Hurley and Charles Offord.

Our business performance

I do, however, want to highlight the details of another 12 months of positive year-on-year progress. Despite external factors and inflationary pressures, we ended 2023 in a much stronger position than the previous year, and ahead of our initial year end predictions. We've seen improvements in some of our key financial metrics with cash generation up, underlying operating profit up and net-debt significantly down. When the sale of our petrol forecourts and the impact of the introduction of IFRS17 are removed, our Co-op has seen year on year improvement across most of our key financial metrics. This is despite absorbing economic headwinds related to pay awards, product inflation and increased energy prices of £200m.

It's important to note that our profits could and would have been higher, if we hadn't chosen to take some of the decisions we did to further support our member-owners, colleagues, customers and communities. However, as a Co-op, we have a different way of doing business. Our model isn't based on making short-term profits for shareholders. Instead, we took a different path in an ongoing cost of living crisis, which was exactly the right thing to do. This included a £38.6m investment into supporting our commitments to ethical and sustainable sourcing and investing £23.6m to support communities in the UK and around the world.

We spent the first half of the year continuing to build on the momentum that our hard work and discipline created during 2022, continuing our focus on our operating expenditure and lowering the cost to run our Co-op while keeping tight control on investments.

This discipline created the ability for us to invest £90m (annualised) in 2023 into growing our active membership base¹ by lowering prices and creating specific deals for our member-owners. We further invested £44m year on year to support our colleagues through the cost of living crisis.

This included all Customer Team members in stores receiving a pay increase of 10.1% through our commitment to the Real Living Wage, a £30 end of year thank you payment to those colleagues who don't participate in the Group Bonus scheme, a £10 end of year celebration payment and an indefinite extension of 30% discount on Co-op own brand products for all our colleague member-owners. Our colleagues are critical to our success, and in addition to extending colleague discount we have continued to offer a full package of wellbeing support which includes physical, mental and financial support.

As Rachel will detail later, I am so proud that we ended 2023 in a stronger financial position than 2022 while providing such significant support to our colleagues and member-owners, which is critical as we set our Co-op up to deliver ambitious growth in 2024 and beyond.

As Kenyatte Nelson, our Chief Membership and Customer Officer, will detail in his report, we have continued our investment in membership during 2023 to set us up for further growth during 2024. It has been a year of significant focus on attracting new members, investment into lowering prices for our customers and member-owners alike, providing member-owner bespoke prices and promotions, and communicating about our businesses and services.

We recruited over one million member-owners in 2023. We ended to the year with over five million active members (2022: 4.41m), a year-on-year increase of 14% even after the normal level of turnover in membership that we experienced.

We can see this growth flowing through and contributing to our performance, particularly in food as we continue to see increases in spend, frequency of visits and, most importantly, a shift in the perception of the value that our Co-op offers.

This year's positive performance would not have been possible without the early action we took back in 2022, the tough decisions we made, and the hard work of everyone in our Co-op during the last two years which has created greater efficiencies and improved ways of working as well as much strengthened financial discipline. There is no doubt that this continued to positively contribute to our performance.

¹ Active member-owners are those who have traded with us in the past year in Co-op Food, Funeral and Life Planning, Insurance and Legal Services

By the end of 2023, our work to increase our operational efficiency had generated £155m of annualised cost reduction since the beginning of 2022, supporting our ability to absorb the in-year cost headwinds.

We have significantly reduced our net debt from £909m at the beginning of 2022 to £82m at the end of 2023 (a reduction of £827m over two years and £240m in 2023). While driving a reduction in interest charges, the investment disciplines we have implemented, the right-sizing of our businesses and the focus on operational and cost improvement have enabled us to deliver value to our member-owners while building strong foundations for our future growth.

The investments we have been making in our Food store estate are really paying off, and we are seeing many stores that had been underperforming now consistently generating more revenue for our Co-op.

Our life services businesses have all performed strongly in their markets driving increases in revenue across the individual business units in Funeralcare, Insurance and Legal Services.

We are very proud of this year's positive performance. It allows us to plan ahead for the longer term and build an ambitious plan for our future, based on our Co-op Difference and our new Vision and strategy, all of which place our member-owners firmly at the heart of all we do, and with the growth of our Co-op as our strategic focus.

I'll share more detail on these plans in my Looking Ahead update a little later in the report.

Progress against our Vision

We also have much to celebrate in our sustainability, community and campaigning work as we continued to deliver our Vision during 2023.

It's vital that we continue to be there for those who rely on our Co-op the most. Our Local Community Fund helps thousands of local community causes that our member-owners care about. Since it launched in 2016, members have raised £107m for more than 36,000 unique community causes and in our latest pay out in 2023, these Local Community Fund causes supported over one million people in our members' communities across the UK.

We've evolved how we measure and report members' participation in our Co-op and are now able to measure a more comprehensive view across many areas including choosing a community cause, voting in our elections and AGM and donating personal rewards to the Co-op Foundation. In 2023, member-owners participated across these opportunities 2.5m times, exceeding our original target of 2m. This represents an increase on last year of 30%. It's fantastic to see that our member-owners are becoming more engaged in helping us to bring our Vision to life and create social value through participating with our Co-op.

Our member-owners called on us in our 2021 AGM to 'Campaign and advocate for change, to tackle the inequality we see today and to challenge Government to address the root causes of these issues and to enable social mobility throughout our society'. This year, we've made progress on our commitments to social mobility as we commissioned Making the Leap, a social mobility charity, to undertake ground-breaking research. Through this, we've heard directly from colleagues who identify as coming from lower socio-economic backgrounds about their experience of working at our Co-op and have found that, for many, their socio-economic background may be acting as a brake on opportunity and progression. The report has helped us to develop a new 9-point Social Mobility plan, supported by a Social Mobility taskforce to deliver it. Through this we've committed to supporting our colleagues to become more financially resilient and to address the length of contracts and the number of additional hours worked to give colleagues a more secure income.

We continued to develop our Diversity & Inclusion (D&I) commitments in 2023, focusing on driving better diversity in representation while promoting an inclusive culture. We've achieved our target to increase the representation of ethnic minority leaders, which is now at 8% (2022: 7%). We know there is still more to do and are working towards our 2025 target of 10%.

We're also continuing to create opportunities by championing apprenticeships, delivering hundreds of opportunities within our own business and supporting other employers to do the same through the Co-op Levy share. Since its launch in April 2021 our Levy Share scheme has brought together a fund of £23m from 84 employers and placed over 2,000 apprenticeships.

Our Co-op's commitment to tackling the climate crisis has remained one of our top priorities and in 2023, we were delighted to be recognised at the Fairtrade Global Awards, winning the 'Climate Leader' award. This was after being awarded the Queen's Award for Enterprise for Sustainable Development in 2022.

Having reached our near-term carbon-reduction targets early, this year we have set new and more ambitious science-based targets which have been validated by the Science Based Targets initiative (SBTi) in line with the SBTi Net-Zero Standard. Since mid-2022, we've successfully implemented, measured, and verified over 22,000 new energy saving measures, with over 16,000 of these measures implemented in 2023; this energy saving initiative has contributed to an overall reduction of 56% in our Scope 1 & 2 emissions in 2023 (vs 2016). Our Scope 3 emissions represent over 90% of our total carbon footprint - and the vast proportion of these emissions are linked to producing the products we sell. This makes reducing the carbon footprint of our supply chain and products our biggest climate change priority. In 2023 we reduced our Scope 3 emissions by 21% since 2016.

Our Co-op Academies Trust, under Chris Tomlinson's leadership, continues to focus on school improvement, and during 2023 we were so proud to have received 7 Good Ofsted outcomes, with almost two-thirds of our Academies now rated 'Good' or 'Outstanding'. Often located in challenged communities, many of these schools were rated as 'Inadequate' or 'Requires Improvement' when they joined the Trust, so this is an important achievement.

As our 19,500 students also played a huge part in delivering these improvements, they deserve our congratulations. I have been delighted to meet many of them over 2023 and I am always so impressed with their intelligence, ambition and potential. We continue to ensure that our Academies and our businesses, as well as our students and our colleagues, work together to ensure the best possible futures for every single one of the young people who attend our Academies.

Our charity, the Co-op Foundation, has continued to deliver its strategy 'Building communities of the Future Together'. In partnership with our Co-op, youth social action charity #iwill, and supported by funding from Co-op Live, Co-op Foundation launched the £4.5m Young

Gamechangers Fund. Funding will put young people across the UK at the heart of change to create communities that are prosperous, safe, diverse, equitable and inclusive, healthy and sustainable. The Foundation also awarded £1.4m from its Future Communities Fund to support grassroots, youth-led organisations to develop diverse leaders of the future. Funding allocation was decided by seven young people from the Foundation's Future Communities Collective along with two young trustees. And through its Carbon Innovation Fund - another partnership with our Co-op to help reduce carbon emissions in food and farming - the Co-op Foundation awarded £1.1m of grants in 2023 to organisations helping to reduce the reliance on soy-containing animal feed and synthetic fertilisers. The full details of how we have delivered against our Vision in 2023 can be found in our Co-operate Report at [co-operative.coop](https://www.co-operative.coop).

Campaigning and driving change

It's always an honour to represent our Co-op and the views of our members and colleagues on the things that they tell us matter most. I'm especially proud of the campaign we led during 2023 to raise awareness of the shocking increases in retail crime. This is something that we and all other retailers are facing; however, convenience stores are most impacted due to their size and ease of access. We recorded the highest ever levels of retail crime in our Food stores - 336,270 incidents of shoplifting and anti-social behaviour, a 44% year-on-year increase (2022: 233,266). Everyone has the right to feel safe at work and it's so important that we continue to work with police forces and Government to tackle this during 2024.

During 2023 I was delighted to take on the role of co-chair alongside the Rt Hon Graham Stuart MP of the Government's newly formed Net Zero Council. By co-operating together with other industry leaders, we have a unique opportunity to work together to progress towards the UK's Net Zero carbon reduction targets and to set an example for other nations. This complements the work we do with the British Retail Consortium's Climate Action Roadmap, which I continued to chair during 2023.

We have also worked to drive societal change as we partnered with the Royal Foundation Business Taskforce on early Childhood. Chaired by HRH The Princess of Wales, the taskforce brings together Chief Executives from a number of different industries to tackle the challenges faced in early childhood and the impact this has on society. Our Co-op, with so many community links supporting young children and their families, has an important role to play in this effort.

Thank you

While 2023 was another year of challenging economic and market conditions, planned and unplanned headwinds, and global turmoil, our results show our Co-op was well placed to not only navigate this but to position ourselves to look forward with confidence. Our performance, both commercially and in contributing to our member-owners' communities, is something of which we should all be proud. It sets us up well for 2024 and beyond.

My thanks go again to each and every one of my colleagues who work so hard every day in service of our member-owners and our Co-op. I also thank my operating board, the very best team I could ever hope for, as well as our hugely talented and collaborative leadership team. They have shown such ambition, bravery, compassion, collaboration and leadership over this incredibly difficult year and the one before - and they have achieved so much as a result.

I also want to thank our Group Board and our wonderful National Members' Council who are so passionate about our Co-op, who support and challenge in equal measure, and who always ensure we hear our member-owners' voices and place their interests first. I am grateful to each of you and I am looking forward so much to what we can achieve together during 2024!



Shirine Khoury-Haq
CEO, The Co-op Group



Financial overview



Financial overview



Rachel Izzard
Chief Financial Officer,
Co-op Group

This is my first annual report as Chief Financial Officer for our Co-op and I am honoured to have been given this unique opportunity.

I wanted to join an organisation with a meaningful purpose, a strong people culture, and an energetic and passionate team. I feel fortunate to have found all of this in our Co-op and to have joined at a time where we have strengthened our balance sheet and have a clear refreshed Vision with member-owners firmly at the heart. We have great opportunities to continue to improve and set ourselves up for the decades to come.

Our headline performance

Looking back at 2023, it was another challenging and volatile year for UK retail and UK consumers.

Despite this tough environment, we have delivered a solid financial performance for our member-owners, building on the good work of 2022. We absorbed significant cost headwinds and made considered, tightly managed investment choices including price investment for members at this critical cost of living time. We also generated improved underlying profitability and strong cashflow to further strengthen our balance sheet. This gives us a strong base, and emerging momentum, to return to profitable sustainable growth.

A key part of my role, and one that I value, is to ensure that all our stakeholders, including our member-owners and colleagues, understand our financials in an accessible way, whilst still making sure we meet our regulatory reporting requirements.

To better understand this year's results (both reported and underlying), I'll start with highlighting the below key areas that are outside of normal trading results:

- **Sale of petrol forecourts** – our 2022 results included ten months of trading performance related to petrol forecourts (PFS) which we sold in October 2022, as well as the one-off sales proceeds and disposal profit. Both 2022 and 2023 included Federal sales related to the transition period. By removing these impacts, we can compare the performance of our more focused estate on a comparable basis during 2023, in particular for revenue trends and statutory profit.
- **53 weeks reporting period** – similar to other retailers, we report our financial performance in weeks, with the need circa five years to report on 53 weeks versus the usual 52. This extra 53rd week gives us 1% higher sales in this fiscal year, a slightly improved year end cash position (as the 53rd week has sales inflow but a low-cost outflow), and an immaterial net impact on profit and loss. The reported revenue trend should be viewed in context of this extra 1%.
- **IFRS17 new accounting standard adoption** – this relates to pre-need funeral plans which are treated for accounting purposes as if they are a long-term insurance product. This adoption doesn't change the cashflow or profit we recognise over the life of a plan. However, it does change where it appears in the profit and loss and balance sheet and when it is recognised. This means some of the numbers you see in this document for 2022 do not match the numbers you will have seen last year, as both 2022 and 2023 have been transitioned to this new accounting to ensure a comparable basis. This also means Funeralcare is our only business segment where we believe Profit Before Tax (PBT) is a helpful measure of profitability compared to all other segments where we use underlying operating profit.
- **Pension Buy-In** – in November 2023, the Trustee of the Co-operative Pensions Scheme ("Pace") completed a "buy-in" transaction for the Co-op Section with Rothesay Life plc, purchasing a bulk annuity insurance policy. This covers all liabilities required to meet future pensions and delivers greater security to members of the Co-op Section of Pace. This was achieved without the need for Co-op to make additional contributions, whilst leaving residual assets remaining in Pace. Technical accounting means this reduces the reported balance sheet net pension asset materially but removes significant volatility in movements between our pension funding obligations and our asset returns and moves to a more certain net number. This is a successful outcome for our Co-op and the Pace members.

The following table walks through last year's headline reported results, showing the restatements and the comparison to our current year 2023 results.

| Key Financial Metrics | FY 2023 | FY 2022 | | Year on Year | |
|--|------------------------|------------------------|----------------|-----------------|---------------|
| | (53 weeks) Reported | (52 weeks) Reported | Restated* | B/(W)* | % Change |
| Statutory Profit and Loss Measures | | | | | |
| Group Revenue | £11.3bn | £11.5bn | £11.5bn | (£0.2bn) | (1.7%) |
| Group Revenue variance excl impact of PFS strategic disposal | | | | £0.5bn | 4.7% |
| Group Profit before Tax (PBT) | £28m | £247m | £268m | (£240m) | |
| 2022 adj for PFS Disposal Profit | £28m | | (£51m) | £79m | |
| Group Operating Profit | £66m | £5m | (£12m) | £78 | |
| Statutory Cash and Debt Measures | | | | | |
| Net cash from operating activities | £602m | £455m | £455m | £147m | |
| Group Net Debt** | £82m | £333m | £322m | £240m | |
| Total Net Debt including leases*** | £1,315m | £1,639m | £1,628m | £313m | |
| Alternative Performance Measures | | | | | |
| Underlying EBITDA*** | £468m | £490m | £473m | (£5m) | |
| Underlying Operating Profit | £97 | £100m | £83m | £14m | |
| Underlying Profit / (Loss) before Tax | (£2m) | (£31m) | (£48m) | £46m | |

* 2022 restated for IFRS17 and excluding accrued interest on amortised debt, 2023 VLY compared to restated 2022 base

** excluding accrued interest on amortised debt

*** EBITDA - earnings before interest, taxes, depreciation and amortisation

Group Financial metrics

Revenues: Group revenue of £11.3bn was 1.7% down on 2022 (£11.5bn). Outside of the impact of the petrol forecourt sale, group revenue was 4.7% higher than last year. This was in the context of the current year having 53 weeks. The underlying sales growth from each of our business units was a solid result given the challenging economic environment. Sales in our Food business were down by 6.4% (by £0.5bn). This was predominantly due to the sale of petrol forecourts, outside of this impact, sales were up 4.3% (by £0.3bn). With the external high inflationary environment, our volumes as well as those across the sector, were reduced. However, our improved financial strength enabled us to directly support our members and colleagues through the ongoing cost of living crisis, absorbing elements of the inflationary cost pressure ourselves, supporting our member-owners with £90m of annualised price investment into key value lines as well as continuing our discount of 30% for colleagues. The underlying Food sales growth was slightly behind the wider market driven by the first half of the year, with the second half showing stronger momentum. This should be viewed in the context of our disciplined approach to our property footprint which



contracted marginally year-on-year as we focused on improving profitability metrics before returning to investing in net new space. Outside of our Food business, the standout sales growth in the year came from Legal Services, up 48% to £68m (2022: £46m).

Profitability: In 2023 we improved underlying operating profit versus the previous year achieving £97m (2022: £83m). The improvement of £14m was inclusive of absorbing the loss of the petrol forecourts profit, and achieved on the reduced group revenue, meaning our underlying profit margin moved ahead. This was delivered through the hard work of the teams to mitigate significant cost inflationary headwinds of over £200m. It was also achieved whilst making room to invest heavily in our membership proposition with pricing.

The cost headwinds were driven by inflationary pressure. Energy costs stabilised but were still £42m higher when compared to 2022 (2023: £180m; 2022: £138m). Salary inflation including Real Living Wage increases drove circa £77m of additional costs compared to 2022 (2023 total salary costs: £1,383m). We also continued to significantly support our colleagues through the cost of living crisis. We extended the colleague discount of 30% on Co-op own-brand products and provided a one-off payment of £30 during December to those colleagues who don't participate in the Group Bonus scheme. A continuation of our cost improvement programme delivered over £50m of further cost savings over and above the £100m in 2022, which combined with operational efficiency and procurement negotiations, helped to mitigate inflationary pressures.

Profit from our Food business has increased year-on-year by 11% (2023: £154m; 2022: £139m) despite the loss of the profit from petrol forecourt sales. Legal Services profit has more than doubled to £20.6m from £8.0m in 2022. Profit growth in these areas helped to support the wider group where Funeralcare and Wholesale profits have been more heavily impacted by tough market and unit cost conditions.

Statutory operating profit of £66m was a material improvement on the prior year loss of £12m. This reflects the underlying operating profit improvement combined with a much-reduced level of non-underlying charges. This includes a lower level of store asset impairments as we started to see trading performance improve.

Underlying PBT showed a loss of £2m, improving by £46m versus the prior year loss of £48m. The improvement combines the underlying operating profit improvement of £14m with a significant reduction in interest costs as a result of the Group's lower net debt position. Whilst this was an underlying loss before tax, the gap has closed significantly.

Year-on-year PBT, outside of the prior year one-off gain on the petrol forecourt sale, has improved, driven by lower interest payments, impairments and non-underlying costs.

Net debt: Our net debt reduced by a significant £240m to £82m (2022: £322m), comprising £595m of cash and short-term investments and £677m of borrowings. This was achieved through stable underlying EBITDA year-on-year, a strong focus on working capital, a lower level of one-off transactions, and a continued measured approach on capital investment. With the improved cash generation, we took the opportunity to repay £100m of our sustainability bond in the year, given favourable debt market conditions and pricing. Over and above core net debt our IFRS16 lease debt of £1,233m also reduced by £73m. With conditions remaining volatile, a strengthened balance sheet is clearly beneficial. Our aim looking ahead will be to progressively improve profitability whilst maintaining balance sheet discipline.

Further detail on our Financial Performance can be found on page 40, as well as business updates from our leaders over pages 26-39.

I'd like to close with saying thank you to Mike Hazell, the interim CFO who handed over to me mid-year, and to the team who have all worked so hard on these results.

Membership update



Membership update



Kenyatte Nelson
Chief Membership
and Customer Officer,
Co-op Group

Over the last 12 months I have immersed myself in co-operation and can safely say that I believe this is a model that works for business, for individuals and for communities. I am incredibly proud of what we have achieved over the last 12 months. We recruited over one million member-owners - the most we've recruited in a single year since 2017 and more than in 2021 and 2022 combined.

We invested £90m (annualised) in reducing our food prices across 770 lines. We further supported our member-owners by adding an extra discount on 178 of those lines and have reinvigorated what makes us uniquely Co-op; ensuring our member-owners, and creating value for them, are at the heart of our business.

Our Co-op is made up of a collection of innovative colleague member-owners, working passionately to build a successful co-operative business, by creating value for all our member-owners and their communities.

Over 2023, we have been working hard to lay the foundations for evolving our Co-op, the way we do business and the way we create value for our member-owners.

This has included defining our Co-op Difference, which Shirine touches on in her 'Looking Ahead' section later in the report, and creating our new Vision, '*Co-operating to build more value for our member-owners every day*'. Through this, we have firmly re-committed, across the entire organisation, to create tangible value for our member-owners and their communities.

This set up a perfect platform to evolve our member proposition across three key, equally important, elements aiming to make membership irresistible and indispensable:

- Economic value - value delivered when buying our products and services.
- Social value - value delivered on the things our member-owners care about.

- Ownership value - value delivered by owning and having a say in how our Co-op is run.

We've ensured that we are investing the money of our member-owners in the most effective and efficient way, so that we continue to build a sustainable and successful commercial co-operative, that creates value for its member-owners.

And this value is reflected across all of our organisation from member prices in our Food and Life Services businesses, to our support of local community causes and national charity partnerships and even to providing access to 'money can't buy' experiences like Co-op Live and Festivals.

Of course, as a commercial co-operative, it is important that we deliver this work in a way that is profitable and sustainable, so we have been working hard to ensure that every pound we invest for our member-owners is creating and returning value.



And our membership offering is becoming increasingly attractive, with one million new member-owners joining our Co-op in 2023. We ended 2023 with over five million active member-owners (2022: 4.41m), a 14% increase even after the normal level of turnover in membership that we experienced. Our marketing return on investment has also increased by 52% as a result of the focus on member prices in our advertising (2023 ROI: £3.06; 2022 ROI: £2.01).

Creating sustainable value for our member-owners continued to be key to our strategy in 2023, as did supporting members through the economic pressures that the cost of living crisis brought. This was alongside our continued support of local causes through our Local Community Fund and Community Partnership Fund, enabling us to bring our Vision to life for the communities we serve.

As always, our Operating Board continued to work closely with our passionate National Members' Council and Board, developing key initiatives, collaborating on how we best engage our member-owners and demonstrating how our Co-op Difference can offer meaningful support and value.

Economic value - when buying our products and services

More members, shopping more often and spending more with our Co-op

Over one million members joined us in 2023, which is more than we've recruited in a single year since 2017.

Our active membership base has increased to over five million, a 14% increase year-on-year (2022: 4.41m), with members shopping with us an average of 12.9 times every 12 weeks (2022: 12.5) whilst member penetration - the proportion of purchases made by members in Co-op Food stores - reached 37% (2022: 31%) which is the highest we've seen in four years.

We supported all our member-owners through the cost of living crisis by making sure they always save more than non-members across hundreds of everyday essentials, like bread, milk and eggs. By buying member priced items in our Food stores over the year, our member-owners have saved £38m.

And it's been a record-breaking year for personalised offers. Members are using them more than ever before, redeeming over 21m offers worth over £9m in savings last year. Reducing our standard pricing, and introducing Member Prices on everyday essentials and own-brand favourites is helping members to save almost three times more per week, compared to what they previously received in reward.

Member-owners save more

In April, we launched our Member Prices campaign with improved marketing and a refreshed look and feel for our point of sale in stores and online. We invested £90m (annualised) to reduce food prices across 770 lines, and member-owners benefited from an additional discount on 178 of those lines.

Our members shop eight times more than non-members so we know that loyal members are valuable to our Co-op. The more we can encourage our members to spend, the more value we can create for them and their communities.

Through our Member Prices campaign, we began to target customers who were yet to be members, encouraging them to sign up so they start shopping with our Co-op more frequently. We also encouraged existing Co-op members by prompting them to shop with us more regularly and increase their spend in store.

Our Member Prices advertising has proven highly successful. Our 'Proper Donut' campaign achieved strong levels of cut-through, with our target audience of non-members who we are looking to attract, telling us that it grabbed their attention (74% of respondents), made them believe there were great deals and prices at Co-op (76%), made them feel they were missing out (65%) and, most importantly, the advertising encouraged them to become a member (58%). Furthermore, our media advertising drove 55% of total new member acquisition in 2023 to date.

Evolving and electrifying our member proposition

Our focus on increasing the number of active member-owners remained throughout 2023.

Co-op Live

2023 saw the official launch of pre-sale tickets for our member-owners at our live event venue in Manchester, Co-op Live.



Co-op Live will be a world-class, purpose-driven venue that will host international music, sport, charity and business events. Co-op Live will embody our values and has a vision to be the most sustainable arena in Europe. It will also donate at least £1m a year to the Co-op Foundation to deliver on its new youth-led strategy to support future change makers across the UK.

Almost 50,000 people joined Co-op membership in 2023 to get first-in-line access to pre-sale tickets for events at Co-op Live - with top acts including Jonas Brothers, Olivia Rodrigo, Take That and Liam Gallagher - ahead of the venue opening its doors in April 2024.

UK festivals

This year our presence at music festivals across the UK continued to support our aims to widen our membership demographic and increase active membership. In total we had stores at nine festivals between June and August – Download, Isle of Wight Festival, Glastonbury Festival, Latitude Festival, Belladrum Festival, Kendal Calling Festival, Reading Festival, Leeds Festival and Creamfields Festival.

2023 delivered our most successful festival season yet, with record sales and reaching over 700,000 people and over ten million people via our partners' channels. 12,500 new members used their membership card for the first time at a festival. 69% of these were age 35 or under (vs 20% Co-op average), supporting our strategic focus on younger members.

App offers

Over the last year we ran six games in our Co-op App to give our member-owners the chance to win some exciting prizes, from money off their shopping and free products, to tickets to the much sought-after and sold out Glastonbury Festival. Members played our games more than a million times and told us they found them to be fun, easy to play and they appreciated a chance to save even more on their shopping with their prizes.

Social value - supporting the issues our members tell us they care about through our work in communities, campaigning and sustainability.

Community

As a consumer co-operative, we are here to create value for our member-owners and, in turn, to their communities.

Social Value is about understanding the things our members care about and where we can enable them to make a difference; for themselves and their local community.

There are a number of ways in which our members can support our work in communities including selecting a local cause to support. As members spend on Co-op products and services, they also



contribute to their chosen local cause. Members made 1.4m cause selections in 2023 (2022: 1.1m), which is ahead of our target by 24.7%. In 2023 our members supported 3,955 local community projects (2022: 4,482) and the total amounted to over £10.5m (2022: £12.4m). In total, one million people were supported by projects in our latest Local Community Fund pay out in 2023.

We also worked in 2023 to offer members ways to support our three interconnecting community missions – access to food, access to mental wellbeing support and access to opportunities for young people. Partnerships in place to support these missions included our national charity partner Barnardo's and localised partnerships including the Community Fridge Network, Your Local Pantry and Cruse Bereavement Care. Our Co-operate Report includes more detail around our Co-op's work against these missions which can be found at [co-operative.coop](https://www.co-operative.coop).

Plus we supported the Big Help Out call to action across communities, which coincided with the Coronation in May. Over 12,000 members found out more about how they could make a difference and volunteer their time and skills locally through our Co-operate online community platform.

All of the achievements delivered throughout 2023 are testament to the hard work of our Community team, led by Rebecca Birkbeck.

Gift of community spirit Christmas campaign

In 2023, our Christmas marketing campaign was focused on 'Giving the gift of community spirit'. We used this campaign as a way for members to make a difference to their Local Community Fund by giving some or all of their membership reward wallet balance. Our members, together with a donation from our Co-op, raised a total of £575k.



Other focus areas

Our Co-op has pioneered Fairtrade since the Fairtrade Mark launched in 1994 and Fairtrade Fortnight was a big focus area in February and March. Our member-owners have a long tradition of support for the celebration and this year was no exception. We helped 26,000 members learn more about the wider positive impact of Fairtrade as well as highlighting the hundreds of Fairtrade events being held locally by our fantastic team of Member Pioneers.

We also focused our attention on Co-op Fortnight, a national campaign for all co-operatives across the UK facilitated by Co-operatives UK, showcasing the difference that co-operatives make in society. Co-op Fortnight took place between 19 June and 2 July 2023. In 2023, the campaign showed how co-operatives offer an altogether different way to do business, to support communities, and to support people.

June also saw us support Great Big Green Week, mobilising over 17,000 members to take action online and join local events, also delivered by our local Member Pioneers.

Ownership value - the value from owning and having a say in how our Co-op is run

Our unique Co-operative

As always, we focused on helping our member-owners connect with our elections and AGM in 2023. This year we introduced two successful online events to help members debate and discuss motions before casting their vote. Alongside this, we delivered a range of blogs and information to help member-owners, including colleague member-owners, understand their role as owners of our Co-op.

At the [AGM](#) in May 2023, eligible member-owners¹ of our Co-op voted with an overwhelming majority to grow our membership by engaging young people as a new generation of co-operators (the 'Creating a Fairer World for our Young People' motion); to further celebrate the 'Co-op Difference' in marketing - such as with our community spirit Christmas campaign - and that we offer more opportunities to participate in the business ('People Power and our Co-op Difference' motion).



¹ To be eligible to vote, you must be at least 16 years old and have spent a minimum of £250 at Co-op over a 12-month period. See more details at www.co-operative.coop/get-involved/voting

Member participation and our three areas of member value

All three areas of member value are interlinked – economic, social and ownership with our focus on growing member participation that embodies all three.

Our member-owners can participate with our Co-op in various ways, including choosing a local community cause, participating in one of our Join In activities, becoming part of our insight collective (our formal insight panel where we invite members to join us for discussions on a range of topics), or voting in our elections and AGM. Whichever way members choose to participate with us, they are taking an action in support of our shared Co-op Vision.

In 2023, member-owners participated by taking action 2.5m times against a target of 2m. This represents an increase on last year of 30%. From local community cause selection, to voting at our AGM, our member-owners are becoming more engaged in helping us to bring our Vision to life.

We believe that the more our member-owners see the results and benefit from the value of their participation, the more they will engage with the Co-op they own. Join In is a great example of member-owner engagement, where members can participate in actions that help shape their Co-op on everything from product and service development, shaping how we work in communities and with our partners, join in with our campaigns and participate in our unique democracy - this year was a significant milestone as we reached one million actions through Join In alone.

We aim to increase the number of times member-owners participate in their Co-op and to create maximum value for our members and their Co-op. Throughout 2023, our member-owners participated in a variety of ways:

Co-creating products and services

Members supported the development of our Valentine's, barbecue, and ready meal strategies this year. We saw the launch of new wines where labels and tasting notes had been designed by members. They also supported our work on labelling and provenance by testing new QR codes on our tinned tomatoes and providing vital feedback.

Bringing member-owners closer to the community programme they fund

This summer, we ran a campaign designed to showcase the breadth of community activity that's made possible thanks to our members. The campaign had 183,000 connections and included members telling their stories of the work being undertaken across our programmes including the Local Community Fund, Member Pioneers and our Co-op Academies. Since 2022, we have also partnered with Mind, SAMH and Inspire and Rethink Mental Illness on Time to Talk Day, the UK's biggest mental health conversation. To date, we have generated over five million more conversations. In 2023, 45,000 members joined in to support Time to Talk Day. Members gained access to resource packs, helpful hints on how to start conversations and, through our website Co-operate, were able to link to local groups tackling the issue near them. This year, we generated three million conversations

including more conversations among young people and people from diverse backgrounds, which we will continue in 2024.

Standing up for what we care about

We have continued to support members to understand the issues behind ethical decisions, engaging them in campaigns and giving them the tools they need to make a difference. Members engaged with conversations around animal welfare, peatland restoration and sustainability, Fairtrade, World Water Day, sustainable seafood and eating healthily.

Towards the end of the year, members helped us to develop our social mobility campaign and also supported when we reinvigorated our 'Safer Colleagues, Safer Communities' campaign, to address the serious issue of retail crime and shopworker safety through signing petitions and writing to their local elected representatives.

Helping member-owners understand our unique co-operative model

This year saw the introduction of our first online motion discussions; designed to help members discuss and debate the motions to our AGM before they cast their vote. We also introduced a series of blogs and participation opportunities to help members understand the unique Co-op they own and the ways they can participate in key elements of our democracy.

Business unit updates



Business unit updates

Food



Matt Hood
Managing Director,
Co-op Food

Our incredible colleagues have delivered a robust set of results for 2023. Together, we've been delivering our Pure Convenience strategy that focused our efforts on getting our value and range right for our target customers, reaching more of them in capital-light ways, and rewarding their loyalty to us.

We've invested £90m (annualised) to lower our food prices, which we believe to be the biggest price investment of any convenience retailer. Through this, our member-owners are rewarded through exclusive prices and promotions.

Our growth plans continue through our routes to market as we expand our e-commerce proposition at pace and open Co-op owned stores in a way that complements our plans to expand our franchise operations. This demonstrates our ambition to lead the convenience market.

We have become a more profitable growth-focused business and, with that strength, we're able to give value back to our member-owners, which we'll continue to do in 2024 and beyond.

Our performance

The headwinds facing the grocery market in 2023 presented a challenging backdrop for all retailers. Grocery inflation was in double digits for 10 of the 13 periods of 2023, ending the year with inflation at +6.7%, and whilst this was its lowest level since April 2022, it was on top of +14.4% in the same period last year.

Rainfall levels for almost every month of 2023 were far ahead of seasonal averages, and temperatures were lower than average in key summer months. This particularly impacted shopper footfall which made for difficult trading conditions for convenience retailers.

Despite this, with our focus on price, driving volume and frequency through our value and reach as detailed below, we achieved full year revenue of 7.3bn (2022: £7.8bn). The decrease can be attributed to the sale of our petrol forecourt estate in 2022 with the associated inorganic reduction in Food retail sales of £0.8bn. Excluding this impact, core Food retail sales have grown 4.3% or £0.3bn.

In 2023, we continued to drive cost efficiencies across the business. Despite cost inflation headwinds of £141m and the sale of our petrol forecourt estate, improvements in availability, waste, stock-holding and overall lowering of our cost-to-serve through operational efforts and optimising SAP (our new supply chain system), have all contributed to an underlying profit of £154m (2022: £139m) up 11%.

In April, we chose to invest into aligning minimum hourly rates of pay to the Real Living Wage as set by the Living Wage Foundation. This was a 10.1% pay rise for Customer Team Members in Food stores, including younger colleagues and apprentices - unlike many other organisations. We also provided a £30 end of year thank you payment to those colleagues who don't participate in the Group Bonus scheme, along with a £10 end of year celebration payment. We also indefinitely extended colleague discount of 30% on Co-op own-brand products to support our colleagues through the cost of living crisis by helping to reduce their household expenses. This was a total investment year-on-year of £44m.

Keeping colleagues safe is our number one priority

The 'Safer Colleagues, Safer Communities' campaign, which was successful in changing legislation to better protect shopworkers in 2021/22, was reinstated in the first half of the year based on a significant increase in incidents of retail crime.

In 2023, we recorded the highest ever levels of retail crime - 336,270 incidents of shoplifting and anti-social behaviour, a 44% year-on-year increase (2022: 233,266 incidents).

We are pleased that the serious issue of retail crime, which impacts our communities so dramatically, has been acknowledged through the Retail Crime Action Plan, and that police chiefs have committed to ensure officers attend incidents where the offender is detained. It is a welcome and reassuring move, which should complement the ongoing investment we've made in colleague and store safety since 2019. This includes a continued rollout of personal and product protection across all stores in 2023 as well as trials on secure kiosks, locked doors on high-value products, dummy packaging and automated CCTV.

As well as being committed ourselves to continuing to invest in colleague safety, we will continue to lobby on this and ensure commitments made by the police to tackle retail crime are delivered.

The biggest ever investment in convenience pricing

Thanks to the work done in 2022 to increase the financial health of the business, in 2023 we were able to give back by investing £90m (annualised) in overall price. This included investment for all customers in our most-shopped products and additional investment into member exclusive prices and promotions. This demonstrates how we're giving value back to our member-owners who now save an average 7.5% in comparison with other convenience retailers on our member-priced products.

Our 'Members Save More' campaign launched in 2023 with a campaign in-store, which included a full refresh of our point-of-sale and marketing. The total investment of £90m (annualised) reduced the prices on 770 lines with member-owners benefiting from an additional discount on 178 of those.

In the second half of the year, we also announced internally to our colleague member-owners our intention to indefinitely extend 30% colleague discount on our own-brand products, giving our colleagues even more value back.

Thanks to this, membership is at an eight year high with over five million active member-owners. More members are choosing to spend £1 to become an owner of our Co-op and, as a result, are choosing to shop more frequently given the benefit of lower prices. Over 2023, 1.4m members selected personalised offers via the app.

Growth through our routes to market

Essential to our current and future growth is building on our established routes to market which include; Retail, Franchise, Online, Wholesale and servicing independent Co-ops through Federal Retail Trading Services (FRTS - the central buying group for Co-op Societies in the UK).

In our Retail and Franchise estate, we spent the first half of the year redefining our approach to growth. For our owned stores, we've shifted our approach to disposals and created an internal review forum to drive up the performance in our underperforming stores. We also looked to drive down the cost of refitting stores, focusing investment on where it matters most for our customers and colleagues. Both are creating more affordability to reinvest back into our estate, with more refits and fewer disposals. This meant in the second half of 2023, we were able to significantly ramp up our activity.

In the second half of the year we launched three new to market franchise stores and trialled a new on-the-go format in three petrol stations, which will also provide learnings for our first stores located in NHS hospitals which will launch in 2024. We inducted several new partners in 2023 and have a strong pipeline of launches for 2024 which will see significant growth in the Franchise estate. Following the introduction of SAP supply chain system, store performance is strong, and with the introduction of Member Pricing we're seeing similar improvements in member frequency, recruitment and price perception.

In Online, we continued to establish our position in quick convenience (rapid delivery from store to door in under one hour) and in the second half of the year, as recognised by Nielsen market share data, we became number one in the market. We're leveraging our unique position with a store in every postal area in the country and stabilising our existing fixed cost base.

Growing the market share even further remains the priority, as we target 30% of the overall quick convenience market share by 2030.

Total population coverage across all platforms has grown by 2% in 2023, up to 83%, driven by our expansion in partnership with Just Eat that is now available in over 1,000 Food stores. This growth contributed to overall online revenue of £311m in the full year (2022: £222m).

Embedding this route to market into the broader Food operating model is a big part of our growth plans. This includes embedding our membership proposition and Member Pricing across all platforms and our ambitions to simplify the online delivery operation for our colleagues.

Finally, in January 2023, approval was achieved for Central Co-op to join the Co-op distribution network. This move brings the last of the UK's larger independent societies into our distribution network with shared productivity benefits across supply chains, while supporting our ambition to be more strategically aligned and leveraging better buying scale with the movement.

You can read more about our progress on wholesale in the following update from Peter Batt, Managing Director of Nisa Wholesale.

A better way of doing business

We have continued to champion a better way of doing business in 2023, pushing our ethical commitments on behalf of our member-owners, providing products at great value that don't compromise on values.

In 2023 we have:

- Invested £38.6m into supporting our commitments to ethical and sustainable sourcing including supporting our farmers following increased prices during international conflict.
- Announced our intent to reduce stocking density on chickens to improve welfare and carbon footprint as a result of our members asking us to keep improving animal welfare. All fresh chicken varieties under 'Space to Thrive' are sourced from farms that give the chickens 20% more space. The changes were implemented in early 2024 and has seen us become one of only a few retailers to meet the Better Chicken Commitment stocking density requirements.
- Removed 'best before' dates on most of our fresh produce to help our customers cut food waste in the home and save money.
- Supported suppliers to improve human rights across our supply chains through the delivery of our global capacity building programme.
- Supported 14 suppliers through our supplier incubator programme 'the Apiary' - which supports diversity and inclusion within the store range, and offers mentoring and advice on all aspects of the product journey.
- In March 2023, we reached the milestone of raising over £22m supporting clean water, hygiene, sanitation and water pollution projects with our partners The One Foundation and Water Unite since 2007. Every bottle of water purchased at Co-op helps to support water security projects and changes lives around the world.
- Celebrated Fairtrade Fortnight over February and March, and 29 years of commitment to supporting farmers, workers and communities as the UK's largest convenience seller of Fairtrade products.
- Swapped our Christmas adverts to instead pledge to match member and customer donations over the festive season, building on £23.6m raised for communities through members choosing our Co-op.

More details on this and more can be found in our Co-operate Report at [co-operative.coop](https://www.co-operative.coop).

Wholesale



Peter Batt
Managing Director,
Nisa Retail

Our Wholesale channel has continued to face a tough external environment and inflationary pressures throughout 2023. I'm proud of all our colleagues who have played a role in delivering this year's performance against that backdrop. We're proud of the flexibility at Nisa, and have more than 1,400 business-to-business (B2B) partners, ranging from convenience stores and supermarkets, through to forecourts and holiday parks, in addition to our wholesale customers, who have access to our amazing own-brand products in more than 130 countries. This has allowed us to gain significant reach through different routes to market, building the foundations for our future strategic direction, so we can continue to leverage our Nisa difference and drive success.

Our performance

Our 2023 revenue stood at £1.4bn¹ (2022: £1.4bn). Our end-of-year trading profit was £13.2m (2022: £21.2m). This reduction in our operating profit was largely due to the significant and conscious investment we made in our pricing to ensure we maintained a strong and compelling proposition for our partners, so they in turn could continue to deliver competitive value to their shoppers in these difficult economic times. This decision was aligned with our strategic thinking and provides the basis for us to develop our wholesale channel further, in line with our wider growth ambitions for our Co-op.

Investing in our proposition

As price continued to be a challenge across the industry, we made good progress to improve our pricing strategy, meaning we are now more responsive to market dynamics and remain highly competitive, tracking our prices against key competitor data. We've invested heavily in price and benchmark our wholesale selling pricing against key wholesale competitors to ensure we offer great value consistently to our partners and retailers.

Following feedback from our retailers, we simplified our Fresh Rewards rebate scheme in April, and moved to a more focused spend-based rebate scheme. This means that retailers can achieve a rebate of up to 5% based on weekly order value and an additional bonus if they have a Nisa or co-branded fascia.

Support for retailers

We continued with our ambitious recruitment drive and in 2023 we started supplying to 527 new Independent Retail and Wholesale locations, through Nisa (2022: 475). This includes a contract with MPK Garages to convert 28 forecourt sites; the transformation of a former pub to a forecourt in Mirfield; a five year deal with Greens Retail to expand nationwide; a five year contract extension with LA Foods Group, who have been working alongside Nisa for over 20 years, and a father and son operation at Birmingham University. This was alongside growth within our holiday parks portfolio and a number of successful store refits. Through our partnership with Shell, we've also opened stores in 23 sites, following a successful pilot, primarily led by a Co-op brand product range.

Co-op own-brand products continued to be attractive for Nisa's independent retailers and participation remained flat with 91% of our partners having bought an own-brand item from us in 2023. We also relaunched our Co-op Core Essentials range in November, highlighting to retailers how they can grow basket size and increase the number of visits, by focusing on key convenience missions where own-brand plays a significant role. Access to Co-op products, has been beneficial for our Nisa independent retailers, such as The Proudfoot Group, which reported a 75% sales increase of flowers, following a switch to offer Co-op's flower range in-store (based on sales monitored before and after stocking Co-op between 21 May and 1 July).

With home delivery now forming part of many convenience businesses and making up a core part of the consumer offer, we partnered with Just Eat in July to offer quick access to convenience shopping. Thousands of household brand and Co-op own-brand products became available

¹ These figures are inclusive of Nisa only. Financial statements in the segmented reporting includes franchise so there may be number variances

for delivery to customers' homes in as little as 30 minutes, picked from local Nisa stores. By the end of 2023, 66 Nisa retailers had onboarded with Just Eat and were provided with in-store marketing, to drive awareness with shoppers.

The plight of retail crime was prevalent in the news agenda across 2023, led brilliantly by our Co-op and I'm proud of the work we've done to help shine a light on this issue on behalf of the 33,500 independent retailers up and down the country. Our teams hear on a weekly basis from retailers dealing with the ongoing challenge of shoplifting, and the impact that is having both financially and on their own wellbeing. During the 2023 Respect for Shopworkers Week, it was my priority to urge independent retailers, through our campaign communications channels, to report crime to give themselves the best chance of police action.

We also hosted our Nisa Expo, an event which has been at the heart of our business for more than 20 years, providing valuable insight to better support our retailers and prospects to strengthen their proposition with both Nisa and many of our leading brands, and saw 15 retailers and suppliers recognised for their outstanding work at the Gala Dinner.

Community

In 2023, our Nisa Making a Difference Locally (MADL) charity celebrated its 15th anniversary. Since its launch in 2008, MADL has donated over £16 million to more than 10,000 charities and good causes across the UK. To celebrate, MADL launched a new initiative, 'Club 15', where 15 retailers will be selected in 2024 to participate in a year-long partnership with MADL, including fundraising training, access to partner forums and more direct support from the MADL team.

Award-winning retailers

I'm also incredibly proud of what our retailers have achieved this year, with recognition across the industry. Nisa and our retailers won more than 20 awards in 2023, including a record year for Nisa retailer, Touts, who were successful at the Grocer Gold, Retail Industry and Forecourt Trader awards, as well as Nisa retailer Julie-Ann Whyte receiving special recognition at the Scottish Local Retailer awards, and Nisa retailer Kay Petel named Businesswoman of the Year at the Asian Trader awards. I also couldn't be prouder of Kuldeep Dhillon and his wife Balbir Kaur, who have been Nisa retailers for over ten years and received one of the King's official Birthday Honours in June, in the form of the British Empire Medal (BEM).



Funeralcare



Gillian Stewart
Managing Director,
Co-op Funeralcare

Co-op Funeralcare increased revenue and volumes with a maintained market share and sheltered clients from inflationary pressures, whilst enabling almost 100,000 families the opportunity to say their best goodbye.

Our performance in 2023

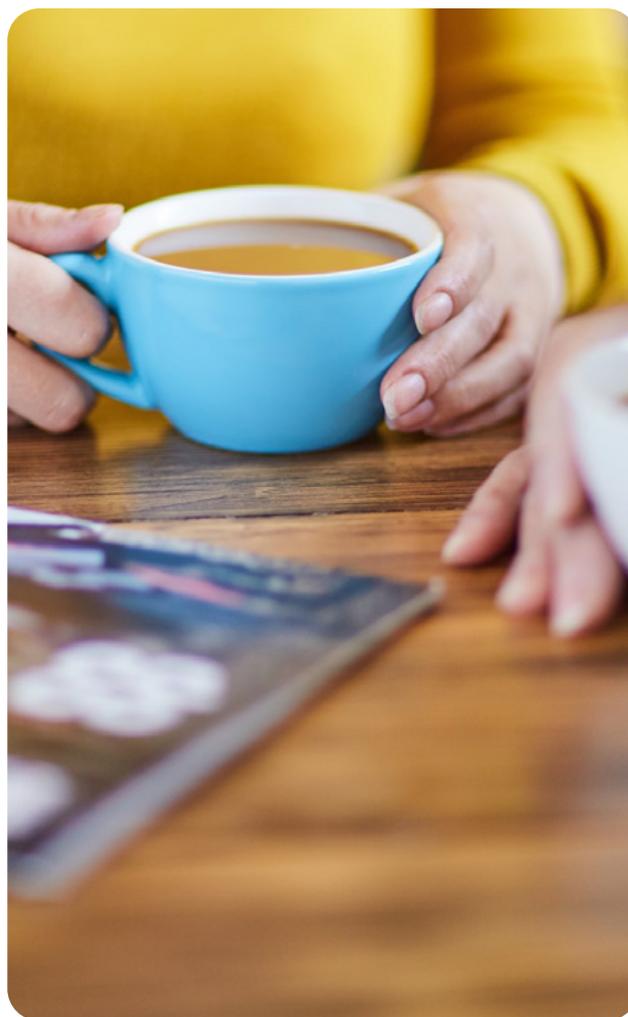
Our 2023 revenue stood at £281m (2022 restated: £275m) and our Profit Before Tax (PBT) at £13m (2022: £11m). Our funeral volumes continued to show circa 2% year-on-year growth (2023: 95,924; 2022: 93,867) which was largely due to the rise in the number of deaths as confirmed from the Office of National Statistics, and our share of the market remaining stable at 14.6%. In the first half of the year, we helped more families say their best goodbye (H1 2023: 51,621; H1 2022: 48,171) due to the increase in death rate. In the second half we held our share of the market while the death rate was lower than the previous year.

We continued to see significant inflationary headwinds in 2023. We made an active choice to shelter our clients from as many of these headwinds as possible through 2023, meaning we have absorbed cost increases which has affected our profitability (inflationary pressures resulted in some limited price increases towards the end of the year). We have also seen a continuation of the trend where our clients choose more of our simpler, and unattended funeral plans (2023: 24.3%; 2022: 22.6%).

Client satisfaction of our funeral services remained strong with a 97% client satisfaction score (2022: 97%) and an 88 Net Promoter Score (2022: 88).

We increased our plan sales to 17,032 (2022: 16,774), as confidence began to return to the market following the introduction of regulation in 2022 and introduced 4,088 third party plans (2022: 5,348). Our partners sold 5,129 life assurance policies with a funeral benefit option, which are likely to convert to funerals for the business

(2022: 3,772). We continued to be recognised as providing one of the best funeral plans in the market and have been recognised for the sixth year running as Moneynet's 'Best Funeral Plan Provider'. During 2023 we were also able to reduce our plan prices by around £250 across all Co-op funeral plans as we helped clients with the current cost of living challenges.



In 2023, overall satisfaction for our Funeral Plan clients was 92.1%¹, with the Net Promoter Score coming in at 68.5¹. We have seen these scores remain consistent throughout the year, with colleague interaction and helpfulness driving this satisfaction, particularly for clients who purchased their plan from one of our funeral homes.

The above led to an increase in Revenue to £281m (2022: £275m) largely due to the increased volumes offset by more clients choosing our lower cost options.

¹ Comparable data points for 2022 are not available for Net Promoter Scores

A new accounting standard was adopted for funeral plans in 2023, meaning a significant non-cash reshaping of our profit and loss account. This reduced operating profit but also reduced finance cost, to lead to an improvement in our PBT. For more detail, please see 'our Financial Performance' on page 40. Due to the material changes to the shape of our P&L, we believe Profit Before Tax combined with cashflow are the most appropriate way to monitor our funerals business.

Profit Before Tax was £13m up £2m on 2022 (2022: £11m). We saw high inflationary costs that were not fully recovered from our higher volumes

as we sheltered our clients from the cost of living crisis, mitigated by an increase in finance income. Finance income benefited from a higher base rate offset by low returns from an atypical year of investments due to volatility in financial markets across 2022 and 2023. We expect investment returns should return to more typical levels and had the return delivered to our historical 10 year average (of £51m), our Profit Before Tax would have been £47m. Despite these trading and market challenges faced in 2023, the Funeralcare business generated net cash as well as continuing to invest in its estate, fleet and new pre-need technology platform.

Vision

We continue to drive change in society, by encouraging more people to have conversations about their funeral wishes, and by challenging the stigma around grief and bereavement.

In the latter half of 2023 we launched our innovative new marketing campaign, which focused on encouraging people of all ages and backgrounds to have a conversation about their funeral wishes. We updated our website to host free information and advice on how to have the conversation with your loved ones and also launched a second series of our Let's Talk (about Grief) podcast.

In a further move to help break down the stigma around talking about death, dying and bereavement in September, we held a Press event in Potters Fields Park with our very own Elephant in the Room. This was coupled with our PR campaign around our Biggest Ever Survey into Death, Dying and Bereavement - five years on. The survey was first carried out in 2018 and a lot has happened since then, so the survey, in partnership with Cruse Bereavement Support, aimed to understand how the nation's attitudes towards death, dying and bereavement had changed. 31,815 people completed the survey and it was great to see that 18,493 of those were Co-op member-owners.

Initial findings from the survey were shared in December and we wrote to the Prime Minister and Leader of the Opposition asking them to include commitments to implement the UK Bereavement Commission's recommendations in their manifestos ahead of the next General Election. Our full report of findings will be shared in 2024.

We announced plans to explore sustainable funeral choices by pioneering a new option in the UK, Resomation®.

2023 saw the introduction of the Consumer Duty by the Financial Conduct Authority, which ensures all clients have good outcomes, and we have embedded these working practices into the way we do business. We also completed our first annual renewal of accreditation for our colleagues who sell and service Funeral Plans.

We've continued to invest in improving our technology platforms that support the sale, servicing and redemption of our Funeral Plans. These improvements will ensure we deliver on our regulatory requirements, as well as giving our clients and colleagues a better experience. We anticipate that these improvements will be available early in the new year.

Sustainability

Through 2023 we have continued to drive change in the way we do business.

In 2023 we continued to invest in our fleet. We invested £2m in a pool of electric cars and ambulances, with further investment planned for 2024. Electric charging points were installed as standard in new care centres and refits of existing locations. We also built in additional charge points to help future-proof our estate, totalling a further £1m investment made for these improvements.

Significant investment has been made in our estate throughout 2023. In addition to completing refits and relocations, we've also been trialling a new approach to improving our estate and installed more efficient heating systems within our branches. In 2023, we made improvements to 90 locations (2022: 27) with more planned for 2024.

Colleagues

We've continued to invest in both our colleagues' pay and their skills. We ran a focused series of face-to-face inductions for new starters across our business, and delivered training to our leaders on topics such as planning and organising, coaching, commercial decision making, growth mindset and resilience.

Following the success of our All Colleague Code being introduced in Funeralcare in September 2022, we went on to introduce a Client Code of Conduct in July 2023 which we developed in collaboration with colleagues and through feedback from clients.

We've been pleased to see our colleague engagement scores increase year-on-year through our annual colleague engagement survey. Engagement grew to 68% in 2023 (2022: 63%) with 83% of colleagues saying they enjoyed working at our Co-op (2022: 78%).



Insurance



Charles Offord
Managing Director,
Co-op Insurance

I'm so proud of our insurance team and all they've achieved in 2023. The external market and inflation have presented challenges for us. Despite this, our business has seen profit growth, we have an expanding range of products which we are all very proud of and, along with our improvements in customer service, we have received industry wide recognition for the quality and value we offer.

Insurance performance in 2023

We were really pleased with a strong increase in revenue this year, growing from £24m in 2022 to £29m in 2023. Our profit figures are also in good shape at £14.0m (2022: £8.0m).

This growth has been supported by the stand-out performance of our travel and pet insurance products in 2023. Our pet insurance grew 44% year-on-year (2023: 75,429; 2022: 52,284). Our member-owners helped to shape our Co-op difference, of offering a discount for adopted pets. We value their input and we truly believe that this has set us up for success with this product.

We've also faced external headwinds in our home and particularly our car insurance product lines. High levels of claims cost inflation have significantly impacted the cost to service claims in the last few years, which has pushed insurance prices up across the whole market.

We've also seen a drop in performance for life insurance sales. This has mainly been due to a contracting market, as customers make tough choices on their household budgets due to the cost of living crisis. However, we're confident our refreshed proposition will help us improve our sales in 2024.

Products that meet member-owner and customer needs

We want to make sure that our range of insurance products offers the right cover, at the right price. Our focus has been to offer more products, to cover the needs of more members, offering more choice and making it easier to buy Co-op Insurance products in the places where our members and customers shop.

At the end of 2023 we launched a refreshed life insurance proposition which covers both Term Life and Over 50 Life insurance with our new partner Legal & General. We upgraded our policy, keeping the features like the payment holiday option that we know our member-owners love, but adding new benefits like extra wellbeing support and easier ways to get a quote and manage their policy.

Being recognised for our service and products

Our products and services were also recognised externally. In 2023, we were announced as the 'Most Improved' company for customer service across all retail sectors by the UK Institute for Customer Service.

In the report, we were also rated in the top four of the 26 insurers surveyed for customer satisfaction. We scored 81.7 out of 100 – an improvement of 6 points from last year's report (2022: 75.7).

Our net promoter score was also above the average for other insurers at 30.0 (27.9 average) and we scored highly on customers' intentions to recommend at 8.1 out of 10 (7.9 average). We were proud to achieve the joint top score of 8.3 for customer trust – the average score was 7.9.

We also achieved the accolade of the 'UK Insurance Broker of the Year' at the annual British Insurance Awards, which is a hugely prestigious industry award. Having changed our business model three years ago to exit insurance underwriting, we are so proud of this recognition of our hard work, and the fantastic products we have developed with our partners.

Legal Services



Caoilinn Hurley
Managing Director,
Co-op Legal Services

This year has been another strong year for Co-op Legal Services (CLS). Our strategy continues to set us up for success and helps us to grow. The energy, empathy and hard work of all colleagues remains essential in building the business.

Financial performance

In 2023 our revenue was £68m (2022: £46m), with an operating profit of £21.0m (2022: £8.0m). This growth has mainly come through our largest practice areas of Probate and Estate planning. We achieved this whilst continuing to support our clients and colleague member-owners by holding our key pricing points and member-owner discounts.

Our largest practice area, probate, experienced positive growth again this year as we helped 9,357 new clients (2022: 7,617) with their loved ones' estates, a 23% increase compared to the year prior. In Estate planning we opened 26,539 new cases (2022: 19,052), a 39% increase compared to the year prior.

Digital Law Firm

We've continued to focus on technology, both in terms of offering clients quick and easy digital routes to their legal services needs and using technology to support streamlining our internal processes. We're making our systems easier to use and giving colleagues more time to spend resolving client cases quickly and less time on administration. This year we've averaged around 2-3 new technology releases per week, this is usually continuous improvements of existing applications but has also included new internal and external releases of technology to help colleagues or clients.

An example of this is our trial to improve how we verify client ID and carry out anti-money laundering checks. We've used a new piece of technology to improve our anti-money laundering pass rate to 89.9%, an increase from 70% when using our previous system, as well as removing manual and time-consuming elements of the job for our colleagues.

Our digital client services have helped grow our business, with more and more clients coming to us through these accessible channels. In 2023, 60% came to us through these channels (2022: 50%), which is the first time we've seen the majority of clients use these routes to access our services.

The screenshot shows the Co-op Legal Services website. At the top, there's a navigation menu with categories: Probate, Wills, Family Law, Personal Injury, Medical Negligence, and Conveyancing. Below the menu, a blue banner features the text "Legal advice without jargon" and "Fixed solicitor fees. When we have provided a written quote for the agreed work, that price will not change." To the right of the text is an image of a group of people walking in a field. Below the banner, there's a section titled "Our legal services" with a sub-heading "Our solicitors offer fixed fee or flexible pricing to suit your needs, and our customers consistently rate the quality of our legal advice and services." The website also displays a Trustpilot rating of 4.7 out of 5 based on 5,520 reviews.



Colleagues - recruitment and Diversity and Inclusion

Our success over the last few years wouldn't have been possible without our colleagues. As the business has grown and we've brought more clients on board, our teams have grown to support this.

In 2023, we hired new colleagues into roles within CLS and overall, we had a 34% increase in roles filled compared to the previous year (2023: 418; 2022: 313). Of these hires 30% identify as ethnic minority (2022: 26%) and 14% as disabled (2022: 14%). These figures have increased since 2021, where in January - October of that year, we hired 21% of colleagues identifying as ethnic minority and just 5.4% identifying as disabled.

We wanted to grow our teams in a way that would increase the routes into the legal profession and attract candidates from more diverse backgrounds. We continued with our solicitor apprenticeship this year, after being originally launched in 2021. Our latest cohort started in September. We continued to support colleagues who are following other routes to qualification, such as the traditional training period, and we offer funding for some external qualifications designed to develop specific skills and knowledge.

We also put a strong focus on training so our talented colleagues can grow their career at Co-op Legal Services. Our two-week training programme for new recruits in our largest practice area, Probate, has been successful this year, giving our new colleagues the best start with us. We've expanded our training platform and insight from beyond our firm.

Strong partnerships

We also continue to attract new partners, with our ever-increasing digital client services and partner hubs. We partner with a mixture of firms from leading financial services organisations to charities.

In 2023, we partnered with over 10 new organisations, including the Co-operative Bank for Probate and Estate planning, and Barnardo's, our charity partner. We also became the first legal firm to offer our services to millions of customers via Amazon's platform.

Client service

Our work over the last few years has not only had a positive impact on our financial performance but also our client service.

In 2023, our overall trust pilot score was 4.7* (2022: 4.8*), which is rated as excellent. Our Estate planning sales team also maintained an incredible score of 4.9* (2022: 4.9*) throughout the year.



Looking Ahead



Shirine Khoury-Haq
CEO,
The Co-op Group

Our member-owners define our Co-op and this distinguishes us from other kinds of businesses. We exist to create value for you and your communities, rather than a small group of investor shareholders. It has been this way since the Rochdale Pioneers founded our co-operative movement in 1844 and it will remain this way as we look to the future and to growing our Co-op in a sustainable manner.

As we look ahead to 2024, we do so with confidence and ambition, centred around our new Vision and growth strategy.

The work we have completed during the last two years to better control our costs, reduce debt, increase cash, maximise efficiency and strengthen our balance sheet, provides the platform for our future growth.

In developing our strategy we knew that remaining true to our heritage and co-operative difference needed to be at the centre of all we do. So in early 2023 we began this work with defining our Co-op Difference statement;

'We're owned by and run for our members, not a small group of shareholders. The more our members choose us, the more value we create for our member-owners and their communities'.

At the same time, we began to work on a new Vision statement that would align closely to our Co-op Difference, and a Group strategy that would ensure we deliver on it, every day.

In January we launched our new Vision, ***'Co-operating to build more value for our member-owners every day'.***

Our strategy and Vision have been co-created together with our colleagues, Members' Council and member-owners, and my heartfelt thanks go to everyone who has contributed to them.

Our new Group strategy, which we also launched in January of this year, is firmly focused on growth by placing our member-owners and creating value for them at the heart of our Co-op. Along with the associated business strategies and delivery plans, our strategy gives us clarity on where to focus our efforts and prioritisation, and most importantly allows everyone in our Co-op to get behind and play their part in delivering our Vision, whatever their role.

It is a bold, and ambitious strategy that together we will deliver between now and 2030.

Creating value for our member-owners

At the heart of our plans is creating and returning value to our member-owners, and we will do this in three interlinked ways: creating economic value, social value and ownership value.

We will create better **economic value** through pricing of products and services and member-owner specific propositions because this is the area that members tell us matters most to them in these economically challenging times.

Through creating better economic value, we will grow our Co-op together, allowing us to invest in **social value**. The work we do to support sustainability and communities who rely on us ensures that our ethics and values are embedded in all of our products and services, and that we are campaigning in those areas where we can make the most social impact.

And lastly, the area of value that is unique to us as a Co-operative is **ownership value**. As member-owners we all own our Co-op. This allows us to have a say on the things that matter most, how our business is run, the campaigns we need to deliver to amplify our collective voice and, at times, to get involved in developing products and services.

Growing our Co-op

A financially successful Co-op gives us the ability to deliver on our Vision by creating and returning value to our colleague and member-owners and their communities.

We have an ambitious plan to focus on our unique Co-op Difference to grow our businesses, increase market share and significantly improve on our key financial metrics. We will continue to grow our active member base, alongside growing our revenue and operating profit, while improving bottom line growth.

Supporting our colleagues to deliver for today, tomorrow and the future

Having the right culture in our Co-op to allow us to deliver on our plans is as critical as the work itself. Our 56,000 amazing colleagues work with us to develop and deliver our strategy, and it is important that we support them in its delivery while listening to their feedback along the way.

We will continue to ensure our colleagues are fully informed on where our Co-op is headed, how we'll get there, our shared plans and objectives, what this means for them and the behaviours we will all demonstrate along the way. Everyone will understand how their role contributes to delivering our Vision, so that we can get behind it in the way only our Co-op can when we all pull together in the same direction.



Running our Co-op efficiently for the benefit of our member-owners

We will continue to seek every opportunity to work more efficiently, protect every penny of our member-owners' money by managing spending, and continue to reduce the cost to run our businesses. This diligence will be critical in supporting our growth through continued improvement of our balance sheet and key financial metrics, in turn allowing us to invest in our Co-op and achieve our Vision of returning value to our colleagues and member-owners.

Our Co-op Difference, Vision and strategy clearly define our ambition for growth and how we'll achieve this together and we're off to a strong start with much to celebrate and be proud of already in 2024. We will continue to further develop our strategic plans, seizing and generating opportunities for growth, while continuing to create value for our member-owners.

Whilst the economic and geopolitical environment continues to carry a degree of uncertainty, with our ongoing focus on and careful management of how we run our Co-op, and with our member-owners firmly at the heart of all we do, we are well placed to continue our growth journey, while managing the challenges 2024 will surely present.

We are proud to be a Co-op and a different way of doing business. Now more than ever, the UK needs a strong and differentiated Co-op movement, it needs more member-ownership and it needs more businesses of genuine purpose.

Through the true power of collaboration and in partnership with the other UK Co-op Societies and like-minded organisations, we will create a new era of Co-operation.

I'm so excited for our future and what we can achieve together, and I look forward to updating you in more detail in September when we share our 2024 Interim results.

Our financial performance

Our financial performance

Our headline performance

Earlier in this report, Rachel Izzard, our Chief Financial Officer gives an insightful overview of the Group's performance during the year and that can be found on page 16. Rachel's commentary touches on the wider trading environment and challenges that our Co-op has faced in 2023, the decisions we've taken to respond to those challenges and to support our member-owners, and the resulting trading performance and financial position of the Group.

In addition to Rachel's financial overview, a summary of the Group's financial performance is set out in the tables below with accompanying commentary on our results. Further insight on our individual businesses is also available in our business unit updates section, on pages 26-39. Within these, each managing director shares an overview on how each of our businesses has performed during the year.

Throughout our financial statements, you will see reference to the fact that we have restated comparative figures. This is because of new accounting rules around how we report on our funeral plans. The new rules are referred to as IFRS 17 and replace the old approach under IFRS 15, which we had been using previously.

IFRS 17 changes the value of the liability that we hold on our balance sheet for funeral plans to be redeemed, as well as how we record sales and profit over time in relation to those plans. We are required to apply the changes retrospectively to our previous year - so we've had to recalculate (restate) the numbers we had already published, at that time.

This is purely an accounting change - there is no cash impact or operational change to the way we run our funeral business. You can find extra disclosures in our Financial Statements on pages 147-222, explaining the change and how it has impacted our balance sheet and income statement.

To further help our members understand how the change has impacted our numbers, we have also prepared a table to show how our performance in 2023 would have looked under the old IFRS 15 accounting rules, against the original figures that were published for 2022. The alternative unaudited old IFRS 15 (pre-IFRS 17) view can be seen on page 265.

| Summary of financial performance - total group | 2023* £m | 2022** £m |
|--|---------------|---------------|
| Revenue | 11,262 | 11,484 |
| Operating profit / (loss) | 66 | (12) |
| Profit before tax (PBT) | 28 | 268 |
| Underlying operating profit | 97 | 83 |
| Underlying PBT | (2) | (48) |
| Underlying EBITDA | 468 | 473 |
| Net debt | (82) | (322) |
| Member and Community reward | 45 | 38 |

* The 2023 figures represent the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks to 31st December 2022.

** Our comparative figures have been restated to reflect a new accounting treatment for funeral plans. See Note 33 of our financial statements on page 222 for further details and additional commentary at the end of this section.

Our Group financial metrics

- **Revenue:** total Group sales of £11.3bn are 1.7% lower than last year (2022: £11.5bn). This is mainly driven by a reduction in sales in our Food business, which are down by £0.5bn. This reflects the sale of our petrol forecourt sites at the end of October 2022 (so our 2022 figures include 10 months of sales from the forecourt sites but no equivalent in 2023, and both 2022 and 2023 include Federal sales as part of the transition). We also saw lower volumes in our Food business for the majority of the current year as our customers continued to adapt their behaviour and shopping habits in light of the cost of living crisis. Offsetting these reductions will be the slight increase in sales from the impact of the 53 week period in 2023 in comparison to 52 weeks in 2022. Excluding the impact of the sale of the petrol forecourt business, Food sales are up 4.3% year-on-year.

Our Wholesale, Funeralcare, Legal Services, Insurance and Federal services businesses have all performed well in their markets, with sales up in each area. Further insight on our individual businesses is also available in our business unit updates section on pages 26-39.

- **Underlying operating profit:** underlying operating profit is our main measure of trading performance and at £97m is £14m higher than the prior year (2022: £83m). Despite our sales being down, we have continued to reap the benefits of the cost saving culture we have embedded throughout our Co-op to help us run and serve our member-owners more efficiently. Furthermore, the significant investment we have made over the last couple of years in our core retail logistic and supply chain infrastructure and IT systems is paying back and delivering better profitability through overall lower costs to serve - with profit in our Food business up £15m to £154m despite the reduction in sales.

Good profit growth has also been achieved in our Legal Services and Insurance businesses, although this is offset in Wholesale and Funeralcare which are down on the prior year.

- **Operating profit:** at £66m our operating profit is £78m better than the comparative period. As noted above, our underlying profitability is up by £14m with the majority of the improvement in Operating profit reflecting a reduction in non-underlying charges of £64m. This arises as one-off charges are £27m lower this year following the significant redundancy and winter cost of living charges last year. Loss on disposal including impairment charges is also £18m lower in 2023 and there is a relative favourable swing on the value of our investment properties of £19m.
- **PBT:** at £28m our PBT is significantly lower than last year as the comparative period includes a £319m gain on the sale of our petrol forecourts. Excluding the £319m our PBT in 2023 would be £79m higher in 2023 than 2022. As noted above, our Operating profit is £78m higher and this flows through to our PBT line with overall net finance income and costs being broadly flat year-on-year. See the Financing section below for further detail.
- **Underlying PBT:** at a loss of £2m our underlying PBT is favourable to last year by £46m (2022: £48m loss). As noted above our underlying operating profit is up by £14m and net underlying interest is also down by £32m.
- **Underlying EBITDA:** again, this is broadly in line with 2022 at £468m (2022: £473m) and consistent with the comparable year-on-year underlying operating profit performance. Underlying EBITDA reflects our underlying operating profit excluding depreciation and amortisation charges (with underlying operating profit £14m favourable offset by £19m more depreciation and amortisation in the prior year).
- **Net debt:** in closing the year at £82m of net debt, we continued the good progress made over the last 18 months and further reduced our indebtedness from the 2022 year end position of £322m. This was achieved through strong cash generation throughout the year and consistent cost control. The reduction in gross debt includes the repayment of £100m of our borrowings in March 2023. We also closed out the year with an enhanced cash and cash equivalent position at £595m (2022: £447m). This improvement in net debt builds on the decisive action we took in the second half of 2022 to reduce the Group's overall debt and strengthen our balance sheet.

- **Member-owner and Community reward:** our profits are reported after deducting the amount our member-owners have earned through the 2% community and member-owner rewards, which totalled £45m in the year (2022: £38m). Co-op colleague member-owners have also continued to receive the benefit of our 30% colleague discount on own-brand products throughout 2023.

How our businesses have performed

| Summary of financial performance - by business unit | Revenue | | Underlying op profit | |
|---|---------------|---------------|----------------------|--------------|
| | 2023* £m | 2022** £m | 2023* £m | 2022** £m |
| Food | 7,262 | 7,805 | 154 | 139 |
| Wholesale | 1,480 | 1,439 | 14 | 22 |
| Federal | 2,142 | 1,895 | - | - |
| Funeralcare* | 281 | 275 | (11) | (1) |
| Insurance | 29 | 24 | 14 | 8 |
| Legal Services | 68 | 46 | 21 | 8 |
| Support centre | | - | (95) | (93) |
| Total Group* | 11,262 | 11,484 | 97 | 83 |

* The 2023 figures represent the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks to 31st December 2022.

** As noted above; our comparative figures have been restated to reflect a new accounting treatment for funeral plans. See Note 33 of our financial statements on page 222 for further details and additional commentary at the end of this section.

Further insight on the performance of each of our individual businesses is noted in the business unit updates on pages 26-39. Within these each managing director shares an overview on how each of our businesses has performed during the year.

Other Group Items

| Financing costs/income | 2023 £m | 2022 £m |
|--|-------------|--------------|
| Underlying bank / loan interest | (56) | (58) |
| Interest received | 25 | 3 |
| Net underlying lease interest | (68) | (76) |
| Total underlying interest (net) | (99) | (131) |
| Net pension finance income | 77 | 43 |
| Net finance income (funeral plans) | 17 | 28 |
| Net finance expense (funeral plans) | (16) | (15) |
| Movement on foreign exchange contracts | (6) | 20 |
| Movement on quoted debt | (10) | 28 |
| Movement on Interest rate swaps | 4 | (11) |
| Other non-underlying interest (net) | (5) | (1) |
| Total non-underlying interest | 61 | 92 |

- **Underlying interest:** at £99m, our net underlying financing costs decreased markedly in comparison to 2022. This is mainly because our improved cash position meant that we earned more interest in 2023 in comparison to 2022. The amount of interest we pay on leases also fell as our overall lease liabilities reduced after the disposal of our petrol forecourt stores in the second half of 2022. We're also paying less interest going forward, following the £100m buy-back of some of our borrowings at the start of March 2023.

- **Non-underlying interest:** the net finance income recorded from non-underlying items reduced by £31m. The significant movements are:
 - The fair value of the Group's quoted debt increased in 2023 driving a finance charge of £10m. In 2022, the fair value of our debt decreased by £28m following the downgrade (in the prior year) of the Group's credit rating and market expectations on the interest rate outlook (generating a £28m gain to finance income). The market value of the £105m bond that we hold at fair value has now recovered back to par valuation from the low valuation in 2022. This has driven the £10m charge in 2023 with the comparative adverse swing between 2023 and 2022 of £38m. The fair value of our £105m interest rate swaps improved in the year driving a £4m gain in the year offsetting the charge noted above and being £15m favourable to 2022.
 - The fair value of our foreign exchange contracts and commodity derivatives (mainly diesel fuel contracts) moved adversely in the year, generating a £6m finance charge. The equivalent movement in 2022 was favourable, at £20m (generating a £20m gain in finance income). Relative market price movements and a spike in fuel prices were the biggest drivers of the upside in 2022. The comparative adverse swing between 2023 and 2022 is £26m.
 - The returns achieved on our funeral plan investments in 2023 were £17m which is £11m lower than in 2022. The returns on the investments were driven by market conditions and 2023 performance reflects a much lower return than we would normally see, with 2022 being higher but still below the longer-term average. In fact, average annual returns over the last 10 years have been around £50m per year. At £16m, the finance charge on funeral plan liabilities was £1m higher than last year. The overall comparative adverse swing in net interest on funeral plans between 2023 and 2022 is £12m.
 - The adverse variances noted above have been offset to some degree by a relative favourable gain on net pension finance income of £34m in comparison to 2022 and an adverse variance from other smaller items of £4m.

Non-underlying Items

| | 2023 £m | 2022 £m |
|--|-------------|-------------|
| One-off items | (12) | (39) |
| Property disposals and closures | 9 | 64 |
| Impairments of assets | (32) | (105) |
| Change in value of investment properties | 4 | (15) |
| Total non-underlying items | (31) | (95) |

* Positive items are gains. Negative items are charges.

One-off items - totalling a £12m charge (2022: £39m charge) one-off items includes £10m of non-recurring net income recognised in relation to the transitional service agreement following the sale of our petrol forecourt sites in the prior year, a net charge of £20m in relation to legal cases and associated provisions, a further £4m of costs in relation to the discretionary help given to support our colleagues through the winter cost of living crisis (through spend added to colleagues membership cards) and a £2m gain from the release of property provisions. In the prior period, the £39m charge comprised £26m of redundancy costs primarily within our Support Centre, £12m cost of winter cost of living crisis payments, and net £1m other.

Property disposals and closures - we've sold fewer non-core properties this year in comparison to 2022, which saw the disposal of a few high value sites.

Impairment of assets - (£20m) of the £32m impairment charge relates to poor performing Food stores where our latest forecasts of future trading cashflows doesn't cover the asset value of the sites. Less favourable forecasts and assumptions around the general economic trading environment in the prior year resulted in a higher impairment charge of £60m in 2022. We also impaired the value of the leased asset that we hold for our Angel Square central support centre by £20m in the prior year. This reflects the change in utilisation as we transitioned to a more flexible and hybrid working model. We charged a further £7m against Angel Square in 2023, along with a further £5m against other non-trading properties.

Change in value of investment properties - driven by market conditions, the value of our investment portfolio rose by £4m in 2023. This followed a larger reduction in value of £15m in 2022.

Net Debt and Cashflow

| | 2023 £m | 2022 £m |
|---------------------------------|------------|------------|
| Bank debt* | (677) | (769) |
| Lease debt | (1,233) | (1,306) |
| Total debt | (1,910) | (2,075) |
| Group cash and cash equivalents | 595 | 447 |
| Net debt (excluding leases) | (82) | (322) |
| Net debt (including leases) | (1,315) | (1,628) |

* Debt excludes any interest accruals. See APM section of our Jargon Buster on page 252 for details of how we calculate net debt.

We continued to reduce our overall indebtedness in 2023 and we closed out the year at £82m of net debt. This continues the good progress made over the last 18 months, seeing a reduction in net debt of £240m from the 2022 year end position of £322m. This improvement further builds on the decisive action we took in the second half of 2022 to reduce the Group's overall debt and strengthen our balance sheet.

During 2023, our Co-op generated strong net cashflows from operating activities of £602m (2022: £455m) demonstrating a resilient trading performance across our business portfolio. This was aided by our continued focus on cost control and working capital management. Furthermore, we increased the amount we are spending to invest and grow our Co-op through £205m in capital expenditure during the year (2022: £147m). We also made payments of principal on our lease liabilities of £123m (2022: £128m).

The reduction in bank debt includes the repayment of £100m of our borrowings in March 2023, and we also closed out the year with an enhanced cash and cash-equivalent position including short-term investment deposits at £595m (2022: £447m).

Tax

As has been the case in recent years, we won't be paying corporation tax in respect of 2023 because we have brought forward tax losses and capital allowances which can be used to offset any liability.

In 2023, we paid £193m (2022: £206m) to the Government in respect of VAT, business rates, stamp duty land taxes and employers' national insurance. The slight year-on-year decrease reflects overall lower business rate charges following the sale of our petrol forecourts sites in October 2022.

The total tax charge reported in the income statement for continuing operations of £26m is made up of a £1m current tax credit and a £27m deferred tax charge. The current year deferred tax charge mainly relates to the net usage of temporary differences on movements in our pension assets and capital allowances. See Notes 8 and 15 in our consolidated financial statements for more detail on Tax. We retained the Fair Tax Mark accreditation in 2023. This shows 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 total net assets of the Group decreased by £1.0bn from the start of the year. The main movement driving this is the decrease in the net pension surplus of £1.2bn offset by a corresponding reduction in deferred tax liabilities of £0.3bn. The decrease in the pension surplus includes a reduction of £0.9bn from the impact of a transaction known as a 'buy-in'.

In November, our main pension scheme Pace, completed a 'buy-in' transaction with Rothesay Life Plc to insure scheme benefits through a bulk annuity insurance policy. In conjunction with previous buy-ins this means the Group section of Pace and the Group as sponsoring employer are insured against the primary investment and longevity risks it is exposed to. The accounting for the buy-in saw the scheme assets decrease by £0.9bn.

In addition to the above, the actuarial surplus on our pensions scheme decreased by a further £0.3bn as scheme liabilities increased as actual inflation was higher in the year than had previously been assumed.

Our trade payables balances also increased by £0.1bn from year end 2022, as we continue to carefully manage our cash and working capital position. Our deferred tax liabilities have also fallen by £0.3bn following the reduction in the pension surplus noted above.

As noted, we have adopted the new accounting standard (IFRS 17 Insurance contracts) for the first time this year, when accounting for our funeral plan liabilities. This required us to restate our comparative numbers including the closing balance sheet position for 2021 which saw a reduction in the Group's net assets of £33m on transition to IFRS 17.

Summary of Group and Funeralcare segment financial performance on both an IFRS 17 basis and proxy (unaudited) IFRS 15 basis for funeral plans

For comparative purposes only, the tables below show the Group's performance under the new accounting methodology for funeral plans (on an IFRS 17 basis and as reported in our financial statements) as well as under the previous accounting methodology (IFRS 15). As we are no longer required to report the performance of our funeral plans under IFRS 15, the full year 2023 numbers under IFRS 15 noted in the table below have been estimated using a proxy adjustment based on previous years' experience. These numbers are unaudited.

These figures have been provided to help our members further understand the impact of IFRS 17 on the historic performance of the Group and the Funeralcare segment during the year of transition:

| Total Group | 2023 IFRS 17 (£m) | 2023 IFRS 15 (unaudited) (£m) | VAR | 2022 IFRS 17 (£m) | 2022 IFRS 15 (£m) | VAR |
|--|-------------------------|--|------|-------------------------|-------------------------|------|
| Consolidated Income Statement | | | | | | |
| Revenue | 11,262 | 11,259 | 3 | 11,484 | 11,480 | 4 |
| Operating expenses | (11,205) | (11,184) | (21) | (11,505) | (11,484) | (21) |
| Operating profit / (loss) | 66 | 84 | (18) | (12) | 5 | (17) |
| Finance cost | (164) | (202) | 38 | (164) | (202) | 38 |
| Profit before tax | 28 | 8 | 20 | 268 | 247 | 21 |
| Other comprehensive (loss) / income | | | | | | |
| Insurance finance (expense) / income on funeral plans | (37) | - | (37) | 453 | - | 453 |

| Funerals segment | 2023 IFRS 17 (£m) | 2023 IFRS 15 (unaudited) (£m) | VAR | 2022 IFRS 17 (£m) | 2022 IFRS 15 (£m) | VAR |
|---|-------------------------|--|------|-------------------------|-------------------------|------|
| Consolidated Income Statement | | | | | | |
| Revenue | 281 | 278 | 3 | 275 | 271 | 4 |
| Operating expenses | (292) | (313) | (21) | (281) | (255) | (21) |
| Operating profit / (loss) | (11) | 7 | (18) | (7) | 10 | (17) |
| Finance cost - funeral plans | (16) | (54) | 38 | (15) | (53) | 38 |
| Finance income - funeral plans | 17 | 17 | - | 28 | 28 | - |
| Net finance income - other | 23 | 23 | - | 5 | 5 | - |
| Profit / (loss) before tax* | 13 | (7) | 20 | 11 | (10) | 21 |
| Other comprehensive (loss) / income | | | | | | |
| Insurance finance (expense) / income on funeral plans | (37) | - | (37) | 453 | - | 453 |

* Profit / (loss) before tax is not reported on a segmental basis but is shown above for the Funerals segment for illustrative purposes and is derived as operating profit less net finance costs / income.

Transition to IFRS 17

IFRS 17 is a very detailed and technical insurance-based accounting model and represents a fundamentally different approach to the way that we previously accounted for our funeral plans under IFRS 15. Insurance accounting requires wide-ranging assumptions to be made (such as expectations of future rates of inflation, mortality and interest rates) as well as extensive actuarial data modelling to be undertaken. This means the impact on transition to the new standard is complicated to understand and difficult to explain in simple terms. However, a few basic trends can be expected and can be seen in these numbers.

In general, we expect to see similar levels of profitability under IFRS 17 as we did under IFRS 15 across our plans over time. However, the phasing and recognition of those sales and profits will be different. We also expect to see a reduction in operating profit under the new standard in comparison to the old methodology, but this will be offset by a reduced finance charge (which sits below Operating profit in our Income statement) - so where our profits are shown in our accounts has changed.

- **Revenue** - to some degree, revenue recognition is accelerated under the new standard. This is because it is spread over the life of the funeral plan (the period of insurance coverage) rather than only being recognised at the point of redemption of the plan, as was the case under IFRS 15. However, the revenue recognition model is complicated and is based on three items which, in combination, will ultimately determine how revenue is recognised over time: (i) the actuarial expectation of claims in the period (ii) an element of the expected profit margin of the plan and (iii) release of a risk adjustment for non-financial risk. This spreading of revenue over the life of a funeral plan increases revenue during the coverage period but reduces the amount of revenue that is recognised on redemption. This is different to how revenue was recognised under IFRS 15 when all of the revenue would have been recognised at once at the point of redemption - so the phasing of revenue recognition is different between IFRS 17 and IFRS 15.

Furthermore, under IFRS 17, both the revenue and the cost-of-service expense are calculated on a fulfilment cashflow basis and as such include the cost of the disbursements associated with delivering the funeral (costs paid to 3rd parties including but not limited to cremation fees, burial fees, minister fees and Doctor fees). These were previously netted off within Revenue under IFRS 15. This grossing up compared to IFRS 15 largely offsets the reduction in revenue referenced above but increases the cost of sale.

- **Operating profit** - this is likely to be lower under IFRS 17 than we saw under IFRS 15 partly because of the phasing of revenue being spread over the life of a funeral plan, rather than all at redemption and partly as the balance of where profit is recognised in the Income statement shifts such that we see lower finance expense under IFRS 17 but higher operating expenses.
- **Finance income** - this represents the investment returns on the funeral plan asset we hold and is not impacted by IFRS 17. There is no change on transition to IFRS 17.
- **Finance costs** - under IFRS 15, this represented accrued interest on plan liabilities (as if the customer had lent Co-op money when they took out the plan) and was calculated using a borrowing rate. Under IFRS 17, finance costs represent the discount unwind on the insurance contract liabilities and is calculated on a near risk-free rate using UK gilts which will likely be significantly lower than under IFRS 15. This shows in the table as a reduced finance cost under IFRS 17 versus IFRS 15.
- **Profit before tax** - the transition to IFRS 17 sees an increase in PBT because the reduction in finance costs under IFRS 17 is higher than the increase in Operating expenses.
- **Other comprehensive income (OCI)** - to reduce potential volatility in our results, we have elected under IFRS 17 to recognise the impact to the Income statement of changes in the discount rate within OCI rather than in finance income or expense. As noted in the tables above, we recorded finance income of £453m in OCI in 2022 due to the significant increase in the discount rate in the year which materially reduces the insurance contract liability. The equivalent figure for 2023 is a £37m finance expense.

Key Performance Indicators

Key Performance Indicators

| Financial KPIs | 2023* | 2022** |
|---|----------------|-----------------|
| 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 our member-owners and colleagues and reinvesting in our Co-op for future growth. | | |
| More information on our financial performance can be found on pages 40-48. | | |
| Underlying loss before tax | (£2m) | (£48m) |
| Underlying operating profit / (loss) 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) | | |
| Underlying operating profit | £97m | £83m |
| 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) | | |
| Underlying EBITDA | £468m | £473m |
| A measure of performance which helps us to understand the underlying profits our business segments are generating before capital investment and interest charges | | |
| Net debt | £1,315m | £1,628m |
| Bank loans and borrowings less the cash we hold (including lease liabilities) | | |
| Net debt (excluding leases) | £82m | £322m |
| Bank loans and borrowings less the cash we hold (excluding lease liabilities) | | |
| Total revenue* | £11.3bn | £11.5bn |
| Net revenue as shown in the consolidated income statement (page 148) | | |
| Operating profit | £66m | (£12m) |
| Operating profit as shown in the consolidated income statement (page 148). Includes the underlying operating profit of our businesses as well as one-off items and gains or losses on disposals of assets | | |
| Profit before tax (PBT) | £28m | £268m*** |
| Total profit from continuing operations before taxation | | |

* The 2023 figures represent the 53 week period ended 6th January 2024, with the 2022 comparatives representing 52 weeks to 31st December 2022.

** The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 of the financial statements for details of the restatement.

*** Profit before tax (PBT) in 2022 includes the gain on the disposal of our petrol forecourt stores of £319m.

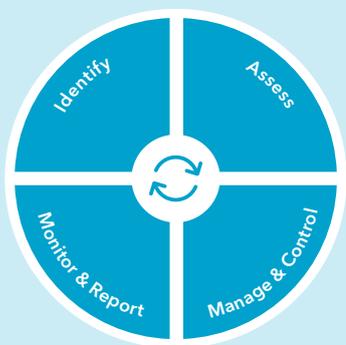
Risk management

Risk management

Our colleagues all share responsibility for identifying and responding to risk and making decisions that fit with our co-operative Values and Principles. Managing our risks well means we continue to create and protect value for our member-owners and their communities. Our risk management framework gives colleagues a clear way to identify and manage risks while keeping us within our risk appetite.

Our approach to risk

We use a four-step approach to help our leaders and colleagues recognise and manage risk within the risk appetite set by our Board. This is supported by our risk management processes and tools.



Identify

- We identify and regularly review the key risks that could impact our business by using our experience, judgement, and by considering the environment we operate in.

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 implications for our Co-op.

Manage and Control

- Our Board, and senior leaders oversee and manage the risks to our business by ensuring that appropriate response plans and resources are in place.

Monitor and Report

- We regularly review risk and other management information, to understand if our exposure to risk is changing and will act where 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.
- We manage our principal risks and responses through our Operating Board with the support of the Business Risk and Assurance Committee. The Operating Board is made up from our senior leaders and decision makers, collaborating on decisions and actions needed to run our business effectively.

Risk appetite

- Our risk tolerance is determined for our Co-op as a whole and is reviewed by our Board.
- Senior leaders guide their planning and take decisions in line with our risk appetite.

Policies and Standards

- We have policies and standards in place to manage risks across our businesses. Procedures guide colleagues, setting out our risk appetite and the minimum expectations for minimising the impact of key risks.
- Risks are owned by individual senior leaders with the expertise to understand what's expected to mitigate the risk and report on progress.

Roles and responsibilities

- Our Co-op uses a three-line 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 - our risk functions provide advice and oversight to help the frontline manage risk within our risk appetite.

Third line - our internal Audit team provides independent assurance and challenge.

Read more about our Principal Risks and Uncertainties on pages 55-59.

Our risk governance

Our Board reviews our position against risk appetite, the principal risks to our business and monitors management's action plans. In 2023, the Risk and Audit Committee (RAC), our Operating Board members and the Business Risk and Assurance Committee (BRAC) met regularly to look at the risks affecting our Co-op and have scrutinised the principal risks and the activity undertaken by management to mitigate these. The BRAC considers both our principal risks and any emerging risks that may affect the achievement of our strategy. As part of our annual planning exercise, we reflect any changes to our strategy in our risk profile. This includes:

- Regularly reviewing our position against our risk appetite by monitoring our risk profile and taking appropriate actions where needed.
- 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 risk position.
- Monitoring corrective action when required.

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

Nominated members of our Operating Board and senior leaders drawn from each business unit and key support functions form the Business Risk and Assurance Committee (BRAC). This Committee has responsibility for monitoring the delivery of plans, assessing emerging risks and, when required, challenging action taken to keep us within risk appetite.

Our risk appetite

When 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 affecting our business. Our last review was undertaken in November 2023.

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

We make assessments against the following key areas of risk:

Strategic and membership

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 member-owners, 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

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

Regulation and compliance

We aim to 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 55-59 and emerging risks on page 60.

Principal Risks

Our principal risks have been assessed using the methodology outlined on the previous page. They have been reviewed by our Board and detail the risk exposures that pose the greatest potential impact to our Co op. Our principal risks are set out in the tables on the following pages. In addition to our principal risks, there may be risks that are not known to us or some we may consider not to pose a material threat to our Co-op. We remain flexible and respond to the risk landscape as it changes.

Regulatory Landscape

The various businesses within our Co-op are each affected in different ways by changes in regulation. We continuously monitor planned changes to regulation and adapt to meet new requirements.

The Financial Reporting Council (FRC) announced revisions to the UK Corporate Governance Code to enhance transparency and accountability of businesses that subscribe to the Code. We have a programme of work in place to prepare for these revisions and their subsequent implementation, to ensure we comply with the requirements that are relevant to our business as a co-operative.

Co-op Food and Nisa Retail Limited

The Windsor Framework sets out how businesses move goods between Great Britain and Northern Ireland. Co-op and Nisa comply with the framework so we can send goods to our stores and partners based in Northern Ireland. Through the UK Internal Market Scheme (UKIMS) and Retail Movement Scheme (RMS) trusted trader schemes, we are authorised to use the 'green lane' which has fewer checks on agrifood products.

Co-op Funeral Plans Limited and Co-op Insurance Services Limited are authorised by the Financial Conduct Authority. Our structures, processes and culture comply in all material respects with the regulatory requirements for the industry.

Principal risks and uncertainties

V – Considered in our viability assessment, see pages 116-117 for further details.

How our principal risks developed in 2023

Over the course of 2023 and into 2024, changes in the geopolitical environment have been heightened by troubles in the Middle East. The attacks on shipping in the Red Sea have seen increased pressure on the current cost of living impacts for consumers in the UK, as shipping companies divert their cargo ships, adding additional time and costs to their voyages.

Challenges in the macro-economic environment are still creating uncertainty for UK consumers. The impacts of this span several of our principal risks. The principal risks most impacted are:

Competitiveness and External Environment: Cost of living pressures continue to impact the finances of our member-owners and customers, as they

seek out value and adapt their shopping habits.

Supply Chain and Operational Resilience:

Challenges remain within the supply chain in terms of sourcing of products and materials for and from our suppliers.

Environment and Sustainability: The urgency to address climate change and sustainability remains. The current geopolitical and economic circumstances have served to heighten the challenges ahead and have the potential to impact our ability to meet our climate commitments over the long-term.

Beyond this, the broad extent of our Principal Risks has remained the same. In our viability statement on pages 116-117, our directors have concluded that the business will have sufficient funds for the period to 31 December 2025.

Change

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 realise the benefits of our change programmes.

| Reason for the risk | What we do | What has changed | What we plan to do |
|--|---|---|--|
| <ul style="list-style-type: none"> Complexity of change programmes Available resources and capacity for change Complex dependencies between change programmes Cost of change | <ul style="list-style-type: none"> Ensure oversight of our change portfolio activity has appropriate governance and robust controls Approach to change ensures colleague impact is considered and effectively managed, and that changes are fully embedded without disruption Long-term planning assesses and prioritises change choices and investment decisions that align with the delivery of our strategic objectives | <ul style="list-style-type: none"> Improved management and strengthened end-to-end governance around our Co-op's change agenda, from concept to implementation, including capacity to deliver change Effective prioritisation of investment in change activity is pivotal to ensure we continue to focus on what has the most material impact and benefit in delivering our vision and strategy | <ul style="list-style-type: none"> Embed a more tailored approach to deliver change, to manage risk and ensure the delivery of target outcomes in a fast moving and changeable macro-environment, whilst adhering to our new end-to-end change governance procedures Implement closer tracking of business-as-usual (BAU) activity that has interdependencies with key change activity to ensure we understand all potential impacts Continue to improve alignment between our governance structures with our risk management approach |

Competitiveness and External Environment ^V

Risk description: The competitive and economic landscape in which we operate means that we need to monitor our growth targets, propositions, and competitor behaviour to remain viable and innovative.

| Reason for the risk | What we do | What has changed | What we plan to do |
|---|---|--|---|
| <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 Macro-economic and supply chain issues relating to geopolitical issues 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 | <ul style="list-style-type: none"> Strategic planning and financial planning Risk and opportunity management, including financial forecasting Annual planning refresh with regular reporting and analysis Undertake 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 | <ul style="list-style-type: none"> To continue to meet the needs of our member-owners and customers, we have launched our new strategy, based on creating economic value, ownership value, social value Economic conditions continue to severely impact real income for UK households, as well as significantly increasing our costs, leading many consumers to seek out value Changes in consumer behaviours and expectations, with greater participation in online and local shopping | <ul style="list-style-type: none"> New revised target to reach eight million member-owners by 2030 Business growth ambitions in 2024 are to increase our share of quick commerce to 30%, more than double new franchise stores, and open 400 new Nisa stores We are extending member prices on over 100 product lines, taking the total price investment to £100m Growth to create a new era of Co-operation with greater value for member-owners and wider society |

Brand and Reputation

Risk description: We set ourselves high standards in the way we operate our business. Our Co-op Difference means we are owned by and run for our members. As a co-operative we reflect our Values and Principals and consider wider social and ethical impacts within our decision making, so that we can be commercially successful and sustainable. If we don't meet these standards there is a risk to our reputation.

| Reason for the risk | What we do | What has changed | What we plan to do |
|--|--|---|--|
| <ul style="list-style-type: none"> Expectations of our member-owners, communities and the customers we serve to deliver positive social impact Running our businesses in accordance with the principles set out by the International Co-operative Alliance (ICA) Sustained use of third-party partners to deliver Co-op branded products and services | <ul style="list-style-type: none"> Create economic value for our member-owners through the products and services we provide Create social value for the communities we serve Create ownership value by giving our member-owners a say in how we run our business Report on our ethical priorities and sustainability progress through our Co-operate Report, charting our responsible business performance and progress Report our progress to all audiences twice yearly against both commercial strategy and delivery of our Vision in our Interim and Annual reports Apply our Ethical Decision-Making Tool to inform key business activities and help make better decisions on behalf of our member-owners | <ul style="list-style-type: none"> Progressed on protecting our colleagues and communities by drawing the attention of the media and authorities to the issues caused by retail crime Developed partnerships such as Community Fridges and raised £1.2m for our charity partner Barnardo's in 2023 which will help improve young people's wellbeing | <ul style="list-style-type: none"> Protect our brand and reputation by focusing on the security and commercial viability of our business so that we can continue to offer valuable support to our members and communities into the future Continue to deliver our Co-op Difference by supporting member-owners, colleagues and customers Reach eight million member-owners by 2030 and support growth for our core businesses - Food, Funerals, Legal and Insurance Deliver on commitments with other charity partners in the communities we serve |

Funding and Liquidity

Risk description: The Group relies on a combination of external funding and cashflow generation to run its businesses. Any deterioration in economic conditions may require our Co-op to take mitigating action to ensure adequate funding and cashflows. Such mitigation could include reducing or delaying capital expenditure, eliminating discretionary costs and/or disposal of non-core assets.

| Reason for the risk | What we do | What has changed | What we plan to do |
|--|--|---|---|
| <ul style="list-style-type: none"> Changes in economic environment and outlook Movements in market prices Changes in tax and tariff regimes | <ul style="list-style-type: none"> Board-approved Treasury policy in place, which is actively monitored through our Treasury Committee Regular reviews are conducted by the Board covering debt facilities and liquidity headroom to ensure adequate capacity to cover future funding requirements Strategic plans supported by scenario planning Hedging to minimise impacts of interest rate and commodity movements | <ul style="list-style-type: none"> Balance sheet health remains strong after a significant reduction in our net debt in 2022 and continued improvement through 2023 Ongoing focus on reducing unnecessary expenditure | <ul style="list-style-type: none"> Repay or re-finance our debt facilities ahead of any debt maturities to ensure we maintain adequate liquidity headroom to cover the future operations of the business |

Technology and Cyber Threats

Risk description: We electronically store and process data on our member-owners, 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 business.

| 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 Member-owner, colleague and customer confidence Increase in third party cyber incidents Protect information owned or managed by our Co-op Protection of services that our Co-op delivers to our customers and member-owners Advances in technology including artificial intelligence (AI) and machine learning (ML) | <ul style="list-style-type: none"> Provide 24/7 security operation capability with embedded Information Security controls 24-hour threat and security event monitoring and response capability Vulnerability management Supplier security due diligence and assurance, and regular testing for security weaknesses Share best practice and foster a strong information security culture Continually improve security controls through an ongoing security improvement programme Obtain independent assessments of our security posture to define strategy Engage with the business to ensure security controls are aligned to their risk appetite Monitor legislation around new technologies such as AI/ML to ensure any investment in the automation of our processes to improve interactions with our members and customers are secure and ethical | <ul style="list-style-type: none"> Improved protection from external cyber threats including increased boundary controls Enhanced end user compute protection capabilities Further matured our Security Scorecard technology to monitor third and fourth parties' security postures Enhanced our Public Key Infrastructure (PKI) capability with the latest technology Further matured our Identity solutions Refreshed our Intruder Prevention and enhanced our firewall capabilities Introduced a new cloud-based firewall service Introduced a phishing simulation capability Developed controls to ensure AI/ML is responsibly and securely used (including AI registers and guardrails) | <ul style="list-style-type: none"> Continue to extend cloud security with additional controls over cloud application security Continue to improve our Data Loss Prevention controls through an improved Information Protection and Governance programme of work Continue to mature our Identity and Access Management controls Mature our email security tooling and implement enhanced email controls Introduce controls that demonstrate to our member-owners and customers that communication from our Co-op is genuine, to reduce fraudulent activity Implement Security Orchestration Automation Response capability Continue to invest in technology replenishment Increase protection for end user computer devices from threats of ransomware Continue to review and enhance controls to ensure AI/ML is developed responsibly and securely |

People

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 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 inclusive leadership behavioural training for all leaders and managers Colleague performance review, engagement and recognition Talent management review Pay and reward packages are reviewed regularly to ensure they remain competitive and fair Operate a hybrid working policy which gives more choice over how, when and where our colleagues work best to balance the businesses and colleagues' needs | <ul style="list-style-type: none"> Introduced holistic colleague conversations for all colleagues that encompass performance, development/career and wellbeing Rolled out inclusive hiring further to hiring managers, with improvements to create a more inclusive hire process Better understood our retention challenges. A stabilised external job market, reducing the high risks we saw in part of 2023 Invested in leadership development activity Significantly more active talent management and succession planning to help retain and develop particularly at senior leadership level Introduced talent programmes to support women and ethnic minority colleagues | <ul style="list-style-type: none"> Implement a robust knowledge, skills and revised behaviour framework that supports talent development and reskilling as the world of work changes Make improvements to our recruitment and selection processes in volume and non-volume hires Mature our inclusive culture such that our colleague base is increasingly representative of our society Make improvements to the colleague experience that reinforce and strengthen Co-op Culture Further mature talent management processes, leveraging technology |

Misuse and/or Loss of Personal Data

Risk description: We hold personal information of our member-owners, colleagues and customers. 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-owner, 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 streamline governance, reporting, monitoring and oversight Targeted assurance plan in place Bespoke training for colleagues managing rights requests | <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 and Safety and Security

Risk description: We have a duty of care to protect our colleagues, customers and third parties. Failure to carry out this duty effectively may result in adverse legal, financial and reputational impacts.

| 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 and safety legislation Size and complexity of our business | <ul style="list-style-type: none"> Co-op wide Health, Safety and Security frameworks define how we implement and report on controls We monitor and oversee issues through committees of subject matter experts Our performance is published in our annual Co-operate Report A comprehensive set of minimum standards outline the controls required to mitigate risks We continue to manage risk at Co-op, using the well-established Three Lines of Defence operating model | <ul style="list-style-type: none"> Across the UK, crime rates within our food retail network increased in 2023. Rising rates of crime, such as violence and abuse, have been reported across the UK's retail sector | <ul style="list-style-type: none"> The changing crime landscape has prompted major retailers, including our Co-op, to heighten awareness of the impact of crime on colleagues with a call for a stand-alone offence of assault on a shopworker Conduct horizon scanning for future changes in health and safety legislation, sharing our findings with specialist teams Ongoing health and safety and crime data enhancements to develop current system intelligence Continue the 'Safer Colleagues, Safer Communities' programme of activity encompassing security, wellbeing, campaigning and social responsibility |

Supply Chain and Operational Resilience

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 member-owners, 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"> Unpredictable external events like severe weather, pandemics and significant geopolitical events, as well as food fraud risks Efficiency of logistics network process, infrastructure, and resource capacity 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 Food Authenticity management system, horizon scanning of potential change in external events and regulations, risk mitigation and a robust product testing programme Regular disaster recovery testing and review of IT service levels to ensure resilience to external sources of disruption Regular review of pay rates for our driver and warehouse colleagues Engagement with industry working groups, Government and information exchanges to support joint responses with key stakeholders Post-exit from the single market and customs union, manage goods moving from Great Britain to Northern Ireland through the phased implementation of the Windsor Framework, as well as other planned legislative changes Regular strategic review of our network to meet future demands | <ul style="list-style-type: none"> Worked closely with our suppliers and partners to mitigate shortages of certain raw materials and disrupted energy supplies as a result of conflicts in Europe and the Middle East Work closely with the National Crime Agency, the Food Standards Agency, the Food Intelligence Information Network and the British Retail Consortium to underpin the integrity of our products Building on successful delivery of our multi-year Retail Business Transformation programme, with rollout of SAP for finance We continue to deliver Funeralcare's core system transformation programme to support greater resilience We manage goods moving from Great Britain to Northern Ireland through the Windsor Framework 'green lane' | <ul style="list-style-type: none"> Use artificial intelligence systems to accelerate data analytics Support innovation for the future of British farming and industry Focus on retention and attraction in our supply chain and logistics operations |

Regulatory Compliance

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 can impact our Co-op Our businesses provide financial and legal products and services which are regulated by the Financial Conduct Authority (FCA) and the Solicitors Regulation Authority (SRA) There are codes and regulations that apply to our Food business including the Groceries Supply Code of Practice (GSCOP) | <ul style="list-style-type: none"> Horizon scanning for emerging changes on the regulatory landscape, taking appropriate action and feeding into consultations where applicable We have colleagues with relevant expertise, robust processes, and controls to ensure the products and services we provide comply with all relevant laws and regulations 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 relevant colleagues Regular compliance monitoring and assurance reviews | <ul style="list-style-type: none"> Exports to Northern Ireland are managed through the phased implementation of the Windsor framework We are now reporting Task-Force Climate Related Financial Disclosures (TCFD). See pages 120-127 Improved processes and controls to ensure compliance with the Controlled Land Order 2010 | <ul style="list-style-type: none"> Enhance cross functional review and monitoring of regulatory landscape to track compliance and delivery plans Strengthen compliance frameworks and horizon scanning in response to increasing regulatory requirements on our businesses Continue to monitor and prepare for anticipated Corporate Governance and Internal Control Reform Continue to embed rules on Consumer Duty set out by the Financial Conduct Authority for open products and services |

Pre-need Funeral Plan Obligations

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 for each funeral or 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 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 Monitoring of Financial Conduct Authority (FCA) reporting requirements (Core Capital, Liquidity and General Solvency) | <ul style="list-style-type: none"> Throughout 2023, the return expected on Government bonds and therefore our wider asset portfolio continued to increase due to macro-economic changes. This has resulted in higher asset return expectations in the future compared to our 2022 view The introduction of a new accounting standard (IFRS 17) affected our Core Capital metric and has significantly increased the level of Core Capital headroom within our regulated business The investment return seen in 2023 has been low compared to historical levels; however, based on assumptions consistent with the market benchmarks, the outlook implies a long-term return higher than that achieved in 2023 | <ul style="list-style-type: none"> Regular review and improvement of the methodology and assumptions used in our actuarial models Ongoing monitoring of the required levels of funding and FCA metrics |

Environment and Sustainability

Risk description: The way we choose to run our business operations and the products and services we provide are affected by local and global social and environmental events. Running our Co-op sustainably is essential to achieving our Co-op's goals and meeting our ambition of becoming Net Zero for Scope 1 and 2 emissions by 2035 and for Scope 3 emissions by 2040

| Reason for the risk | What we do | What has changed | What we plan to do |
|--|--|---|--|
| <ul style="list-style-type: none"> Physical and transition climate related risks impacting food sources and materials; supply chains; livelihoods and economic growth Increasing UK and international environmental policies and regulations, including carbon prices, tighter emissions limits A competitive environment on sustainability and changing expectations and attitudes of our members, customers, suppliers and partners Living up to our co-operative Values and Principles The technologies and/or infrastructures required to achieve Net Zero are still unavailable or unaffordable Increasing risk of human rights and modern slavery issues in global supply chains | <ul style="list-style-type: none"> We are on track to reduce emissions created from running our business (Scope 1 and 2) by 66% from 2016 to 2030, and reducing our Scope 3 emissions by 48% from 2016 to 2030 Lead on climate action. Our CEO chairs the Steering Group for the BRC's Climate Action Roadmap and jointly chairs the Government Net Zero Council Play an active role in sector groups, including the WWF Retailers' Commitment for Nature, (a group of eight major retailers working to reduce the environmental impact of food and drink production) and Food Data Transparency Partnership Have in place a robust human rights due diligence programme to support our suppliers in tackling human rights issues Installing natural refrigerants across our estate to reduce our carbon emission | <ul style="list-style-type: none"> Built climate change impacts into our financial planning and strengthened the governance of our sustainability activity Fulfilled our commitment to disclose our comprehensive Task Force on Climate-Related Financial Disclosures in 2023 Validated our science-based GHG reduction targets with the Science Based Targets initiative (SBTi). The new targets are aligned limiting global temperature rise to 1.5°C and published them in our Co-operate Report Forged a 15 year partnership with Voltalia for green electricity to cover up to 7.5% of our total electricity needs per year Added new ESG metrics into our main bank facility so that it qualifies as a Sustainability Linked Loan, supporting our transition to Net Zero Published our Modern Slavery Statement, Supply Chain Disclosure and Independent Human Rights Impact Assessment Committed to no deforestation across our primary deforestation-linked commodities by 31 December 2025. | <ul style="list-style-type: none"> Implement detailed carbon reduction plans for our own operations by developing a logistics fleet decarbonisation strategy and progressing our low carbon heating strategy Continue to evolve our plans to meet our environment, human rights and sustainability goals 50% of our category 1 Scope 3 emissions will be covered by suppliers with validated science-based targets by the end of 2024 In 2024, we are planning to broaden incentives in our contractual terms and conditions for suppliers to accelerate decarbonisation and help meet our Scope 3 carbon reduction targets Deliver our pan-Co-op deforestation plan to meet our sustainability commitments |

Task Force on Climate-Related Financial Disclosures

As a large organisation, our Co-op is committed to complying with the UK Government's mandate to disclose Task Force on Climate-Related Financial Disclosures (TCFD) aligned financial information. Details of this disclosure are set out on pages 120-127.

External emerging risks

We proactively monitor emerging risks and opportunities for our Co-op and across our businesses and functions where the full extent and implications of a risk may not be completely understood but needs to be tracked. We regularly evaluate changes to our risk profile triggered by new or unexpected events and respond to them at a function, business or group level with the support of our business continuity and Legal teams.

Political risks

The worsening geopolitical landscape could further complicate our supply chains and operations, and our ability to create value for our member-owners.

We protect value by:

Working with suppliers and partners and having robust business continuity plans in place to mitigate.

Economic risks

A volatile and complex world increases the possibility of future financial instability that may impact our ability to protect value and support our member-owners and their communities.

We protect value by:

Our membership model means we can take a longer-term view than our competitors; we aim to create a strategically, commercially viable and sustainable business.

Social risks

Changes in demographics and population structures in the UK may impact our business.

We protect value by:

Reviewing our propositions to meet our both our member-owners and colleagues' needs now and in the future.

Technological risks

Progression in technology accelerates, our existing ways of operating and working become outmoded and impact the opportunities to create value offered by new technology.

We protect value by:

Adopting new technology to improve our operations, explore opportunities in new markets and deliver value to our member-owners.

Regulatory risks

Differing regulation and legislation across the UK's devolved nations and with the EU has the potential to drive up costs and impact value creation activities.

We protect value by:

Engaging with Government, its agencies and industry bodies to ensure compliance is achieved in an effective way.

Environmental risks

Climate change and an increase in severe weather events may impact our capacity to protect and create sustainable value for our member-owners.

We protect value by:

Demonstrating best practice in transitioning to a clean economy and renewable energy solutions.

Governance reports

Board biographies



Debbie White

Chair

Appointed as Chair in January 2024

(Independent Non-Executive Director and Chair Designate from August 2023)

Committee membership

- Nominations Committee (Committee Chair from January 2024)

Skills and experience

Debbie is an experienced Non-Executive Director. She is the Senior Independent Director of Spire Healthcare Group plc and was previously, until December 2023, a Non-Executive Director of Howdens Joinery Group plc. Debbie is also Audit Committee Chair and Non-Executive Director of PAVmed, Inc., a US medical technology company (listed on the NASDAQ). Debbie is a special advisor to Angeles Equity Partners and sits on the Board of Xanitos, Inc a portfolio company.

Debbie's executive career most recently included roles as Group Chief Executive of Interserve, Group and Global CEO for healthcare and government at Sodexo. Debbie started her career as a Chartered Accountant with Arthur Andersen (UK), before joining AstraZeneca where she held a range of financial roles. She later joined PwC Consulting where she worked across a number of sectors in a global capacity.

Debbie is Honorary Treasurer and a trustee of Wellbeing of Women, a UK charity which funds research into women's reproductive and gynaecological health.



Shirine Khoury-Haq

Chief Executive Officer

Appointed as CEO in August 2022

(Interim CEO from March 2022)

Skills and experience

Shirine is Group CEO at Co-op and has been a Director on the Co-op Board since joining in 2019. Shirine joined Co-op in August 2019 as Chief Financial Officer and later also became Chief Executive Officer Life Services, leading Co-op Funeralcare, Insurance and Legal Services.

Before joining Co-op, Shirine was Chief Operating Officer for the Lloyd's insurance market, which comprised of more than 50 leading insurance companies operating in over 200 countries. She also led the digital 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.

Shirine is also a Non-Executive Director and Chair of the Audit and Risk Committee at Persimmon Plc. Previously, Shirine was a Non-Executive Director at the Post Office.



Rachel Izzard

Chief Financial Officer

Appointed as CFO and Executive Director in June 2023

Skills and experience

Rachel joined Co-op Executive Board in June 2023, as Group CFO for Finance and Procurement.

Rachel 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 countries.

Prior to this role, Rachel was CFO at N Brown PLC, the UK fashion digital retailer. Rachel also has 25 years' experience in Airlines and logistics including CFO and CIO of Aer Lingus, during which time the company achieved a turnaround in both customer proposition and financial results.

Rachel was also CFO at IAG Cargo, co-founding the business from the divisions of British Airways and Iberia, and also held a range of roles overseas in Sydney, Hong Kong and New York.



Moni Mannings, OBE

Senior Independent Director

Appointed as Senior Independent Director in January 2024

Committee membership

- Nominations Committee.
- Remuneration Committee (appointed 23 January 2024).

Skills and experience

Moni is a qualified Solicitor. Until March 2016 Moni was a senior partner in international law firm Olswang LLP having enjoyed a career spanning over three decades in legal practice as a Banking and Finance lawyer. Moni founded and led Olswang's International Banking and Finance Division and served on Olswang's Board for 13 years.

Moni is currently Senior Independent Director Designate at Land Securities Group plc, Non-Executive Director and Chair of the Remuneration Committee of Hargreaves Lansdown plc and easyJet plc and a Member of The Takeover Panel.

Moni has previously served as a Non-Executive Director of Investec Bank plc, Polypipe Group plc, Dairy Crest Group plc, Breedon Group plc and Cazoo Group Ltd. She was also previously the Deputy Chair of Barnardo's.

Moni founded EPoC (Empowering People of Colour), a not-for-profit network that seeks to increase the number of people of colour on boards. She is a member of the Parker Review Committee and a Trustee on the Board of the St Marks Hospital Foundation charity.

Board biographies



Kate Allum

Member Nominated Director

Elected as a Member Nominated Director in May 2021

Committee membership

- Nominations Committee.
- Remuneration Committee (appointed 18 January 2023).

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 a director of Eurocell PLC, Billingtons Food Group, Ballater (RD) Limited and Thrive Ballater Limited.

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



Lord Victor Adebowale, CBE (Cross Bench)

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director in April 2016

Committee membership

- Risk and Audit Committee.
- Nominations Committee (appointed 28 March 2023).

Skills and experience

Victor has been involved in a number of independent commissions advising governments on mental health; learning disabilities; the role of the voluntary sector; youth crime prevention; policing and stop & search; policing and mental health; housing policy; the future of public services and employment/skills and race and equalities; and social finance/investment.

He is currently Founding Chair of Collaborate CIC; Director Leadership in Mind Ltd; Chair of the NHS Confederation; Chair of Social Enterprise UK; Co-founder and Chair of Visionable.com; a visiting professor of social policy at University of Lincoln; and Patron of the Art House, Wakefield.

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



Margaret Casely-Hayford, CBE

Member Nominated Director

Elected as a Member Nominated Director in May 2016

Committee membership

- Remuneration Committee.
- Nominations Committee.

Skills and experience

Margaret is a qualified lawyer of over 30 years standing, 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. She is a member of the Institute of Directors' Corporate Governance Advisory Board.

Margaret is currently Chancellor of Coventry University; Chair of Shakespeare's Globe Theatre; is an adviser to a number of social enterprises including the Better Business Initiative and is a champion of diversity, equity and inclusion.

Board biographies



Paul Chandler

Member Nominated Director

Elected as a Member Nominated Director in May 2015

Paul will reach the end of his term in May 2024

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 a director of Shared Interest from 2013 to 2022.

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, Senior Non-Executive Member of Chapter at Durham Cathedral, 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, a Trustee of the Bible Society and a director of the Fairtrade Advocacy Office in Brussels.



Sarah McCarthy-Fry

Member Nominated Director

Elected as a Member Nominated Director in May 2019

Committee membership

- Risk and Audit Committee.

Skills and experience

As a committed co-operator for over 25 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 a Trustee and Treasurer of the Parliamentary Outreach Trust.



Rahul Power

Independent Non-Executive Director

Appointed as Independent Non-Executive Director in July 2018

Committee membership

- Remuneration Committee.
- Risk and Audit Committee (appointed 23 January 2024).

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. Previously, 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.

Board biographies



Stevie Spring, CBE

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director in June 2015

Stevie will reach the end of her term in June 2024

Committee membership

- Remuneration Committee (Chair).

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; and of Future PLC, an international media company, where she led its digital transformation. She has chaired organisations as diverse as Children in Need for the BBC and The British Council for the Government.

Stevie's portfolio currently includes chairing PRS for Music, the global music rights business; Mind, the mental health charity; advising tech scale ups Kino-mo and ITG; and serving on the EDI Board of Pladis. Stevie was named in the Sunday Telegraph/ Debrett's list of Britain's 500 most influential people.



Adrian Marsh

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director in May 2023

Committee membership

- Risk and Audit Committee (Committee Chair from May 2023).
- Remuneration Committee (appointed 23 January 2024).

Skills and experience

Adrian is an accomplished Group Finance Director and experienced Non-Executive Director with multi-sector expertise. Most recently, Adrian was Group Finance Director of DS Smith plc where he held the position for 10 years. Prior to this, Adrian held senior finance positions at Tesco plc, AstraZeneca plc and Pilkington plc.

Adrian is currently a Non-Executive Director and Audit Chair of John Wood Group. Adrian's previous directorships include Greenergy International and WeConnectStudents.com.

Adrian is a Fellow of the Chartered Association of Certified Accountants and a Fellow of the Association of Corporate Treasurers.



Luke Jensen

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director on 19 February 2024

Committee membership

- Risk and Audit Committee.

Skills and experience

Luke is an established retail leader with a wealth of experience in the global food retail industry. Luke is currently Executive Chair at Hana Group SAS, a world leading provider of fresh 'on the go' sushi and pan-Asian Cuisine.

Luke served previously as CEO of Ocado Solutions where he led the transformation of Ocado from a UK retail company to a recognised global technology business. He was also Group Development Director of J Sainsbury's plc where he was responsible for online and all customer facing digital activities.

Luke was previously a Non-Executive Director of Asos plc.

Executive biographies



**Shirine
Khoury-Haq**

Chief Executive Officer

See Board biographies



**Rachel
Izzard**

Chief Financial Officer

See Board biographies



**Dominic
Kendal-Ward**

**Group Secretary and
General Counsel**

Dom became Group Secretary and General Counsel in May 2022. He originally joined our Co-op in 2017 as General Counsel of our insurance business. Dom qualified as a solicitor in 2006. Prior to joining our Co-op, Dom spent 12 years at the international law firm Linklaters, working for a wide variety of organisations on corporate advice and transactions. Dom is a Director of Co-operatives UK.

Other Directors and Executive members who have served during the year:

- Simon Burke served as an Independent Non-Executive Director and Chair of the Risk & Audit Committee until 30 April 2023.
- Mike Hazell served as Interim Chief Financial Officer until 30 June 2023.
- Sir Christopher Kelly served as Senior Independent Director until 13 November 2023.
- Allan Leighton served as Chair until 1 January 2024. He remained on the Board as an Independent Non-Executive Director until 18 February 2024.

Governance review



Chair's overview

I am pleased to present our 2023 Governance Review which sets out detail on our unique governance structure and the key areas considered by our Board and its Committees during the year.

Our member-owners

As the UK's largest consumer co-op, we exist to meet the needs and concerns of you, our millions of member-owners and the communities that we serve. This has remained at the forefront of the minds of our Board during 2023, whilst continuing to navigate external challenges, delivering against our strategy and investing in our future growth. Our Board has continued to pro-actively engage with our member-owners to gain their valuable thoughts and ideas.

Our National Members' Council ('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.

Under Denise Scott-McDonald's ongoing leadership as President of the Council, our Board has continued to have a healthy balance of support and challenge from our Council, who always show their passion for our Co-op, our member-owners and our colleagues. We value the engagement and contributions made and thank the National Members' Council for its ongoing support and challenge.

Plans for our 2024 Annual General Meeting are already well underway, and we are excited to host this at the brand-new Co-op Live Arena in Manchester. I look forward to meeting as many of you as possible and will value the opportunity to listen to your input and feedback. The meeting will take place on Saturday 18 May 2024 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 member¹, keep an eye out for an email or letter with more information.

Our Board and Executive

During 2023 our Board entered a period of transition with a number of Directors reaching the end of their terms of office. I was delighted to join as INED and Chair Designate in August 2023, taking over as Chair in January this year.

As reported in last year's Annual Report, Simon Burke stepped down as Risk and Audit Committee Chair and we welcomed his successor, Adrian Marsh, in May 2023. As a former Group Finance Director, Adrian has extensive financial accounting experience and is well equipped to lead our Risk and Audit Committee into the future.

In November 2023, Sir Christopher Kelly stepped down as our SID and we welcomed Moni Mannings as our new SID in January this year. Moni is a highly regarded NED, SID and Committee Chair with a unique depth and breadth of board experience across a wide range of ownership structures.

¹ To be eligible to vote, you must be at least 16 years old and have spent a minimum of £250 at Co-op over a 12-month period. See more details at www.co-operative.coop/get-involved/voting

More recently we welcomed Luke Jensen as an Independent Non-Executive Director. Luke is an established retail leader, bringing a wealth of experience in the global food retail industry.

Our Board also welcomed Rachel Izzard (CFO) as an Executive Director in June 2023 and the Board was pleased that Margaret Casely-Hayford was re-elected as an MND during the year.

I would like to extend my thanks to Paul Chandler and Stevie Spring who will both reach the end of their terms during 2024.

Our Board's Effectiveness

In line with corporate governance best practice, an externally facilitated review of our Board was conducted during the latter part of 2023, facilitated by Clare Chalmers. Whilst the timing of the review may be a little unusual given all the changes taking place on the Board, the outputs and recommendations are invaluable to me as I transition into my role as Chair, and look to ensure our Board is operating to maximum effectiveness.

More details on the review process and outcomes can be found in the Nominations Committee report on page 109.

Looking ahead

As I embark on my Co-op journey as your new Chair, I am committed to maintaining the highest standards of corporate governance. I will ensure our Board continues to be equipped to carry out its duties and remains focused on enabling delivery of our new strategy, ensuring co-operative Values & Principles remain at the heart of everything we do.



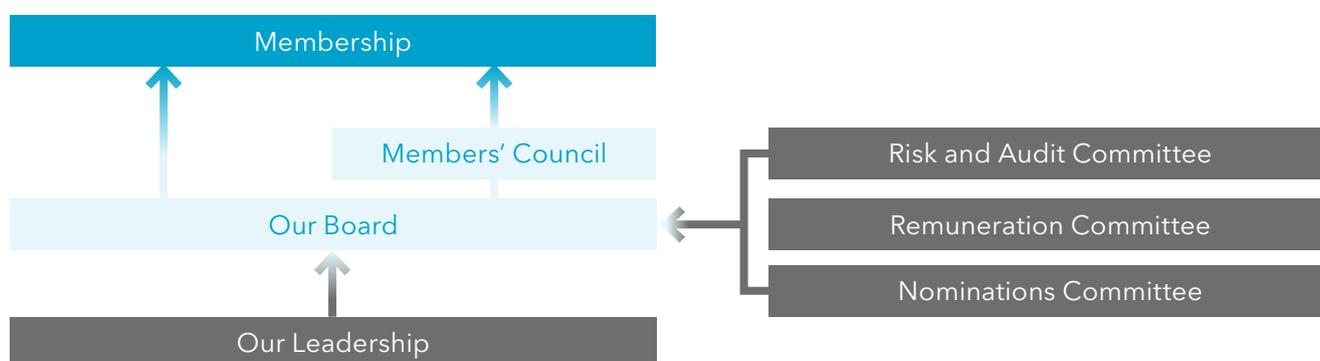
Debbie White
Chair, The Co-op Group

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 member-owners.



Our Board leads our Co-op and takes decisions at the highest level, to ensure 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 member-owners.

Our Board is supported by three committees. They have specific tasks which they carry out 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 page 82.
- Our Remuneration Committee ensures our senior leaders are fairly and appropriately rewarded, taking into account wider pay policy across our Co-op. The report of our Remuneration Committee can be found on page 92.
- Our Nominations Committee ensures we have the right Independent Non-Executive Directors (INEDs) and Executive Directors in place and that the Board as a whole works well. It 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 Member Nominated Directors (MNDs). The report of our Nominations Committee can be found on page 109.

Our National Members' Council ('Council') – a democratically elected body of 100 of our members – acts as our member-owners' representative, holding our Board to account for how the business performs. It also acts as a guardian of our Purpose and co-operative Values and Principles. Council highlights from 2023 can be found in your Council's Annual Statement on page 130.

Outside of the formal Board governance, there are a number of ways we ensure our members' views and needs are considered when making decisions. This includes:

- The President of the Council attending Board meetings twice per year as well as being a member of the Nominations Committee to ensure that the views of the Council are represented.
- Co-op leaders attending Council meetings to provide business updates and respond to questions.
- The Group Secretary attending Senate meetings.
- Holding of meetings between our Council leadership team and MNDs.
- Board Directors attending the Council Values & Principles Committee.

Further detail can be found in our section on Stakeholder Engagement on page 139.

Our Board

At the date of this report, there are 13 directors on our Board – this will reduce to 12 directors when Stevie Spring reaches the end of her term in June 2024. We have three categories of directors: Executive Directors, Independent Non-Executive Director (INEDs) and Member Nominated Director (MNDs).

- Debbie White is our **Chair** (appointed 2 January 2024 INED and Chair Designate from 1 August 2023).
- Moni Mannings is our Senior Independent Director (**SID**) (appointed 2 January 2024).
- There are five other **INEDs** on our Board – Lord Victor Adebawale, Adrian Marsh, Rahul Powar, Stevie Spring and Luke Jensen (appointed 19 February 2024).
- There are four **MNDs** on our Board – Kate Allum, Margaret Casely-Hayford, Paul Chandler and Sarah McCarthy-Fry.
- Shirine Khoury-Haq (Chief Executive) and Rachel Izzard (Chief Financial Officer) are our **Executive Directors**.

Dominic Kendal-Ward is our **Group Secretary**.

Director biographies can be found on pages 62-66. Members are able to see copies of the Directors' appointment letters by contacting the Group Secretary.

Role of our Directors

Debbie White, 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 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.

Shirine Khoury-Haq (Chief Executive) and Rachel Izzard (Chief Financial Officer), our **Executive Directors**:

- Have delegated responsibility for the day-to-day operation of our Co-op.
- Are accountable to our Board for all elements of our Co-op's operational and financial performance.

Moni Mannings, our **SID**:

- Uses her 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 are not appropriate 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 Council.

Our **INEDs** and **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 Council to hear their views.

Dominic Kendal-Ward, 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 Council, and our Board and leadership.
- 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 profiles, which are approved by the Board and are available on our website.

Appointments of our Board – Independent Non-Executive Directors (INEDs)

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

When we need to recruit an INED, the Nominations Committee will lead the process, including:

- Preparing a candidate brief – this 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 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.

During 2023 we made a number of Board appointments. Adrian Marsh joined as an INED on 1 May 2023 and Debbie White as an INED and Chair Designate on 1 August 2023, taking up the role as Board Chair with effect from 2 January 2024. We also recruited Moni Mannings as SID, effective 2 January 2024, and Luke Jensen as INED, effective 19 February 2024. More details on the selection processes can be found in the Nominations Committee Report on page 109.

Following INED (and MND) appointments, the Council Scrutiny Committee considers a report from the Board and scrutinises the adequacy and objectivity of the process followed. The report of the Scrutiny Committee can be found on page 136.

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

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.

Adrian Marsh, Debbie White, Moni Mannings and Luke Jensen are due to stand for election at the 2024 AGM.

Appointments of our Board - Executive Directors

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

Rachel Izzard (CFO) was appointed as an Executive Director on 12 June 2023 and is due to stand for election at the 2024 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 2023, Margaret Casely-Hayford was re-elected as an MND following a contested election. The MNDJC led on the 2023 MND election process supported by Warren Partners, an executive search firm.
- Kate Allum is due to stand for re-election as an MND in 2024.

Paul Chandler will reach the end of his nine year term as an MND in May 2024 and will step down from the Board. This creates an MND vacancy which will be filled during the 2024 MND election process.

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 reviews the skills and expertise we have on our Board 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 62-66 summarise their key skills and experience.

Board succession plans

The Board maintains a Board Succession Plan and is satisfied that the plan remains sufficiently robust. Executive succession is a matter for the Chief Executive (with the support of our Chief People and Inclusion Officer) in consultation with the Board.

Board effectiveness

It is good governance and a requirement set out in our Rules, that the Board regularly reviews its own performance. 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. The Nominations Committee and Board Chair have agreed that external reviews should be undertaken every three years, in line with corporate governance best practice.

For 2023, Clare Chalmers was engaged to conduct an externally facilitated review. Clare completed the previous external review in 2020 and it was felt that it would be advantageous to use Clare's existing knowledge to review progress over the last three years, as well as identify further opportunities for improvement. Details of the review process and a brief summary of the findings can be found in the Nominations Committee report on pages 109-113.

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.

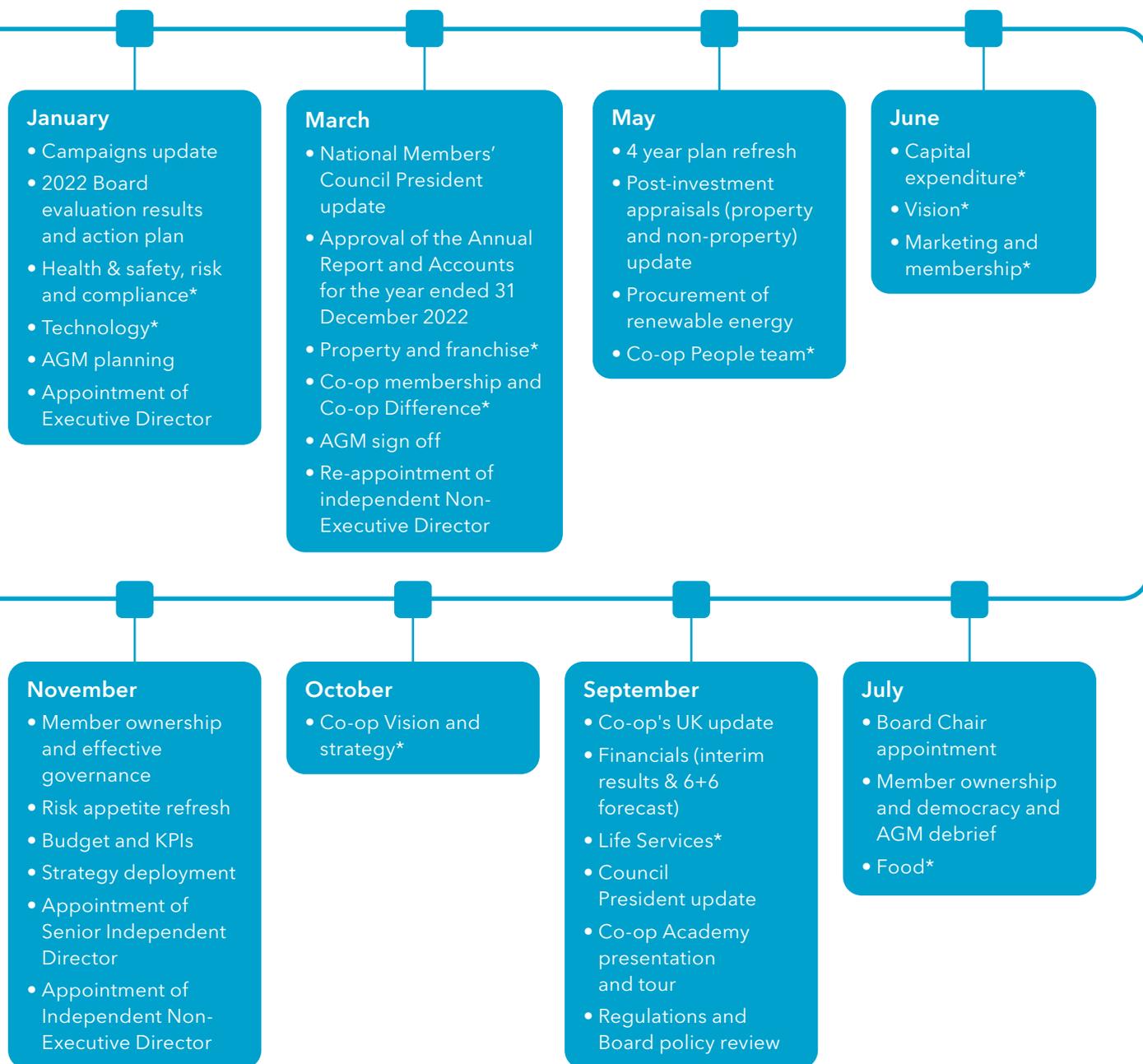
The Board had eight scheduled meetings during the year held through a combination of in-person and hybrid formats. During the year, our Board:

- Focused on strategy, with a number of deep dives on particular topics presented throughout the year.
- Held closed sessions between all Directors and the Group Secretary, and the INEDs, and MNDs alone without Executive Directors or the Group Secretary present.

Set out on the following page are the highlights of the matters that the Board considered in 2023. Not all of the matters the Board considered are listed, therefore this should not be considered an exhaustive list of activities.

In addition to the matters shown, at each meeting the Board receives strategic, operational and financial updates from the CEO and CFO in addition to business division updates via Leader Reports prepared by our Operating Board members.

Key Board activity



Key: * = deep dives

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 and/or the Operating Board prior to circulation and made accessible to Directors on a secure portal.

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

Our Board also regularly provides reports on their meetings to the Council and receives reports from the Council on its activities.

Board attendance

Directors' attendance at scheduled Board and Committee meetings is set out in the table below. This does not include any unscheduled meetings which were held during the year and which were needed on relatively short notice or any cancelled meetings. It only captures where Directors attended Committee meetings in their capacity as a Committee member.

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

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 |
|-------------------------|-------|--------------------------|-----------------------|------------------------|
| Debbie White (Chair) | 3(3) | | | |
| Allan Leighton | 7(8) | | 5(5) | |
| Kate Allum | 8(8) | | 5(5) | 5(5) |
| Margaret Casely-Hayford | 8(8) | | 5(5) | 5(5) |
| Paul Chandler | 8(8) | 5(5) | | |
| Rahul Power | 8(8) | | | 5(5) |
| Sarah McCarthy-Fry | 8(8) | 4(5) | | |
| Shirine Khoury-Haq | 8(8) | | | |
| Stevie Spring | 8(8) | | | 5(5) |
| Lord Victor Adebowale | 8(8) | 5(5) | 3(3) | |
| Sir Christopher Kelly | 7(7) | | 4(4) | 4(4) |
| Simon Burke | 3(3) | 2(2) | 2(2) | |
| Rachel Izzard | 5(5) | | | |
| Adrian Marsh | 5(5) | 3(3) | | |
| Moni Mannings* | - | | | |
| | | | | |
| Denise Scott-McDonald** | | | 5(5) | |

* appointed as a Director on 2nd January 2024.

**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 carry out 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 to be considered as 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.

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.

Our Board is mindful that diversity of thought brings a richness of debate that is vital to its effectiveness. 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 pages 109-113.

Our Board supports the recommendations from of the Parker Review and FTSE Women Leaders Review, to increase representation of women and people from an ethnic minority on Boards and is pleased to exceed the recommendations. Our Board is currently made up of eight women (62%) and five men (38%). Five of our Directors are from ethnic minorities (38%). Our Chair, SID, CEO and CFO are all female.

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 Chief Executive Officer, the Executive and the Operating Board – the Board then monitors progress and holds leadership 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 member-owners and communities. We call this 'our 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 member-owners.

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 pages 70 and 139-146, 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 51-60.

Our commitments to the environment and tackling climate change are long-standing and we continue to strengthen our governance processes in line with Task Force on Climate-Related Financial Disclosures (TCFD) climate disclose requirements. More detail is provided on pages 120-127.

Delegated authorities framework and matters reserved for the Board

Our Board has the power to delegate certain decisions. This may, for example, be 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', approved by the Board.

Communicating with our stakeholders

For information on how our Board acted with regard to our key stakeholder groups throughout the year, please see full details within our Section 172 Statement on pages 139-146.

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 89 for further detail.

Board Code of Conduct

Our Board Code of Conduct sets out the standards of behaviour expected from our 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 performing their role.

Independent professional advice and Board support

Our Board can seek the advice or assistance of the Group Secretary, Secretariat and the wider Leadership 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, our Co-op will pay for that advice.

Our subsidiaries

Our subsidiaries 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 three subsidiaries which are treated slightly differently - Co-op Insurance Services Limited (CISL), Co-op Funeral Plans Limited (CFPL) and Co-operative Legal Services Limited (CLSL). Each are regulated (CISL and CFPL 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 UK Corporate Governance Code (UK Code) applies to large companies with traded shares.

As we are 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 member-owners and contribute to the wider society. See pages 70-74.

The Board should establish purpose, values and strategy and make sure these align with our culture. See page 77.

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 52-54.

The Board should ensure effective engagement with all stakeholders. See pages 139-146.

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 78.

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 67-70.

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 pages 70-71.

INEDs should give sufficient time to their role and hold the Executive team to account. See pages 67-70 and 76.

The Board should have sufficient policies, processes, information, time and resources to function effectively and efficiently. See pages 72-76.

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 109-113.

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 71-73, 76 and 109-113.

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 73 and 110.

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 82-90.

The Board needs to satisfy itself that our Co-op's position and prospects are presented in a fair, balanced and understandable way. See pages 83-84 and 128-129.

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 81-91.

Remuneration

Our pay policies should link to and support our stated purpose and promote long-term sustainable success. See pages 96-97.

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 110.

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 pages 96-97.

Our compliance with the Co-operative Corporate Governance Code

We have reviewed our compliance with the Co-operative Governance Code, originally published in 2019 by Co-operatives UK, 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

The report of the Risk and Audit Committee



Introduction from your Committee Chair

This is my first report to you as Chair of your Risk and Audit Committee. I'm grateful for the welcome and introduction to our Co-op given to me by directors and colleagues. I'd especially like to thank those who attended and supported the Committee to discharge its responsibilities.

The Committee plays an important role in ensuring the integrity of the financial reporting, the internal control environment and risk management processes. In order to do this, the Committee has considered many relevant things during the year that this report highlights. These included:

- The changes in Corporate Governance and the introduction of new standards that impact the presentation of our results. A particular focus has been IFRS17 because of the changes it makes to how funeral plans are accounted for and presented in our annual results.
- The programmes of work to improve our technology systems and process that are needed to deliver improved services to our members but also to reduce risk and remediate internal controls.
- The work of our auditors, both external and internal, and ensuring that their recommendations are accepted by management and, where appropriate, are sustained.

Finally, I would also like to thank my Committee colleague, Paul Chandler, who in 2024 will have served his full term and will be stepping down from the Committee and Board. His professionalism and focus has enabled the Committee to discharge its responsibilities effectively and he has made a huge contribution to our Co-op during his time with us.

A handwritten signature in black ink, appearing to read 'Adrian Marsh', with a stylized flourish at the end.

Adrian Marsh
Chair, Risk and Audit Committee

Risk and Audit Committee membership and attendance

Our Board has a Risk and Audit Committee ('Committee') which oversees Co-op's financial reporting and risk management process.

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 2023. 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 Adebawale and Adrian Marsh, who replaced Simon Burke in 2023 as Chair. Our Board is satisfied that Adrian Marsh's relevant and recent financial experience means he is qualified to be Chair of the Committee.

Details of attendance by Committee members at meetings held during 2023 are on page 75.

We recently appointed two additional Independent Non-Executive Directors as members of the Committee. Rahul Power joined in January 2024 and Luke Jensen in February 2024.

During 2023 several colleagues regularly attended meetings including the Chief Executive Officer, Chief Financial Officer, Group Secretary and General Counsel, Assistant Secretary, Director of Risk and Internal Audit and the Director of Financial Control. Other colleagues also attended when asked to do so by the Committee, and the external auditors attended each session. The Committee also met the Director of Risk and Internal Audit and the external auditors in private sessions.

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, along with other information on its financial performance, is professionally prepared, and that the report itself is fair, balanced and understandable. It also reviews our financial statements, 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 (GSCOP).

Internal controls

The Committee reviews our Co-op's internal financial control framework and internal control systems, and monitors any weaknesses identified and how management are remediating them.

Risk & Internal Audit

The Committee monitors the performance of our Risk and Internal Audit function, and reviews the performance of, and helps to set the objectives of, the Director of Risk and Internal Audit. It reviews the Enterprise-wide Risk Management Framework, checks how effective our Co-op is at managing and controlling risks by overseeing the main and emerging risks our Co-op faces. The Committee also considers and approves the remit of the Internal Audit team. This includes setting Internal Audit's assurance priorities and monitoring the implementation of management's responses to findings from Internal Audit reports.

External audit

The Committee reviews the effectiveness and independence of our external auditors, approve their fees, ensure their independence and check their effectiveness. It also reviews the findings of the audit including management's response to any recommendations.

Climate-Related Financial Disclosures and Sustainability reporting

The Committee reviews and recommends to our Board the approval of our Co-operate Report and relevant climate-related financial disclosures within it, and ensures the Co-operate Report is independently verified.

Other

The Committee also monitors our Co-op's procedures around whistleblowing, compliance with the Modern Slavery Act and General Data Protection Regulation (GDPR).

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 they remain in line with best practice and the UK Code.

2023 key activities

In 2023, the Committee's main activities included reviewing:

- That the financial information we provide to our members is prepared professionally and 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 identify risks, quantify them and the steps being taken by each of the business areas for managing them.
- Internal Audit's workplan 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 including in relation to IFRS17.
- How our Co-op uses and protects personal information, including how we continue to comply with the General Data Protection Regulation.
- Financial control across our Co-op, including reviewing updates on the monthly Financial Control Review process, Financial controls focus areas in Food and Funeralcare, including the Funeralcare remediation plan, and monitoring progress made in addressing points raised by EY in its Management Letters.
- Progress updates on in-flight transformation programmes including SAP Finance Transformation programme, Funeralcare Core Systems Transformation and Data Centre Transformation/Exit.
- An update on the governance arrangements following regulation of our Funeralcare business, Co-op Funeral Plans Limited (CFPL).
- Sustainability at our Co-op, particularly in relation to the requirements of the Task Force on Climate-Related Financial Disclosures (TCFD) reporting and the approach adopted in our Co-operate Report 2023.
- How we work with suppliers, and compliance with GSCOP and the Groceries Code Adjudicator (GCA).
- Plans to ensure compliance with the proposed UK Corporate Governance reforms.
- How we continue to comply with the UK Corporate Governance Code.
- Our external auditors' non-audit fees.
- Reports on our whistleblowing arrangements and activity.
- The annual review of our Co-op's pension schemes and Tax Strategy.

Significant issues relating to the financial statements

When the Committee looked at the 2023 financial statements, it considered all the key areas of judgement. In all cases, it discussed them with management and the external auditors. There was specific focus in year on the following:

Areas of focus

Going concern

Management continues 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. The Committee reviewed management's assumptions in financial projections and considered the current trading performance and market conditions. It was agreed that the going concern horizon in the year end statement would be extended to 31 December 2025. The Committee agreed that our Co-op is a going concern.

Goodwill and property, plant, and equipment 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 business, the Funeralcare business and at a group corporate level. Accounting standards require us to perform an impairment review of indefinite life intangible assets such as goodwill annually, and other assets where there is an indicator of impairment. As a result of impairment reviews of Food stores, funeral homes and property, a non-underlying impairment charge of £32m has been recognised within the full year results, comprising Food stores £20m, 1 Angel Square £7m, and £5m against other non-trading properties. The Committee reviewed reports prepared by management detailing outcomes of impairment reviews and challenged the key assumptions such as long-term growth and discount rates for Food stores and rental income for other properties including 1 Angel Square, to satisfy itself of the impact on our financial statements.

Property, regulatory and legal and self-insurance 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 and dilapidation provisions on trading and non-trading properties which require significant judgement, as well as in relation to regulation, litigation and self-insurance. The Committee reviewed the trading, non-trading and onerous lease provisions of £29m, regulatory and legal provision of £43m and self-insurance provision of £38m and management's judgements, satisfying itself that assumptions used, including around future cashflows and discount rates were appropriate.

IFRS 17 & other amendments

IFRS17 is a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts and replaces the IFRS 4 and supersedes IFRS 15, the accounting standard utilised by Co-op in relation to recording revenue on pre-paid funeral plans in our Funeralcare business. In Funeralcare we have implemented this standard for our pre-planned funeral products. Throughout 2023 the Committee reviewed the impact of the standard on our financial statements to understand the timing of profit recognition, where this is recognised in the income statement and how we restated our prior year comparatives.

Revenue recognition in relation to Petrol Forecourt Estate

In October 2022 we disposed of our entire petrol forecourt estate, and operational transfer of these stores to Asda has continued throughout 2023. The Committee reviewed the appropriateness of the accounting treatment of the income, £14m, and directly attributable costs, (£4m), associated with this run-off and agreed that it was appropriate to recognise these values as non-underlying as they are not expected to re-occur.

One-off items

We have recognised three material categories of one-off charges in our 2023 results, comprising of £10m of non-recurring net income in relation to the transitional service agreement following the sale of our petrol forecourt sites in the prior year, a net charge of £20m in relation to legal cases and associated provisions, and a further £4m of costs in relation to the discretionary help given to support our colleagues through the winter cost of living crisis (through spend added to colleagues membership cards). The Committee reviewed and agreed with management's treatment of these items.

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 materially affect the valuation of the pension schemes. The Committee assessed the key assumptions that underpinned the pension calculations to satisfy itself that they were appropriate.

Pension buy-in

In November 2023, the Trustee of the Co-operative Pensions Scheme ("Pace") completed a "buy in" transaction for the Co-op sections with Rotheray Life plc, purchasing a bulk annuity insurance policy; this covers all liabilities required to meet future pensions and delivers greater security to members of the Co-op Section of Pace. The Committee reviewed the accounting impact of this transaction and agreed with its treatment.

Retail stock leakage and stock profit provisions

Our Co-op makes a 'stock leakage' provision for shortfalls between expected and actual levels of food stock. Management reviewed the provisioning methodology in 2023 due to a significant increase in leakage in some areas. The Committee reviewed this provision and management's judgements and satisfied itself that the methodology used was appropriate. The Committee also reviewed the appropriateness of management's year end assumptions and approach to provisioning for stock profit following control improvements in this area during the year.

Membership accounting

Following a strategic review of our membership proposition including a review of membership and community balances earned to date, the redemption of benefits earned and accrual of future balances, the Committee was updated on the re-assessment of the methodology and appropriateness for the remaining membership reward liability provision of £2m.

Review of the Committee's effectiveness

The Committee has reviewed the relevant outputs from the Board Effectiveness review. The main areas considered were the composition, management and operation of the Committee.

External audit activities

The Committee's responsibility

The Committee makes recommendations to the Board about the appointment, reappointment, and removal of the external auditors (and is responsible for any tender process when required). It also approves the remuneration and terms of engagement of the external auditors and assesses the effectiveness of the external audit process. The members have the opportunity to vote on the appointment of the auditors at the AGM in line with the UK Code.

During the year, the Committee approved the reappointment of EY as our Co-op's auditors and approved their fees. EY provide the 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 auditors 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 colleagues 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 pre-approves 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 prohibited from performing certain 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.

The 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 carrying out 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 discussed the effectiveness of EY throughout the year. It reviewed the outputs of an effectiveness review undertaken by Internal Audit which comprised a survey of Co-op Finance leaders, Committee members and other key stakeholders on EY's performance in relation to the 2022 audit. Responses suggested that EY continued to provide a professional, independent and objective service.

Risk and 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.

Internal audit continued to adopt a flexible, dynamic approach to planning in 2023 and regularly re-assessed Co-op's assurance priorities. The Committee reviewed and approved these priorities during the year.

At each meeting, the Committee received a report from the Director of Risk and 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.
- The remediation of any issues arising from internal audit reports.

During the year, the 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: Climate Change Commitments; Food Stock Leakage; Food Authenticity; Data Security; Balance Sheet reconciliations; Capital Expenditure Controls; and Funeral Directors Draft Code of Practice. We also received assurance reports on the SAP Finance Transformation programme, Funeralcare Core Systems Transformation programme and on the Commercial Transformation programme.

During the year, the Committee reviewed the Internal Audit charter, which reaffirmed the purpose of Internal Audit, and outputs from Internal Audit's internal quality review.

Internal control

Our Board has overall responsibility to make sure controls are in place to enable our Co-op to operate in compliance with policies. The effectiveness of our controls is assessed using the COSO model, a globally recognised framework for risk management and internal control.

Each Operating Board 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 in operation, and the key improvement initiatives. The review of the Operating Board members' self-assessments forms an important part of the annual review of the systems of risk and control. Good progress has been made fixing issues that arose post go live in our Food business following our SAP implementation and in remediating core systems in our Funeralcare business. However, much work remains to upgrade our IT systems and general controls so as to provide a platform to drive process improvements.

The Committee also received regular management reports on financial control across our Co-op, including reviewing updates on the monthly Financial Control Review process and Financial Controls focus areas in Food and Funeralcare.

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 member-owners, customers, other colleagues, suppliers, the community and competitors. This code tells colleagues how they can report any serious wrongdoing confidentially and an anti-fraud and theft policy also supports this code.

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 senior leaders 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 the Committee.
- The Committee receiving updates on our Group Key Risks (previously Co-op's priority risks), which in 2023 included cyber attacks, benefits realisation of transformation programmes and legal and regulatory compliance.
- 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 receives relevant information on our Co-op's accounting and other policies, procedures, and our colleagues.

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 leaders through various channels. 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 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.

Corporate Governance Reforms

In January 2024, the Financial Reporting Council announced revisions to the UK Code, including a new requirement to make a declaration of the effectiveness of material controls. The Board declaration is required for financial years beginning on or after 1 January 2026, i.e. for Co-op 2026 financial year. The Committee is receiving management plans to ensure compliance with this requirement.

Other activities

Groceries Supply Code of Practice (GSCOP)

During 2023, 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 2023 ranked Co-op 5th out of 14 retailers for overall Code compliance, with 96% of direct suppliers responding positively (compared to 94% and a ranking of 6th out of 13 in 2022). We value the supplier feedback given in the GCA Survey and management uses the outputs to shape its supplier engagement action plan.

The Committee has kept compliance under review through regular updates from the Code Compliance Officer. 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 119.

Co-operate Report and climate change

The 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 against our 10-Point Climate Plan, our overall sustainability strategy and management's approach to disclosures in accordance with TCFD.

GDPR, technology and cyber security

The Committee receives regular updates to ensure that our Co-op continues to meet its obligations under General Data Protection Regulation (GDPR). Through Internal Audit reports and reviews of Group Key Risks, the Committee has also considered technology and cyber security and the risks associated with legacy systems.

The report of the Remuneration Committee

The report of the Remuneration Committee



Introduction from the Committee Chairman

This is my ninth and final remuneration report as Chairman of the Remuneration Committee.

It covers another challenging, but successful, year for our Co-op. So, again, we've worked hard to ensure an outcome that rewards our colleagues appropriately for the contribution they made.

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 Co-op's National Members' Council and listen closely to the wider membership, not least at our AGMs. The consistent message we get is that we should continue to reward our leaders competitively, while we do our very best to increase rewards for our lower paid colleagues.

This report always contains a lot of information, but we try to simplify it within the guidelines of best practice reporting.

The introduction has all the key highlights and there are two further sections:

- i. **Part I - Executive Pay Policy.** We've included a summary of the pay policy which 83.38% of members approved at our 2022 AGM.
- ii. **Part II - Annual Report on Remuneration.** Then we've shown how the policy has been applied.

We've also included a 'Pay at a glance' section on pages 96-97, so you can see all the key information on our Executive team in a simple format.

Our approach

We're co-operators. We believe in being open with our members. So, we go beyond public company best practice and look at wider pay and reward principles for our entire colleague cohort, Operating Board and Executive.

Our performance

Over the last 18 months, under Shirine's leadership, we've made decisions that have stabilised our business, so we enter 2024 with a much more robust balance sheet and primed for growth.

But 2023 was another challenging year, economic uncertainty, global conflict, consumer inflation, all affecting our member-owners, our customers and our communities. Fortunately, hard work and innovation at all levels throughout our organisation has meant that we ended 2023 in a much stronger position than we did in 2022, and ahead of our initial year end predictions.

We exceeded most of the targets we set ourselves: cash generation up, underlying operating profit up and net-debt significantly down; and we've significantly grown our membership base. So despite those external headwinds, our stronger financial position has allowed us to do the right thing and invest in supporting our member-owners, colleagues and communities during the ongoing cost of living crisis.

The full details of how our Co-op performed is given in 'Our financial performance' section on page 40.

Our colleagues

Once again, significant additional investment was made in frontline colleague pay, to recognise their vital role.

In April 2023, we aligned our minimum hourly rates to the Real Living Wage as set by the Living Wage Foundation (www.livingwage.org.uk) and we will again from April 2024. For Customer Team Members (CTMs) in our Food stores, this resulted in a 10.1% pay rise. We also maintained the pay rate differential between CTM and Team Leader roles. And unlike many organisations, our hourly pay rates will still apply to all colleagues, including younger colleagues and apprentices.

Wellbeing continues to be a key priority and we've made progress again on how we support both health and financial wellbeing. We have refreshed our Wellbeing strategy, with a focus on identifying and meeting changing colleague needs, creating clear pathways to services and measuring the return on our investment.

We've continued our regular communication about the wellbeing issues that we're told matter most. In the year we have:

- Announced that the colleague discount of 30% on own-brand products has been extended indefinitely. This is a major investment in helping to reduce their household expenses.
- Offered all colleagues not eligible for our bonus schemes a one-off winter recognition payment of £30 loaded onto colleague membership cards.
- Contributed £10 per colleague to fund end of year celebrations.
- By the end of 2023, more than 15,000 colleagues had signed up to our Wagestream app and more than 5,000 have chosen to build a rainy-day fund with Wagestream as part of our research project with Nest Insight and Wagestream.
- 21,000 colleagues had downloaded the YuLife app.
- We have updated our Wellbeing Hub to make it easier to access services.
- We have carried out a pilot in Funeralcare to identify mental health 'presenteeism' in colleagues and to provide proactive targeted support to avoid absence and ill health.
- And we are working with Food Stores to improve wellbeing support for any colleagues at high risk of increased violence.

At the end of 2023, more than 39,000 colleagues were members of our pension scheme. Our pension offer compares 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 progress we've made at co-operative.coop.

Our pay outcomes

Bonus

Good financial stewardship - particularly managing our debt level - is the underpin performance measure within our annual Bonus Plan (BP). 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 paid. In 2023, that net debt/EBITDA gateway was comfortably met.

Our Co-op performed well against the targets the board set and as a result, awards under the 2023 BP for our Executive were between 85% and 90% of their maximum opportunity, with 50% of this award to the Executive (and senior leaders) paid now, with the remainder deferred for a further two years.

More information on the balanced scorecard measures can be found on page 102.

Deferred bonus payments

The second half of the 2021 BP award would have been due to colleagues still employed by our Co-op and not under notice at the time of payment. The Committee made the difficult decision to determine that the financial gateway test had not been met for the 2021 Bonus Plan, consequently, no payments were payable under the 2021 Bonus Plan for colleagues who were members of our Executive at the end of 2021.

Further details of those amounts that were paid and deferred can be found from page 101.

Changes to the Executive

We were pleased to welcome Rachel Izzard as Chief Financial Officer in June.

Our Interim Chief Financial Officer - Mike Hazell left during the year. Information on the pay he received can be found on page 101.

Our Executive team now consists of our Group CEO - Shirine Khoury-Haq, our Chief Financial Officer - Rachel Izzard, and our Company Secretary & General Counsel - Dominic Kendal-Ward.

Our Executive team are part of a wider senior 'Operating Board' which Shirine put in place to focus on our cross-Co-op strategic priorities. The Operating Board brings together up to 20 of our most senior leaders and decision makers, working collaboratively on what we need to do to run our businesses effectively and at pace. We haven't reported on an individual basis for this enlarged group as part of this Annual Report, however we have provided details of total pay for the agreed roles that the Committee have oversight for on pay, which we can track over time. This cohort of leaders is specifically selected to focus on short and mid-term outcomes and, as a result, membership will vary in line with changing priorities.

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. Their insight and challenge throughout the year made sure our members' voice was always in the room.

AGM

It remains important to us that our members make their views heard, so we would ask that you vote prior to the 2024 AGM, including upon the motion to approve the Annual Report on Remuneration. Please watch out for your voting email or letter.

I say every year that getting the reward balance right is never easy. I hope you will understand and endorse the decisions we've made on your behalf, and I'd like to offer my thanks in advance for your vote to approve my report and 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 2024. Further details are set out on pages 98-99.

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 | 2023 £'000 | 2024 £'000 | Maximum BP opportunity as a % of bonusable pay |
|----------------------------------|---------------|---------------|---|
| Shirine Khoury-Haq | 750 | 750 | 250% |
| Rachel Izzard ¹ | 450 | 450 | 180% |
| Dominic Kendal-Ward ² | 310 | 350 | 150% |

Notes to table

- On appointment as our Chief Financial Officer, Rachel Izzard's salary was set at £450k with a maximum bonus opportunity of 180%.
- On appointment as our Co-op Secretary & General Counsel, Dominic Kendal-Ward's salary increased to £275k, and his maximum bonus opportunity increased to 150%. After a six month review period his salary was increased to £310k and following a further six month review his salary was increased to £350k.

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. |
| Debt | Maintaining responsible debt levels is an important part of that financial strategy. |
| Membership | We exist to create value for our member-owners and the communities in which we trade. |
| Community | Supporting local communities where our member-owners 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 member-owners, communities and customers. |

2023 pay outcomes

The chart below shows the pay which our executives received in 2023 and full details can be found in the Annual Report on Remuneration which starts on page 101.



Notes to chart

1. Mike Hazell stepped down from the Executive on 30th June 2023. Due to Mike Hazell joining us on a fixed term contract basis, a separate bonus arrangement was put in place linked to specific deliverables during his contract. Salary information in the chart for Mike Hazell also includes £5k of payments paid as a commuting/travel allowance.
2. The salary and benefits information shown for Rachel Izzard relates to the period since she joined our Executive on 12th June 2023.

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-operative Purpose and Values.
- We want a benefits package that reflects our co-operative 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 | The following options are available: <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> <p>Payments made under the BP are subject to malus and clawback provisions.</p> |
| 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 101.

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 2023 financial year.

Table 1a - 2023 pay for our executives in post at 7 January 2024

| Name of executive | Period | Fixed Pay | | | Performance Related Pay | | Other £'000 | Total £'000 |
|---------------------|--------|-----------------------|---------------------------------------|---------------------------------------|---------------------------------|--|----------------|----------------|
| | | Basic salary £'000 | Taxable benefits (Note 1) £'000 | Pension benefits (Note 2) £'000 | Bonus Plan (Note 3) £'000 | Deferred Bonus Plan (Note 4) £'000 | | |
| Shirine Khoury-Haq | 2023 | 764 | 5 | 76 | 844 | 0 | 0 | 1,689 |
| | 2022 | 727 | 5 | 73 | 372 | 394 | 0 | 1,571 |
| Dominic Kendal-Ward | 2023 | 342 | 14 | 34 | 226 | 10 | 0 | 626 |
| | 2022 | 158 | 8 | 13 | 65 | 47 | 0 | 291 |
| Rachel Izzard | 2023 | 260 | 8 | 7 | 179 | 0 | 0 | 454 |
| | 2022 | - | - | - | - | - | - | 0 |

Notes to Table 1a

- The 2023 financial year ran from 1 January 2023 to 6 January 2024, which is a week longer than the 2022 financial year.
- Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
- Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
- Bonus Plan amounts shown represent 50% of the 2023 BP earned award which is payable May 2024. The other 50% is deferred for two years and paid subject to still being employed by our Co-op and not under notice and the rules of the Bonus Plan.
- Deferred bonus awards relate to the 2021 BP, no award was made to our Executive under this Plan. Dominic Kendal Ward did receive an award under the 2021 BP which was awarded for his prior role before joining our Executive.
- The salary and benefits information shown for Rachel Izzard relates to the period since she joined our Executive on 12th June 2023.

Table 1b - 2023 total pay for the 9 agreed Operating Board roles which Committee have pay oversight for in post at 7 January 2024

| Name of executive | Period | Fixed Pay | | | Performance Related Pay | | Other (Note 5) £'000 | Total £'000 |
|-------------------|--------|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------|------------------------------|----------------------------|----------------|
| | | Basic salary (Note 1) £'000 | Taxable benefits (Note 2) £'000 | Pension benefits (Note 3) £'000 | Bonus Plan (Note 4) £'000 | Deferred Bonus Plan £'000 | | |
| | 2023 | 2,807 | 80 | 238 | 1,063 | 0 | 65 | 4,253 |

Notes to Table 1b

- The 2023 financial year ran from 1 January 2023 to 6 January 2024, which is a week longer than the 2022 financial year.
- Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
- Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
- Bonus Plan amounts shown represent 50% of the 2023 BP earned award which is payable May 2024. The other 50% is deferred for two years and paid subject to still being employed by our Co-op and not under notice and the rules of the Bonus Plan.
- Other payments include a travel/commuting allowance

Table 1c - 2023 pay for executives who left our Executive during the 2023 financial year

| Name of executive | Period | Fixed Pay | | | Performance Related Pay | | Other (Note 5) £'000 | Total £'000 |
|-------------------|--------|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------|------------------------------|----------------------------|----------------|
| | | Basic salary (Note 1) £'000 | Taxable benefits (Note 2) £'000 | Pension benefits (Note 3) £'000 | Bonus Plan (Note 4) £'000 | Deferred Bonus Plan £'000 | | |
| Mike Hazell | 2023 | 303 | 7 | 29 | 280 | - | 4 | 623 |
| | 2022 | 325 | 7 | 29 | - | - | 5 | 366 |

Notes to Table 1c

- Mike Hazell stepped down from the Executive on 30th June 2023. Basic salary includes a payment on leaving for unused holiday entitlement.
- Taxable benefits include car cash allowance and healthcare
- Pension includes Co-op Defined Contribution pension plan
- Due to Mike Hazell joining us on a fixed term contract basis, a separate bonus arrangement was put in place linked to specific deliverables during his contract.
- Other payments include a travel/commuting allowance

2023 BP outturn

The following table shows our performance for each section of the 2023 balanced scorecard.

| 2023 Balanced scorecard measures | | Weighting | | Performance |
|---|------------------------|-----------|---|-------------|
| Measures | % of maximum weighting | Outturn | Summary | |
| Win as Co-op | | | | |
| Co-op Operating Profit | 50% | Stretch | <ul style="list-style-type: none"> Despite the external factors, we ended 2023 in a much stronger position than we did in 2022, significantly ahead of the plan set for 2023. | |
| Fairer for our Members and Communities | | | | |
| Member - measures focused on creating and sharing value; driving member engagement, creating value with our members and sharing it with their communities | 20% | Target + | <ul style="list-style-type: none"> We acquired more than 1m new members in 2023, which was a positive response to our continued investment in member pricing Along with the increase in members we also experienced a significant increase in the frequency of members shopping with us Member Participation grew significantly during 2023 with 25% increase in the number of times members contributed to our vision | |
| Fairer for our Colleagues | | | | |
| Colleague - measures focused on building and maintaining colleague engagement | 10% | Stretch | <ul style="list-style-type: none"> Significant increase in our engagement score linked to positive response to key actions taken during 2023 which include:- <ul style="list-style-type: none"> - The Listen, Act, Fix activity in stores - Our high-profile campaigning on colleague safety | |
| 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 | |

In determining the final outturn, the Committee reviewed each of the measures as set very robustly and tried to balance the ambition to recognise an exemplary job in another challenging year whilst taking into account relevant headwinds and tailwinds.

Our Co-op performed well in 2023 performed well against the targets set as a result, awards under the 2023 BP for our Executive were between 85% and 90% of their maximum opportunity, with 50% of this award to the Executive (and senior leaders) paid now, with the remainder deferred for a further two years.

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 7 January 2024.

Table 2a - deferred BP awards held by our executives in post at 7 January 2024

| Name of executive | Bonus Plan award year | Value of Bonus Plan award deferred £'000 | Bonus Plan deferred award due in year (Note 1) £'000 |
|---------------------|-----------------------|--|--|
| Shirine Khoury-Haq | 2023 | 844 | - |
| | 2022 | 372 | - |
| | 2021 | - | 0 |
| Rachel Izzard | 2023 | 179 | - |
| | 2022 | - | - |
| | 2021 | - | - |
| Dominic Kendal-Ward | 2023 | 226 | - |
| | 2022 | 65 | - |
| | 2021 | - | 10 |

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 | Bonus Plan award year | Value of Bonus Plan award deferred (Note 1) £'000 |
|--------------------------|-----------------------|---|
| Mike Hazell ¹ | 2023 | 0 |
| | 2022 | 0 |
| | 2021 | 0 |

Notes to Table 2b

1. Due to Mike Hazell joining us on a fixed term contract basis, a separate bonus arrangement was put in place linked to specific deliverables during his contract. No deferred bonus payments are due.

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 7 January 2024

| Name of executive | Date appointed to Executive | Years of group service | Period | Employer contributions to Defined Contribution pension scheme £'000 | Payment in lieu of pension benefit £'000 | Total pensions benefit £'000 |
|---------------------|-----------------------------|------------------------|--------|--|---|---------------------------------|
| Shirine Khoury-Haq | 5 Aug 2019 | 4 | 2023 | 4 | 72 | 76 |
| | | | 2022 | 2 | 71 | 73 |
| Dominic Kendal-Ward | 13 Jun 2022 | 6 | 2023 | 4 | 30 | 34 |
| | | | 2022 | 13 | 0 | 13 |
| Rachel Izzard | 12 Jun 2023 | 0 | 2023 | 7 | 0 | 7 |
| | | | 2022 | - | - | - |

Notes to Table 3a

- 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.
- Defined benefit accrual ceased in October 2015 for all colleagues.

Table 3b - Pension entitlements for executives who left our Executive during the 2023 financial year

| Name of executive | Date stepped down from Executive | Years of group service | Period | Employer contributions to Defined Contribution pension scheme £'000 | Payment in lieu of pension benefit £'000 | Total pensions benefit £'000 |
|-------------------|----------------------------------|------------------------|--------|--|---|---------------------------------|
| Mike Hazell | 30 Jun 2023 | 1 | 2023 | 1 | 28 | 29 |
| | | | 2022 | 1 | 28 | 29 |

Notes to Table 3b

- 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.

What arrangements have been agreed for former executives?

Mike Hazell stepped down from our Executive on 30 June 2023. His earnings whilst he was a member of our Executive team up to 30 June 2023 are shown in Table 1c. Due to Mike Hazell joining us on a fixed term contract basis, a separate bonus arrangement was put in place linked to specific deliverables during his contract.

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 |
|------|----------|-----------------------|------------------|-----------------------|
| 2023 | Option C | 74:1 | 72:1 | 65:1 |
| 2022 | Option C | 91:1 | 76:1 | 62:1 |
| 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.

In addition, for the last six 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 2024 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 2024 | 32:1 | 72:1 |
| 1 April 2023 | 35:1 | 79:1 |
| 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 |

On appointment as our Chief Executive, Shirine Khoury-Haq's salary was increased to £750k, and her maximum bonus opportunity increased to 250%, which is the same remuneration package as our previous CEO. The reason for the reduction in the pay ratio is that our CEO pay and on-target earnings has remained static whereas we've increased the pay of the comparator role, which is a Customer Team Member (CTM) in our Food stores, by 10.1% from 1 April 2024.

Non-Executive Directors' remuneration

This section of the report includes details of the payments made to the Non-Executive Directors (NEDs) in office during 2023.

What are the fees for the NEDs for 2024?

| NED Role | Fees |
|--|---|
| Chair | <ul style="list-style-type: none"> The basic fee for the Chair role is £250,000 per annum. |
| Independent Non-Executive Directors (INEDs) | <ul style="list-style-type: none"> The basic fee for an INED is £60,000 per annum The following additional fees apply: <ul style="list-style-type: none"> - Senior Independent Director £15,000 - Chair of Risk and Audit Committee £15,000 - Chair of Remuneration Committee £15,000 There 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 annum The 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 |

There has been no change in annual fee between 2015 and 2023. No additional fees are paid and no other benefits are 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 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 2023 financial year.

Table 4a - Non-executive members of our Board at 7 January 2024

| | Notes | Co-op Board £'000 | Risk and Audit Committee Chair £'000 | Remuneration Committee Chair £'000 | Senior Independent Director £'000 | 2023 total (Note 7) £'000 | 2022 total £'000 |
|-------------------------|-------|----------------------|---|---|--|------------------------------------|------------------------|
| Debbie White (Chair) | 1,3 | 26 | | | | 26 | 0 |
| Stevie Spring | 2 | 61 | | 15 | | 76 | 75 |
| Lord Victor Adebawale | | 61 | | | | 61 | 60 |
| Margaret Casely-Hayford | | 61 | | | | 61 | 60 |
| Paul Chandler | | 61 | | | | 61 | 60 |
| Sarah McCarthy-Fry | | 61 | | | | 61 | 60 |
| Rahul Powar | | 61 | | | | 61 | 60 |
| Kate Allum | | 61 | | | | 61 | 39 |
| Adrian Marsh | 2, 4 | 42 | 10 | | | 52 | 0 |
| Moni Mannings | 6 | 1 | | | | 1 | 0 |
| Allan Leighton | | See Note 5 | | | | See Note 5 | See Note 5 |

Notes to Table 4a

1. Debbie White was appointed on 1 August 2023 and became Chair on 2 January 2024.
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. No additional fee is paid to the Chair of the Nominations Committee.
4. Adrian Marsh was appointed on 1 May 2023 and is the Chair of the Risk and Audit Committee.
5. Allan Leighton stepped down as Chair on 1 January 2024 but will remain as a non-executive Director until 18 February 2024. Since his appointment Allan Leighton has waived his fee, instead this is paid directly by our Co-op to charity. In 2023 it was paid to The Co-operative Community Investment Foundation. In 2023 the donation was £255,000.
6. Moni Mannings was appointed as Senior Independent Director on 1 January 2024.
7. The 2023 financial year ran from 1 January 2023 to 6 January 2024, which is a week longer than the 2022 financial year.

Table 4b - Former Non-Executive members of our Board who left during the 2023 financial year

| | Notes | Co-op Board £'000 | Risk and Audit Committee Chair £'000 | Remuneration Committee Chair £'000 | Senior Independent Director £'000 | 2023 total £'000 | 2022 total £'000 |
|-----------------------|-------|----------------------|---|---|--|------------------------|------------------------|
| Simon Burke | 1 | 20 | 4 | | | 24 | 75 |
| Sir Christopher Kelly | 2, 3 | 52 | | | 13 | 55 | 75 |

Notes to Table 4a

1. Simon Burke stepped down on 30 April 2023.
2. Sir Christopher Kelly stepped down on 13 November 2023.
3. 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.

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 2023 are provided on page 75.

The Chief Executive, the Group Secretary and General Counsel, the Chief People and Inclusion 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 2023, the Committee retained Deloitte as its independent remuneration adviser. The fees paid to Deloitte during this period totalled £38,615 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

I am pleased to present this year's report from the Nominations Committee, my first as Committee Chair. I became Committee Chair in January this year, at the point I took over from Allan Leighton as Board Chair. Prior to this, and following my appointment as INED and Chair Designate, I attended all meetings at the invitation of the Committee and have been closely involved in the recent Board recruitment activity leading to the appointments of our new SID and INED.

There is no doubt that 2023 has been an extremely busy year for the Committee. As referenced already in the report, we have seen a number of changes on our Board, as a result of Directors reaching the end of their terms, and succession activity has therefore been a key area of focus. It has been vital to ensure our Board maintains an appropriate balance of skills, experience and diversity given the number of changes taking place.

Firstly, there was the process leading to the appointment of Adrian Marsh as Risk & Audit Committee Chair in May 2023, then the appointment of myself as INED and Chair Designate in August 2023 and subsequently the appointments of Moni Mannings (SID), and Luke Jensen (INED) who joined our Board earlier in 2024.

As we look ahead, Stevie Spring (INED and Remuneration Committee Chair) and Paul Chandler (MND) will both achieve nine years of Board tenure during 2024, and, in accordance with our Rules, will be required to step down from the Board. Luke Jensen has already joined the Board as an INED in anticipation of Stevie's departure and the MND election process concludes in May.

During the year, the Committee was also responsible for:

- Overseeing an external Board evaluation facilitated by Clare Chalmers.
- Recommending the appointment of Rachel Izzard (CFO) as an Executive Director.
- Reviewing the composition of our Board Committees.
- Reviewing the Committee Terms of Reference.
- Reviewing the Board Diversity and Inclusion Policy.

The Committee continued to deal with all of its routine matters, which included assessing whether Directors have met the required eligibility and membership criteria, recommending the re-appointment of Independent Non-Executive Directors and recommending the appointment of Board representatives to Associated Bodies.

This report sets out in more detail the role and composition of the Committee and the activities undertaken during 2023.

I would like to close by thanking both past and present Committee members for their hard work and commitment, particularly during the last 12 months. I look forward to chairing the Committee as it continues to play an important role in supporting our Board.



Debbie White
Chair, the Nominations Committee



What does our Nominations Committee do?

Our Nominations Committee:

- Leads the appointment process for 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.
- 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 the Board 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 Member Nominated Directors (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. They are available on our website: www.co-operative.coop/investors/rules

Membership and attendance

The current membership of the Committee comprises Debbie White (Board Chair), Moni Mannings (SID), Victor Adebawale (INED), Kate Allum (MND), Margaret Casely-Hayford (MND) and Denise Scott-McDonald (Council President). Where appropriate, the CEO is invited to attend meetings. Biographical details of the Committee members can be found on pages 62-65.

The Committee met formally five times during the year with meeting attendance available on page 75. The Committee also held several unscheduled meetings to focus on activity around Board appointments.

Directors who also served on the Committee during 2023 were Allan Leighton and Sir Christopher Kelly.

2023 focus areas - Board succession

A significant focus of the Committee's time has been spent on Board recruitment, given that a number of directors reached the end of their terms of office during the year. This included leading the formal, rigorous, and transparent processes leading to the appointments of Adrian Marsh (INED and Risk & Audit Committee Chair), Debbie White (INED and Chair Designate), Moni Mannings (SID) and Luke Jensen (INED).

Adrian Marsh - INED / Risk & Audit Committee Chair

We reported on the search process leading to the appointment of Adrian Marsh as an INED and Chair of the Risk and Audit Committee, in our 2022 Annual Report & Accounts. Adrian's appointment is subject to election at the 2024 AGM.

Debbie White - INED and Chair Designate

The process was led by Sir Christopher Kelly, Senior Independent Director.

The Committee engaged external executive search consultants Odgers Berndtson to conduct the search.

Odgers met with various stakeholders, including Committee members, to understand the context and requirements for the role and candidate specification. As part of this process, and given the importance of the Chair role, Council input was sought by engaging with a Council sub-group.

Odgers created a candidate brief which was subsequently agreed by the Committee with a diverse longlist being a key requirement. As well as the necessary skillset, experience and qualification for the role, including those set out in our Rules and Regulations, candidates also needed to be able to demonstrate a strong personal commitment to co-operative Values and Principles.

A shortlist of candidates was agreed and interviewed by a sub-group of the Nominations Committee (which included the Council President) and the CEO. The Committee was unanimous in recommending to the Board the appointment of Debbie White. As part of its considerations, the Committee considered Debbie's external roles and was comfortable there were no conflicts and that Debbie would have sufficient time to fulfil her responsibilities to the Society.

Debbie joined as an INED and Chair Designate in August 2023 and became Chair on 2 January 2024. Debbie's appointment is subject to election at the 2024 AGM.

Moni Mannings (Senior Independent Director) and Luke Jensen (Independent Non-Executive Director)

The Committee engaged independent executive search consultants Russell Reynolds to conduct the searches.

Russell Reynolds met with various stakeholders, including Committee members, to understand the context and requirements for the roles and candidate specifications. A candidate brief covering both roles was subsequently agreed by the Committee with a diverse longlist being a key requirement. As well as the necessary skillset, experience and qualification for the role, including those set out in our Rules and Regulations, candidates also needed to be able to demonstrate a strong personal commitment to co-operative Values and Principles.

A shortlist of candidates was agreed and interviewed by a sub-group of Committee members, Debbie White as Chair Designate, and our CEO, Shirine Khoury-Haq. Following these interviews, the Committee was unanimous in recommending to the Board the appointments of Moni Mannings and Luke Jensen.

As part of its considerations, the Committee had gained comfort that Moni and Luke had no conflicts of interest and had sufficient time to fulfil their responsibilities to the Society.

Moni joined as SID on 2 January 2024 and Luke joined as an INED on 19 February 2024. Both Moni and Luke's appoints are subject to election at the 2024 AGM.

To assist with Board forward planning and to avoid multiple directors reaching the end of their term simultaneously, Moni and Luke have been appointed on the expectation that they will serve no longer than six and seven years of their maximum nine year terms respectively, unless the Board conclude otherwise as part of succession planning.

The only connection the search firms we used (Russell Reynolds and Odgers Berndtson) have with our Co-op is as recruitment consultants and there are no relevant connections with individual Directors. Both firms are signatories to the Enhanced Code of Conduct for Executive Search Firms.

Induction training and development

All new Directors complete a comprehensive induction programme, tailored to their individual needs. This includes meeting all members of the Board and Operating Board, meeting other key stakeholders, including the President of the National Members' Council, and undertaking visits to our Co-op's operations. Directors learn about our Co-op's history and heritage, which typically includes a visit to Toad Lane in Rochdale, the birthplace of the Rochdale Pioneers. In addition, Directors are provided with the opportunity to meet stakeholders from the wider co-operative movement.

2023 focus areas - Board effectiveness

The Board effectiveness review provides our Board with an opportunity to reflect on effectiveness and performance.

2023 saw an external Board effectiveness review process undertaken by Clare Chalmers. Clare has no connections with our Co-op or individual directors of the Society.

The review aimed to assess the strengths of the Board and raise challenges and opportunities for improvement.

Clare initially met with the SID and Group Secretary to discuss the scope of the review which was subsequently agreed by the Committee. The process involved Clare observing Board and Committee meetings during September 2023. Clare also reviewed Board and Committee papers and interviewed the Board, Executive, the Members' Council President, and other Senior Leaders.

The key areas of focus included: the effectiveness, role and priorities of the Board and its Committees; the Board's composition, skills, diversity, culture and succession planning; the leadership of the Board and the business; decision-making and risk management; stakeholder engagement; interaction in strategy; and purpose, strategy and values.

Clare discussed her initial findings with Debbie White (Chair), Allan Leighton (as outgoing Chair and, at the time, still an INED on the Board) and the Group Secretary. Clare then presented a final written report to the Board in January 2024 where key actions were discussed. Areas of focus include:

- Steps to further engage our Board with colleagues, including through the National Colleague Voice Forum.
- Enhancements to the Director Induction Programme.
- Ensuring our Board has full visibility of Senior Leader Succession Plans.
- Further consideration of the approach to discussions on Strategy, including tracking against key strategic milestones.

The report and outputs were also shared with the Senate governance sub-Committee.

2023 focus areas - Re-appointment of Directors

During the year, the Committee considered and recommended to the Board the re-appointment of Lord Victor Adebawale (INED).

The Member Nominated Director Joint Selection and Approvals Committee (MNDJC) was responsible for the MND election process, which saw Margaret Casely-Hayford being re-elected for an additional term during 2023.

2023 focus areas - Diversity and Inclusion

A diverse and inclusive workplace that is representative of our membership remains a priority for the Board and Nominations Committee and underpins discussion at every level.

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 benefits from gender and ethnic diversity, currently comprised of:

- Men: (5) (38%).
- Women: (8) (62%).
- Ethnic Minority: (5) (38%).

Diversity & Inclusion remained a key area of focus for the Committee during the recent Board recruitment activity. As noted above, and in accordance with our Board Diversity & Inclusion Policy, both search firms appointed by the Committee were signatories to the Enhanced Code of Conduct for Executive Search Firms and both firms were given clear direction to create a diverse longlist.

2023 focus areas - Board Committee composition

During the year, the Committee reviewed the composition and balance of skills on our Board Committees. To ensure continuity with composition, given the number of changes taking place on our Board, Kate Allum was appointed as a member of the Remuneration Committee in January 2023 and Victor Adebowale was appointed as a member of the Nominations Committee in March 2023.

The membership of each Board Committee is set out in the respective Committee reports.

A further detailed review of committee composition was undertaken at the start of 2024 following the various Board changes. Adrian Marsh and Moni Mannings were appointed as members of the Remuneration Committee and Luke Jensen and Rahul Powar were appointed as members of the Risk and Audit Committee. It was also agreed that Kate Allum will take over as Chair of the Remuneration Committee when Stevie Spring reaches the end of her term in June 2024.

2023 focus areas - Review of Directors qualification & commercial experience, independence and ongoing commitment to co-operative Values & Principles

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 our INEDs and Executive Directors have all met the relevant requirements and shown continued commitment to co-operative Values and Principles.

During the year the Committee reviewed the independence of the INEDs against the guidance set out in the UK Corporate Governance Code. The Committee concluded that each of the INEDs contributed effectively to the operation of the Board and that they should all be considered as independent and objective.

Focus areas for 2024

For 2024, the focus areas for the Committee will include:

- Progressing actions arising from the 2023 Board effectiveness review.
- Conducting an internal Board effectiveness review which will be led by our new SID.
- Progressing succession plans for Victor Adebowale, who is due to reach the end of his term in April 2025.

Directors' report

The Directors present their report, together with the audited financial statements for the period ended 6 January 2024.

Results and distributions

The profit before taxation from continuing operations was £28m (2022: £268m*). No interim dividend has been paid for 2023 and our member-owners are not being asked to approve any distribution of profits for the year.

* The 2022 comparative figure has been restated following the adoption of IFRS 17 (see Note 33 of our financial statements for further details) and includes a profit of £319m from the sale of our petrol forecourt stores.

Going concern

The financial statements are prepared on a going concern basis as the directors have a reasonable expectation that the Group has sufficient liquidity to continue in business for the foreseeable future.

Our Co-op operates with net current liabilities as our working capital cycle means cash receipts from revenues arise in advance of the payments to suppliers for the cost of goods sold. We also borrow 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. The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 31 December 2025. Although our Co-op has a robust planning process, the continuing economic uncertainty means that additional sensitivities and analysis have been applied to test the going concern basis under a range of downside scenarios. The following steps have been undertaken to allow the directors to conclude on the appropriateness of the going concern assumption:

1. Understand what could cause our Co-op not to be a going concern in relation to facility headroom and covenant compliance.
2. Review and challenge of the base case forecast produced by management, including key investment choices.
3. Consider downside sensitivities across the base case forecast as part of going concern.
4. Examine what controllable mitigating actions would be taken in the event of these scenarios.
5. Perform a reverse stress test to assess under what circumstances liquidity and covenant headroom would become a risk, assess the likelihood of whether they could occur and any further mitigating actions.
6. Conclude upon the going concern assumption.

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; cashflow 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 debt liabilities as they fall due; and/or
- b. A breach of the financial covenants implicit in our bank facility agreement.

We note at the year end date, of the total £1,107m of facilities available to us, we were £664m draw-down. Note 27 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 the base case forecast

We have conducted a detailed forward planning exercise as part of our strategic plan. Co-op's base case forecast includes prudence following the uncertainty in the market due to geo-political factors, inflation and volatile energy costs. The Board has reviewed and approved these plans.

The key assumptions in the plan are:

- a. Sales growth is driven by volume recovery following significant membership price investment and wider strategic scaling activity.
- b. This growth is tempered with impact of cost headwinds (wage through Real Living Wage and continuing cost inflation) increasing the cost of goods.
- c. Whilst capital investment remains tightly controlled, growth plans and an improved balance sheet will allow room for higher investment into future growth.
- d. The sustainability bond due to mature in 2024 and the notes due to mature in 2025 will be repaid in full out of existing cash balances. The 2026 bond maturity is expected to be refinanced.

3. Consider downside sensitivities across the base case forecast

In undertaking our going concern assessment, we have included assumptions related to the 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):

- A reduction in the sales in our Food retail business, with a 1% reduction to sales volume in FY24 and 1% thereafter.
- A reduction in the demand of our Funeralcare business, with a 1% reduction in volume of funerals delivered, a reduction in average sales price, and a move to customer preferences towards lower cost funerals.
- An increase in energy costs of £10m in 2024 rising to £26m by end of 2025, which covers unhedged energy prices and significant escalation in the Middle East. Although we'd expect this risk to decrease overtime and don't foresee a long-term increase of this extent, we have assumed the same levels of risk across the outer years of the plan, increasing the risk to £51m by 2027.
- Assuming a slower salary inflation reversion to normal levels in FY25, representing £30m cost each year (the base plan assumes that salary inflation normalises over the life of the plan).
- Assuming a loss of a full third-party contract from Q2 2024, resulting an ongoing impact of circa £13m per annum.

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. Even in the implausible scenario of all the sensitivities happening simultaneously we still have liquidity and covenant headroom.

4. Examine what 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 the above risks materialised. Options include our Co-op's ability to:

- Control the level and timing of its capital expenditure programme, saving a minimum of 10% of the total capital outlay.
- Apply cost control measures across both variable and overhead budgets of at least £25m, 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

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 scenario at which point the model breaks. Whilst unlikely, to demonstrate the above, we have modelled that a negative cash impacting event of £585m could occur before we would be at risk of breaching our covenant and/or liquidity headroom.

We note that whilst all remain undesirable strategically, 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.

6. Conclude upon the going concern assumption

For the purposes of going concern, we assume that no new facilities are required or needed. We do not anticipate any change in this assumption, but this will be kept under review. Beyond the Going Concern assessment period the Group's £350m 7.5% Bond matures in July 2026; our current forecast assumes that we will be able to refinance a broadly equivalent level of debt prior to its maturity. Based on Co-op's past experience of successfully issuing bonds / raising debt, our credit rating and our expectations of the debt markets, the Directors are comfortable that this will be achievable as planned.

Based on all the above considerations, 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.

Further information relevant to the directors' assessment is provided within the General Accounting Policies section of the financial statements pages 223-228.

Longer term viability

The directors have assessed whether we will have enough money to continue in business and whether covenants are expected to be complied with 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 55-60. We believe that a three-year period to 31 December 2026 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.

We have assumed that our borrowing facilities maturing in 2024 and 2025 are repaid as they fall due, and that the 2026 bond is refinanced prior to maturity. In March 2023 we extended our Revolving Credit Facility (RCF) maturity date from September 2024 to March 2026. The RCF increased in size to £442.5m until September 2024, after which it falls to £360m if one of the Banks chooses not to extend further (as assumed in this model). Our RCF will then be a committed £360m for the period October 2024 to March 2026. We have the option of inviting new banks to participate, although we have sufficient headroom irrespective of this.

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 Annual Report & Accounts for 2023 Co-op Board has challenged and approved. The nature of the key assumptions are consistent with those in FY24 but have been flexed to reflect our expectations of trends beyond the going concern period of assessment. 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 |
|---|--|
| Competitiveness and External Environment | Food sales reduce by 1% in FY24 and 1% thereafter |
| | Funeralcare volumes reduced by 1% |
| | Funeralcare average sales price reduced to reflect lower average price and sales mix |
| | Wage and other cost inflation |
| | Electricity, gas and fuel price increases |

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 2026.

Following their review, the directors have therefore concluded that they have a reasonable expectation that the Group will have enough money and covenant headroom to continue in business over the period to 31 December 2026.

Greenhouse gas emissions

In 2023 the Scope 1 and 2 greenhouse gas (GHG) emissions from running our business have continued to reduce by a further 8%, compared to 2022. This means that we have now reduced emissions from running our business by 59% since 2016.

We have made significant improvements in energy efficiency and reduced electricity consumption by 9% and gas consumption by 9% in 2023, compared to 2022. We also made improvements in transport route planning, vehicle fill, and fridge plug-in compliance when vehicles are parked in depot. These improvements helped us to achieve these reductions in GHG emissions. Our delivered volume was also marginally down year-on-year, supporting a reduction in the distance travelled by our fleet.

We have set a new science-based target for Scope 1 & 2 GHG emissions - The Co-operative Group commits to reduce absolute Scope 1 and 2 emissions by 66% by 2030 from a 2016 base year. This new target is aligned to limiting the global temperature rise to no more than 1.5°C and has been validated against the most ambitious designation available through the SBTi process.

In line with GHG Protocol guidance, we present our Scope 1 and 2 GHG emissions figures in two ways. We show GHG emissions if our electricity was counted at UK grid average (known as location-based reporting). We also account for the emissions associated with our electricity supply contracts (known as market-based reporting).

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 | 2022 ktCO ₂ e | 2023 ktCO ₂ e |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 649 | 543 | 439 | 393 | 347 | 318 | 288 | 263 |

Business travel is now reported in our Scope 3 emissions rather than our Scope 1 emissions. We have restated previous years' emissions in line with this.

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 | 2022 ktCO ₂ e | 2023 ktCO ₂ e |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| 338 | 298 | 250 | 229 | 204 | 197 | 181 | 348 |

Business travel is now reported in our Scope 3 emissions rather than our Scope 1 emissions. We have restated previous years' emissions in line with this.

Scope 1 and 2 GHG emissions by source - location-based

| Source | 2022 ktCO ₂ e | 2023 ktCO ₂ e |
|--|--------------------------|--------------------------|
| Scope 1 - Refrigeration | 66 | 50 |
| Scope 1 - Fuel | 95 | 91 |
| Scope 1 - Gas | 19 | 17 |
| Scope 2 - Electricity | 107 | 105 |
| Scope 1 and 2 - Total (location-based) | 288 | 263 |

Scope 1 and 2 GHG emissions by source - market-based

| Source | 2022 ktCO ₂ e | 2023 ktCO ₂ e |
|---------------------------------------|--------------------------|--------------------------|
| Scope 1 - Refrigeration | 66 | 50 |
| Scope 1 - Transport | 95 | 91 |
| Scope 1 - Heating / Generation | 19 | 17 |
| Scope 2 - Electricity | 1 | 190 |
| Scope 1 and 2 - Total (market-based)* | 181 | 348 |

* Throughout 2023, we have been working to the strategy we set out in 2022. We aim to reduce our overall energy consumption, increase the proportion of our energy procured via corporate Power Purchase Agreements, and investigate opportunities for self-generation. See our 'Greening the grid' section on page 21 in our Co-operate Report ([co-operative.coop](#)).

Annual energy consumption (GWh)

| Source | 2022 GWh | 2023 GWh |
|------------------------------|----------|----------|
| Electricity (location based) | 555 | 507 |
| Gas | 105 | 95 |
| Fuel | 400* | 391 |

* Fuel has been restated from 370. This is a result of updated calculation methodology in line with Streamlined Energy & Carbon Reporting guidance.

Carbon intensity

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--|------|------|------|------|------|------|------|--------------|
| Tonnes CO ₂ -equivalent (location-based) GHG emissions per £m revenue | 68.3 | 57.2 | 43.0 | 36.1 | 30.2 | 28.4 | 25.0 | 23.3* |

Business travel is now reported in our Scope 3 emissions rather than our Scope 1 emissions. We have restated previous years' emissions in line with this.

*2023 carbon intensity figure is based on a figure of 263 ktCO₂e (263,298 tCO₂e) for Total direct emissions from running our business location-based accounting: Scope 1 and 2 GHG emissions (ktCO₂e) & 2023 £11.3bn revenue.

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 (2022: £598,000) to The Co-operative Party, which is our financial subscription to the Party for 2023, in line with our member-owners' approval at the Annual General Meeting in 2022. 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 2023 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 2024.

Groceries Supply Code of Practice (GSCOP)

The Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "Order") and the Groceries Supply Code of Practice impose obligations on our Co-op and other designated retailers relating to our relationships with grocery suppliers.

The Risk and Audit Committee has kept compliance under review through regular updates from the Code Compliance Officer and senior leaders in our Food business. The Committee also approved the Annual Compliance Report on 14 February 2024 for submission to the Competition and Markets Authority as required by the Order. See page 90 for more details.

Working with the GCA

During 2023, our Co-op engaged and worked collaboratively with Mark White, the Groceries Code Adjudicator ("GCA") who met with the Chair of the Risk and Audit Committee, the Code Compliance Officer and other managers at various times throughout the year. Our Co-op improved its position in the GCA Annual Survey 2023 where we were placed 5th out of the 14 designated retailers for our overall compliance rating per suppliers (2022: 6th). We value the supplier feedback given in the GCA Survey and use the outputs to shape our Supplier Engagement action plan.

Training

We provide GSCOP training to all colleagues who deal with suppliers, not just the Buying teams. As per our duties with the Order, all relevant colleagues receive a copy of the Code. In 2023, we trained 1,406 colleagues. For our suppliers, we have also provided new online training alongside 'how to' guides to help them keep their data accurate and to minimise errors.

Other actions to enhance compliance

We have an established whole business approach to monitoring compliance with the Code, with regular reporting and review at various governance forums. We continually look to improve ways of working with suppliers and enhancing Code compliance. Some of the ways we did this are:

- Improved our SAP system and processes to increase the number of error free transactions.
- Simplified our range in collaboration with suppliers, giving them ample time to manage their supply chains.

Disputes

During 2023, we had no formal disputes under the Code. We recorded 94 potential supplier issues (2022: 129). Of these, 53 were raised directly with the CCO and 41 were raised to the CCO internally by Co-op colleagues.

Task Force on Climate-related Financial Disclosure (TCFD)

As a large organisation, our Co-op is committed to complying with the UK Government's mandate to disclose Task Force on Climate-Related Financial Disclosures (TCFD) aligned financial information. As an ethically responsible business, we are committed to playing our part in addressing the climate emergency.

This report is to demonstrate that we have met the requirements of "Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs" published by the Department for Business, Energy & Industrial Strategy in February 2022. Our response addresses all four thematic pillars of the TCFD framework: Governance, Strategy, Risk Management, and Metrics and Targets. As the external landscape in which Co-op operates changes, we will evolve our reporting to meet need.

Headlines

- We have made significant progress since 2016 in reducing Scope 1, 2 and 3 emissions. This year's performance demonstrates our continued commitment to reduce greenhouse gas emissions:

| Emission Type | Classification | 2016 Baseline | 2023 Actual | 2023 Actual (% reduction vs 2016 baseline) |
|-----------------|----------------------------|---------------------------|---------------------------|--|
| Our operations | Scope 1 and 2 ¹ | 649 ktCO ₂ e | 263 ktCO ₂ e | 59% |
| Our Value Chain | Scope 3 ² | 4,886 ktCO ₂ e | 3,849 ktCO ₂ e | 21% |

¹ For more detail on our Scope 1 and 2 emissions please see page 125.

² This covers Scope 3 emissions categories included in near-term science-based targets. For more detail on our Scope 3 emissions please see page 125.

- After achieving our approved science-based greenhouse gas (GHG) emissions reduction targets for 2025, we have committed to new and more ambitious targets across all scopes in line with the Science Based Targets Initiative (SBTi) Net-Zero standard, aligned to a global temperature rise of no more than 1.5°C.
- We are proud to share that these new targets have been validated by SBTi against the most ambitious designation available through the SBTi process. Our new targets can be found within our Metrics & Targets response later within this report (see page 125).
- Co-op's Vision is '*Co-operating to build more value for our member-owners every day*' and our strategy and decision-making processes centre around this. This year, Co-op has enhanced its investment governance processes to ensure clearer consideration of climate change and wider sustainability impacts, alongside the other priorities and interests of our member-owners.

Governance



Co-op has established a structure that allows for the appropriate governance around climate-related risks and opportunities. Our governance framework evolved in 2023 to align with the evolution of our sustainability strategy and to ensure we have the right oversight and assurance in place to meet our Net Zero commitments.

This structure (see diagram) ensures our senior leadership, businesses, and enabling functions have visibility of our climate-related risks, develop effective mitigation plans, and co-ordinate our efforts against our wider sustainability ambitions.

Group Board ('Board') has ultimate responsibility for risk management in our Co-op. This includes oversight of climate-related risks and opportunities. The Board reviews our position against risk appetite, including potential commercial opportunities, oversees the principal risks to our business (including our overarching sustainability risk and associated climate-related risks) and monitors management's progress. For more information on Co-op's principal risks see pages 55-59.

In 2023, we established our Sustainability Steering Committee to provide oversight to the delivery and management of our climate-related and wider sustainability priorities across our Co-op, and to act as a point of escalation. The Sustainability Steering Committee comprises leaders, department heads, subject matter experts from our Risk team, and representatives from across our businesses. The group meets fortnightly and delivers a regular Sustainability Programme update, including mitigation plans for our climate-related risks, and strategy for opportunities, into our Operating Board comprising the members of our Executive and other senior leaders from across our Co-op. During Q4 of 2023, our Sustainability Steering Committee reviewed and approved our climate-related risks and delivered an update to our Business Risk and Assurance Committee (BRAC).

Strategy

Sustainability strategy

Our Co-op is committed to becoming a Net Zero member-owned cooperative. The progress we have made towards our sustainability commitments (including working towards achieving Net Zero) has been significant, with our performance being attributed to:

- having committed teams who understand our social responsibilities
- having set out clear near-term targets
- meeting our existing Co-op commitments and regulatory duty
- progressing our plans to decarbonise our own operations
- supporting and enabling the decarbonisation of our supply chain
- campaigning to call for strong political leadership, urgent business action and to promote more sustainable member and customer behaviour
- building our underlying sustainability capability through education, leadership, and governance

For further information on our Sustainability Strategy, our guiding principles to help us achieve our Net Zero goal, please see our 2023 Co-operate Report at co-operative.coop and Climate Plan at coop.co.uk/climate.

Climate scenario modelling & analysis

With support from DNV (and Resilience, part of the Centre for Risk Studies at the University of Cambridge), we completed a quantitative and financial climate risk assessment and scenario analysis of our climate-related risks and opportunities across different time horizons. The exercise predominately focused on our Food business which represents our most material business unit, with expansion in scope to cover all Co-op businesses planned for 2024.

We considered five climate scenarios aligned to main international agreements and social, political, and economic events shaping climate action. Through this exercise we identified the physical and transitional inherent risks that could impact the financial position of our Co-op over the short (<1 years), mid (>5 years), and long-term (>10 years) horizon. (Note: for the purposes of this disclosure, we are sharing the material impacts associated with a 3°C Current Policy and 1.5°C Paris Ambition scenario pathway).

Our DNV modelling exercise looked at the unmitigated impact of our eight climate-related risks:

| | |
|---|--|
| Physical risks (i.e., risks associated with climate events (acute/chronic)) | <ul style="list-style-type: none"> - Raw material availability - Access to key facilities (depots & data centres) |
| Transitional risks (i.e., risks that arise from transitioning away from fossil fuels and other green house gas (GHG) emitting activities) | <ul style="list-style-type: none"> - Reputational (public sentiment) - Policy & Legal (carbon taxation) - Policy & Legal (liabilities) - Market (investor sentiment) - Market (consumer sentiment) - Technology (asset impairment) |

The modelling findings were mapped against Co-op's established risk assessment matrix to generate an inherent risk score. Finance considered the modelling scope, assumptions, constraints, caveats, and outputs of the exercise alongside the investment and activity in flight supporting our sustainability targets and risk mitigations to generate residual risks scores. Based on these considerations, and insight and taking account of materiality, we have elected to disclose on our two most material risks: Technology and Market (consumer sentiment). Our transitional and physical risks remain important and as part of our ongoing risk management framework we will continue to monitor, discuss, and report on each risk in the right communication channel.

Technology

In the context of Climate Change, our Technology risk considers that some of our existing fossil-fuel dependent assets become unusable over the next 5-10 years due to technological disruption to enable reduced emissions or obsolescence.

The scenario analysis sets out the impairment risk of writing-down these assets before the end of their useful lives, under varying potential climate pathways. The table below shows the unmitigated risk of inaction:

| Climate Pathway | | Unmitigated impact of risk across a <u>five year horizon</u> (Aggregate earnings impact across the stated time horizon) | Unmitigated impact of risk across a <u>ten year horizon</u> (Aggregate earnings impact across the stated time horizon) |
|-----------------|---------------------------|--|---|
| 3°C | Current Policy (Moderate) | circa £30 - £40m* * circa £6m - £8m per annum | circa £80 - £160m* * circa £8m - £16m per annum |
| 1.5°C | Paris Ambition (Low) | circa £165 - £175m* * circa £33m - £35m per annum | circa £320 - £400m* * circa £32m - £40m per annum |

Development and use of emerging technologies that support a low carbon economy must be undertaken in a proportionate way and we would expect that with new innovations it would support progressive affordability. We must balance economic and environmental pressures over the short and long term, so that our Co-op always remains competitive.

Whilst current regulation does not prevent our Co-op from continuing to use of our fossil fuel dependent assets, we do know that their continued use will not aid us in meeting our Net Zero target, and that we will need to phase out most of them to hit Net Zero by 2035.

To help address the impact of this Technology risk, we are already making changes that will reduce our carbon footprint:

- A programme is in place to phase in low carbon refrigeration. By the end of 2023 we already had over 400 Food stores with low carbon refrigeration.
- Funeralcare has an ambition to replace the entire fleet of vehicles with electric alternatives as each vehicle comes to the end of its useful life but within the 2035 time horizon.
- Work on our strategy to transition to a decarbonised Food logistics fleet continues. Whilst technology is still evolving in this space and there is insufficient national infrastructure in place to support adopting a decarbonised fleet, we are investigating alternative options for the short term whilst we await clearer guidance on infrastructure in the mid-long term.

Market (consumer sentiment)

In the context of climate change, it is likely that consumer demand for products and services will change over time due to increased customer awareness of the environmental impacts they have - resulting in consumers moving towards more sustainable purchasing and away from products that contribute negatively to climate change.

This risk models the impact that a change in market consumer demand will have on sales depending on their publicly perceived environmental effects. The figures below represent the unmitigated impact of the market consumer risk to revenue across a five year and ten year horizon:

| Climate Pathway | | Unmitigated impact of risk across a five year horizon (Aggregate Revenue impact across the stated time horizon) | Unmitigated impact of risk across a ten year horizon (Aggregate Revenue impact across the stated time horizon) |
|-----------------|---------------------------|--|---|
| 3°C | Current Policy (Moderate) | circa £0 - £5m* * circa £0m - £1m per annum | circa £0 - £80m* * circa £0m - £8m per annum |
| 1.5°C | Paris Ambition (Low) | circa £160 - £170m* * circa £32m - £34m per annum | circa £320 - £400m* * circa £32m - £40m per annum |

The outputs of this modelling indicate that the revenue risk could be around £32m-£40m per annum, in a scenario where volumes reduced to this scale Co-op would be able to mitigate much of this impact through cost savings and so the residual earnings impact is considered immaterial.

The modelling findings align with our knowledge of consumer sentiment risks:

- There is increased global demand in climate resilient/sustainable products such as Fairtrade goods and recyclable packaging, however there may be insufficient supply to meet demand.
- Consumer behaviour is divergent - some NGOs are advocating for animal rights and sustainability whereas others promote affordability; meeting all expectations is challenging.
- High carbon intensive products such as meat and dairy are the biggest risk to revenue if we experience a decrease in sales due to changes in consumer behaviour.

To help address the impact of this Consumer Sentiment risk, we have initiated activities that will reduce our carbon footprint. We recognise that longer term risks require meaningful near-term action and so we continue to prioritise rapidly reducing the carbon from our operations and products. Our Co-op is developing an evolving healthy and sustainable diet strategy as part of a plan to encourage consumers to make healthier choices.

Opportunities

Co-op recognises that by delivering on our sustainability strategy and climate plan it will benefit the Group, alongside our member-owners, customers, communities, and planet. The examples below signal how Co-op could benefit from becoming a low carbon emitting organisation:

- by acting early ahead of potential compliance deadlines we create opportunities to build change into other activities and reduce cost exposure - a great example is building fgas phase out and lighting replacement into our property refit programme.
- by reducing energy and fuel consumption through efficiency measures we will save on operating costs - we are on a continuous improvement journey to improve energy and fuel efficiency through targeted initiatives including investments in energy efficiency, training, and transport planning.

Resilience conclusion

Based on the quantitative and financial climate risk assessment and scenario analysis climate scenario modelling exercise that has been carried out, we have a clear understanding of our climate-related risks and their material impact if left unmitigated. We assess that our Co-op is resilient to these risks across various climate pathways, including one where warming is limited to 1.5°C based on our risk mitigations.

Financial planning

Our sustainability targets have played a much greater role in our financial planning this year, including our short and mid-term financial planning. We have focused on providing greater visibility of compliance costs alongside additional incremental climate-related investments that support us meeting our sustainability targets. The following principal areas have seen investment:

- Funeralcare - refrigerants and vehicle replacement programmes.
- Supply partners - supported initiatives with suppliers such as the decarbonisation of dairy and protein (largely beef and lamb), packaging decarbonisation and waste reduction.
- Property - energy efficiency investments and phasing in low carbon refrigeration.
- Ecommerce - vehicle replacement programme (purchased circa 75 electric vehicles).
- Logistics - increased the use of electricity to power refrigerated trailers at our depots to reduce diesel use.

Risk Management

Risk Management framework

As stated on page 52, we use a consistent Risk Management framework across Co-op, including for climate-related risk. The framework is comprised of four steps: Identify, Assess and Measure, Manage and Control, Monitor and Report. This approach enables our Co-op to integrate climate-risk assessments into our financial and operational planning.

Since 2022 our Sustainability Programme has led an annual climate-focused workshop with subject matter experts from across our businesses, supported by an independent assurance and risk management services consultant, DNV Business Assurance Services UK Ltd.

Metrics & Targets

Our new science-based targets

In 2019 we followed best practice in climate target-setting, steered by the Science Based Targets initiative (SBTi). At this time, we set targets to reduce our Scope 1, 2 and 3 emissions by 2025 along different pathways. We have met these initial targets early - but also know that best practice has changed. Our new targets are aligned to limiting global temperature rise to no more than 1.5°C and have been validated against the most ambitious designation available through the SBTi process. Our new targets are:

Scope 1 & 2:

Near-Term Target:

The Co-operative Group commits to reduce absolute Scope 1 and 2 emissions by 66% by 2030 from a 2016 base year.

Net Zero Target:

The Co-operative Group commits to reach Net Zero by 2035 for our own operations. In practice this means a 90% reduction in absolute Scope 1 and 2 emissions by 2035.

Scope 3:

Near-Term Targets:

Energy and industrial: The Co-operative Group commits to reduce absolute Scope 3 GHG emissions in the listed categories by 58.8% by 2030 from a 2016 base year.

Forests, Land and Agriculture (FLAG): The Co-operative Group commits to reduce absolute Scope 3 FLAG emissions by 42.4% by 2030 from a 2016 base year.

Long-Term Targets:

Energy and industrial: The Co-operative Group commits to reduce absolute Scope 3 GHG emissions in the listed categories by 90% by 2040 from a 2016 base year.

Forests, Land and Agriculture (FLAG): The Co-operative Group commits to reduce absolute Scope 3 FLAG emissions by 72% by 2040 from a 2016 base year.

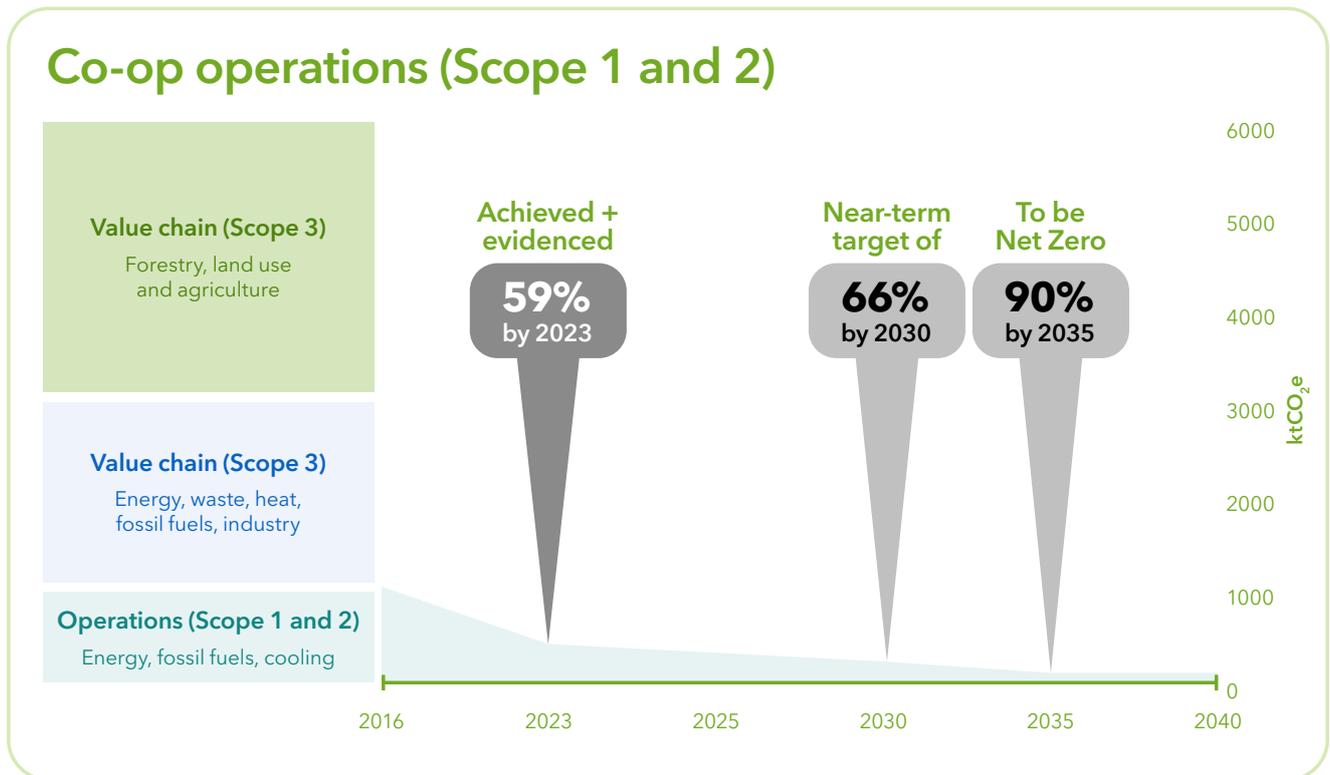
Overall Net Zero Target:

The Co-operative Group commits to reach Net Zero GHG emissions across the value chain by 2040.

Emissions from Co-op operations

Our operational emissions (our Scope 1 & Scope 2) come from our property portfolio and our logistics activities. Our SBTi approved target to reduce Scope 1 & Scope 2 emissions by 50% by 2025 (from a 2016 baseline) was achieved in 2021 as a result of investment to make our properties more energy efficient, using less impactful refrigerant gases, and more renewable energy from the UK grid.

In 2023, the carbon emissions from running our business have continued to reduce by a further 8% compared to 2022. This means that we have now reduced emissions from running our business by 59% since 2016. For further details on how we've achieved these reductions, please see our 2023 Co-operate Report at [co-operative.coop](https://www.co-operative.coop).



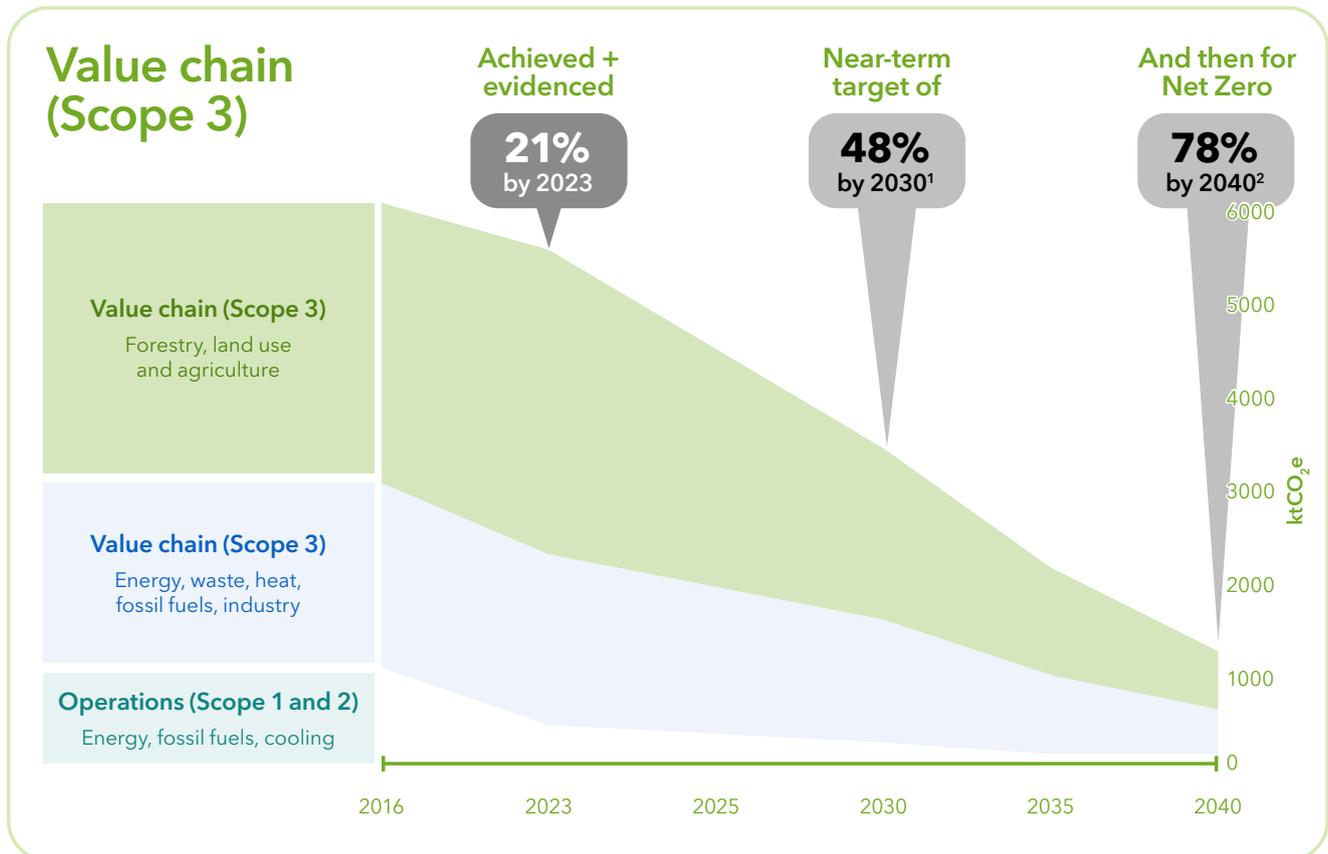
Emissions from our value chain

Scope 3 emissions equate to more than 90% of our total carbon footprint – and the vast proportion of these emissions are linked to producing products we sell. This makes reducing the carbon footprint of our supply chain and products our biggest climate change priority.

We have significantly increased our work in this space. This year we have worked closely with key suppliers and other partners to agree shared targets, milestones, and investments to reach ambitious carbon reduction targets and limit global warming. There are three main actions we’ve taken in 2023: developing new supplier plans and guidance, reducing the carbon intensity in key categories such as meat and dairy, and building climate change into our financial planning. Further detail on the actions we have taken are included in our annual Co-operate Report.

For information detailing Co-op’s Streamlined Energy and Carbon reporting please refer to pages 117-118 of this document.

For information relating to the breakdown of our emission data, wider sustainability commitments and activities, please see our 2023 Co-operate Report at [co-operative.coop](https://www.co-operative.coop).



1. This equates to 58.8% by 2030 for energy & industrial emissions and 42.4% by 2030 for FLAG emissions. See full target detail on page 92 of the 2023 Co-operate Report ([co-operative.coop](https://www.co-operative.coop)).
2. This equates to a 90% reduction in a scope 1, 2 and 3 energy & industrial emissions and a 72% reduction in FLAG emissions. See full target detail on page 93 of the 2023 Co-operate Report ([co-operative.coop](https://www.co-operative.coop)).

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 accounts have been prepared in accordance with UK-adopted international accounting standards for the 53-week period ended 6 January 2024 and in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014.

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, are fair, balanced and understandable and provide the information necessary for member-owners to assess the Group's position and performance, business model and strategy.

Each of the Directors listed on pages 62-65 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 EY LLP as auditors of the Group and to determine their remuneration for the forthcoming year was proposed at the 2023 Annual General Meeting and approved.

By Order of the Board



Dominic Kendal-Ward
Group Secretary and General Counsel

Co-op's National Members' Council: Annual Statement for 2023

Our Co-op is owned by you, our members. Your National Members' Council is elected to represent and champion members' interests and to ensure our Co-op delivers value for you, our member-owners. We make your voice heard, influence plans and strategies, hold the Board to account, and ensure our co-operative Values and Principles are at the heart of what we do.



In 2023, we have:

- **Listened to our member-owners on pricing** and ensured that decision-makers recognise the importance of getting genuine economic value when member-owners shop with us.
- Recommended that Member Prices are on the **everyday essentials that our members buy most** to ensure that they are supported with the cost of living.
- Influenced and ensured that membership and member-ownership are **at the heart of the future strategic direction of our Co-op**.
- Challenged our Board and leaders to raise the profile of our 'Safer Colleagues, Safer Communities' campaign, **leading to the creation of the first National Police Chiefs Council Retail Crime Action Plan**.
- **Put the needs of our five million member-owners back at the heart of our business and the decisions that our Co-op makes** by securing a commitment to modernise and expand the ways that members shape and influence plans.
- **Strengthened and increased our influence and hold-to-account roles**, with more time to co-design and challenge our Board and Operating Board on behalf of our members.

Working for you

Council is made up of 100 Co-op member-owners from around the UK, including colleagues and people from other independent co-operatives. We ensure your voices are heard by meeting regularly with, and providing support and robust challenge to, our Board and Co-op leaders, to put your needs at the heart of the decisions we make and ensure our Co-op is successful.

Our governance is unique because we are a co-operative business. Council and the relationships we have with our Board and Executive play an important role in representing our member-owners and meeting their needs. In 2023, we established a new way of working and have spent more focused time with our Board and Operating Board in committees, where we represent our members on the issues you care about, shape our future plans, ask questions and hold to account on your behalf.

Your Council has been focusing on what matters most to you, our member-owners, in 2023:

- 'Co-operating for a Fairer World' and the cost of living
- Member Value, Business Performance and Effective Governance
- Member Participation and Community

'Co-operating for a Fairer World' and the cost of living

What have we focused on and achieved?

| Cost of living | Responsible retailing | A new era of co-operation |
|--|---|--|
| Meeting the needs of our members and colleagues through Member Prices on everyday essentials | Ensuring that our ethical and sustainable credentials, including Fairtrade and animal welfare, remain central to how we do business | Championing our better way of doing business and working with other co-operatives to incorporate our history into our future |

As a co-operative business, we were founded on the Values and Principles of making things fairer for people and responding to the issues people were facing.

From the start of 2023, our focus was on making sure that economic value for our members was at the top of the agenda, influencing how our Co-op supports members and customers to take pressure off the rising prices of food. We were pleased to see our Co-op reduced our standard pricing and introduced Member Prices on a number of everyday essentials and own-brand favourites. This is helping members to save almost three times more per week, compared to what they previously received in reward. In our Funeralcare and Insurance businesses, we were pleased to hear that we had introduced simple funeral plans and exclusive member pricing on a range of insurance policies. We hope that this will provide a greater, more direct reward for everyone, from members who use our businesses when needed, to those who visit one of our stores daily. Council Members were also keen to see our fantastic colleagues supported too, so we supported increasing discounts on own-brand products and were delighted when this was extended indefinitely at the end of 2023.



Responsible retailing

A crucial part of making things fairer is being a responsible retailer, and our Co-op has always stood for quality products that do right by people and planet. This is core to what makes us different, and Council will always champion doing more in this space, and shouting about it, with our Board. In 2023, we continued to oversee the development of our Sustainability Strategy.

We know that many members choose to shop with us because we care about social value and reducing our impacts on the environment as much as they do, so it was great to see the Co-operate Report, which we input on, voted on and approved by member-owners for the first time at our 2023 Annual General Meeting (AGM).

A big focus for Council has continued to be animal welfare, which we know is an important issue for our members. Following on from the motion at our 2023 AGM, Council was pleased to hear that we were moving quickly on reducing stocking density for chickens, improving the space they have by 20% by early 2024. Our Sustainable Ethical Leadership Committee will ask to receive updates on how we're meeting the reporting requirements for the 'Better Chicken Commitment' so it can continue to monitor our progress and ways we can improve in the future. One of our Senate Members joined leaders and one of our Member Nominated Directors for a visit to our supplier's site and Council has met throughout 2023 to discuss the business' response to this motion. We feel reassured that our Board understands that our members take animal welfare seriously. Our Food business is doing all it can to improve already high standards whilst balancing cost, environmental impacts and prices for members and customers.

In 2024, we'll be celebrating 30 years of responsible retailing. To mark this, as well as 30 years of Fairtrade, we'll be increasing our support for Fairtrade Fortnight and highlighting our difference by showcasing more own-brand heroes than ever in stores. Council has long called for this and was disappointed that we didn't invest enough into our 2023 plans, as we've always led on and supported Fairtrade and we want more members to choose it by shopping with us. This is a move in the right direction as we look to reintroduce our Co-op with what makes us unique at the heart.

A new era of co-operation

Working with the Co-operative Movement is crucial if we want to succeed and thrive. Council will prioritise this as we support our Co-op in delivering a new era of co-operation and renewing collaboration with other co-operatives to communicate our difference together. In 2023, Council Members represented our member-owners' views and our Co-op's priorities and plans at a range of events that aim to address and tackle big issues collectively.

Council met with Co-operatives UK and Co-operative Party Chair, Jim McMahon, to discuss plans for doubling the size of the co-operative sector. To do this successfully, we must appeal to a whole new generation, and Council is passionate about creating opportunities for young people and their futures. In 2023, we co-opted a member of our Co-op Young Members' Group onto each of our Council Committees to help create a fairer world for our young people and deliver our 2023 motion on this topic.

Member value, business performance and effective governance

What have we focused on and achieved?

| Member value | A successful, sustainable co-operative business | A business run by our member-owners, for our member owners |
|---|---|---|
| Shaping our future Vision and Purpose to create value for our member-owners every day | Scrutinising our annual and interim results and performance and plans to grow our Co-op | Putting your rights as member-owners to influence the decisions we make at the heart of our future strategy |

You own our Co-op, so our role is to ensure that we're providing genuine, honest value that you can trust, which is central to being a co-operative business. This is something that Council spends a lot of time influencing and challenging to keep it at the forefront of plans, especially when we've been shaping our future Vision and strategy.

A successful, sustainable co-operative business

In October, Council met with Co-op's new Chief Financial Officer to discuss Co-op's 2023 Interim Results. On behalf of member-owners, we reviewed and scrutinised our performance and, with a significant reduction in net debt, we have welcomed our Co-op's ambitions for growth and our £90m (annualised) investment in lowering our food prices, including exclusive member pricing.

We have also continued to monitor trading conditions, headwinds, the development of Co-op Live, and the impacts of the sale of our petrol forecourts - making sure that the proceeds have gone on to benefit and secure our businesses and be reinvested into areas that our members care about.

We have a dedicated Committee to review our Co-op's financial performance and it holds the Board to account all year round about how we create, sustain and develop member value in everything we do, so that our members are rewarded for choosing our Co-op and can see the difference in the way we do things.

We sought to support our Co-op with the areas of our strategy outside of membership, such as growth and efficiency. To support us with this, we have called for the chance to co-create a performance framework. This will measure the changes we're making and the delivery of them to ensure we're maximising value for our members and our business every day. We also met with our Property Director to understand what's happening around our estate and discuss plans to determine where, if anywhere, we may be affected by reinforced autoclaved aerated concrete (RAAC) in our stores.

A business run for our member-owners

Council Members are your representatives and we made sure that we took the time to listen to your views on the changes to how our members are rewarded for trading with us. We raised your concerns in discussions with Board and Co-op leaders and were reassured by the focus on delivering value to member-owners in real time. This will add up to an average of hundreds of pounds in savings over a year, and we know this is important at a time when the cost of living is high. This isn't all we're doing to improve and innovate on the rewards and benefits we give to members. In addition to Member Prices on a range of own-brand products, Co-op Funeralcare is leading the way on environmentally friendly options like Resomation® and in Co-op Insurance, we've been offering younger generations affordable car and travel policies even in these inflationary times. As your Council, we want to continue to represent your views and want our Board and business to understand more about what you want as Co-op member-owners and empower you to be involved in shaping the future of our Co-op in 2024.

Member participation and community

| Colleague safety | Member-ownership | Community |
|---|--|---|
| Supporting Co-op member-owners to campaign to change how the criminal justice system responds to retail crime | Putting our Co-op Difference - that 'we are owned by and run for our members' and exist to create value for them - at the heart of our Co-op and supporting you to have your voice heard through Join In | Representing you in how you want to support and be part of your community in future |

Being a member of our Co-op is unique and special and, as a member-owner, you have the right to take part in, and find out more about, your Co-op and influence what we do.

Colleague safety

Having first raised the issue in 2020, which led to our 'Safer Colleagues, Safer Communities' campaign, we highlighted to our Board and Operating Board our concerns around retail crime and violence increasing in our stores around the UK in 2023. Everyone has the right to feel safe at work and we knew that this issue was, and continues to be, a worry for our members and colleagues. We encouraged our leaders to reinvigorate our campaigning and lobbying. Thousands of you signed the petition in collaboration with the Co-op Party and other co-operatives. The National Police Chiefs Council Retail Crime Action Plan that has since been created is a direct result of our Co-op listening to member-owners and colleague member-owners. We would like to thank you for your support, and we are proud that our strong campaigning history remains a fantastic example of the power of collective action and our members using our Co-op as a platform for change.

Member-ownership

In 2023, we reached the milestone of one million member-owner actions and grew participation through 80 Join In Opportunities. This included co-creating products and services, shaping our community work, and campaigning on big issues. Council has continued to champion members finding out more about what makes us different, and we're pleased that over 25,000 members contributed to our milestone achievement in this way. Having this difference embedded in everything we do is a priority for us in 2024, alongside bespoke learning for colleagues, leaders, Council and our members on what it means to be a co-operative business, and how to play your role as an owner. It's more important than ever that we get this right, as our membership is growing and diversifying. It's brilliant that we now have the power of over five million member-owners with us and behind us, but they need to understand what they're part of so they can choose how to get the most from it.



In November, we led a series of online and in-person Join in Live events, welcoming over 500 member-owners and colleagues from around the UK. The events focused on updating members on our financial and business performance, six months after our Annual General Meeting (AGM). They also provided opportunities for member-owners to shape how they are rewarded for shopping with us and participating in our Co-op. This helped develop our new strategy and refreshed membership proposition. At our events, our Board updated attendees about ongoing work to improve animal welfare standards for chickens. This is an example of the great improvements we've made for providing regular touchpoints for member-owners to get involved and stay updated on how their voice has made a difference. We have continued motion updates throughout 2023 and into 2024 and will keep building on this as part of our wider ownership work as we approach our 2024 AGM. For the first time in 2023, we held online motions events for member-owners to discuss and debate big issues before voting on them. We look forward to hosting these again in 2024 and hope to see as many of you there as possible.

Community

To stay connected to our members throughout the year, we worked with our Member Pioneer and Communities team to take our Join In Live events to a local level. In 2023, hundreds of events were delivered in stores and community spaces, focusing on themes like Fairtrade Fortnight and sustainability. Council Members attend as many events as possible, which has played a vital role in raising awareness of our unique democratic structure and how we gain member-owners' views. For the first time in summer, we visited stores to run a Member Hour for local shoppers, where we promoted Member Prices and talked about the benefits of being a Co-op member-owner.

The year ahead

We will continue to champion the issues that matter most to you in 2024, including:

- Member value at the heart of our Co-op
- Meaningful membership and education, training and information
- Being Co-op: communicating with, listening to, and engaging our member-owners

All of these priorities have separate objectives but ultimately, they come together to put you, our member-owners, at the heart of our Co-op. We will continue to work closely with our Board and Operating Board to ensure we are focused on what's important to you. We want to ensure that we embed membership and our co-operative Values and Principles in everything we do, from the rewards you get to how we make decisions.

How you can get involved

We represent you, so we therefore want to hear from you and work together with you. Council Members have long called for more ways to meet with member-owners in person and in our communities. We're really pleased that progress has been made to trial local forums as ways to regularly connect, update and shape. We will keep you updated with more information on these events.

If you prefer to get involved online, sign up to Join In (joinin.coop.co.uk/opportunities) where you will have the opportunity to understand more about what makes our Co-op different and help to influence the Co-op that you own. You can get in touch with a local Council Member anytime, using: co-operative.coop/get-involved/members-council-your-representatives. There's an opportunity to become a Council Member yourself every January too.

The latest editions of our Council newsletters can be found on our website: (co-operative.coop/get-involved/members-council-news).



Report of the Scrutiny Committee

Our review of Board appointments and elections

We have seen a number of changes to the membership of our Co-op Group Board as a number of our Directors reach the end of their maximum term of office of nine years. Over the past year, our new Independent Non-Executive Directors were appointed, including a new Board Chair, Senior Independent Director and two Independent Non-Executive Directors, including the Chair of our Risk and Audit Committee.

After our Directors are appointed or elected, our Co-op has an extra level of checking so member-owners can have confidence that processes have been administered fairly and openly in line with our co-operative 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 member-owners for 2023.

How Directors are appointed

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. Together with Executive Directors, they make up our Co-op Group Board.

The process for appointing and electing Directors is different for Independent Non-Executive Directors and Member Nominated Directors. More information about these processes are set out on pages 71 and 72 of this report.

All our Directors need to show their commitment to co-operative Values and Principles.

Board Chair, Senior Independent Director and Independent Non-Executive Directors

The Chair of the Board, Senior Independent Director (SID) and Independent Non-Executive Directors (INEDs) are those chosen specifically for their skills and experience, and to add diversity and balance to the Board.

During 2023, processes were run leading to the appointments of Debbie White, Co-op Group Chair, Moni Mannings (SID), Adrian Marsh, Chair of the Risk and Audit Committee and INED and Luke Jensen (INED). Further information regarding these appointments is set out below.

Stevie Spring and Victor Adebawale were re-elected as Independent Non-Executive Directors by Members at the 2023 AGM. The re-election of Shirine Khoury-Haq as Executive Director was also approved by Members at our 2023 AGM.

Appointment of Board Chair, Senior Independent Director and Independent Non-Executive Directors

For these appointments, the Scrutiny Committee reviews the adequacy of background checks and information from standard recruitment searches carried out on potential candidates. We also check the decision made by the Nominations Committee to ensure that all the criteria which must apply to the candidate have been met (such as skills and experience, and commitment to co-operative Values and Principles).

It is important that any appointment is fair, transparent and objective so we look into this on behalf of our members to give that extra level of assurance.

Debbie White - Chair, Co-op Group Board

The Chair of the Co-op Board has an important and unique role in our Co-op. Our Chair provides strategic leadership to our Board and ensures it is run effectively in how it makes decisions and holds our Operating Board to account for how our Co-op performs. Like our other Directors, our Board Chair also works with our National Members' Council as representatives of our member-owners.

We considered all information regarding the appointment of Debbie White and interviewed a member of the Nominations Committee and Group Secretary. We received assurances from the Nominations Committee that Debbie White met the criteria of eligibility both in terms of her affinity with co-operative Values and Principles and her relevant skills and experience for the role of Board Chair. We were satisfied that appropriate due diligence was conducted by reference to the Board Composition Charter and necessary background checks completed.

Moni Mannings - Senior Independent Director

The Senior Independent Director has specific roles and responsibilities set out in our rules relating to how our Co-op is run, including our overall governance and assurance, and works closely with the Chair of the Board.

We considered all information on the appointment of Moni Mannings and interviewed a member of the Nominations Committee and Group Secretary about the process. We received assurances from the Nominations Committee that she met the criteria of eligibility both in terms of her affinity with co-operative Values and Principles and her relevant skills and experience for the role of Senior Independent Director. We were satisfied that appropriate due diligence was conducted by reference to the Board Composition Charter and necessary background checks completed.

Adrian Marsh - Independent Non-Executive Director and Chair of the Risk and Audit Committee

The Chair of the Risk and Audit Committee has specific roles and responsibilities set out in our rules relating to Risk and Audit.

We considered all information on the appointment of Adrian Marsh and interviewed a member of the Nominations Committee and Group Secretary about the process. We received assurances from the Nominations Committee that he met the criteria of eligibility both in terms of her affinity with co-operative Values and Principles and his relevant skills and experience for the role of Chair of the Risk and Audit Committee and Independent Non-Executive Director. We were satisfied that appropriate due diligence was conducted by reference to the Board Composition Charter and necessary background checks completed.

Luke Jensen - Independent Non-Executive Director

We considered all information on the appointment of Luke Jensen and interviewed a member of the Nominations Committee and Group Secretary about the process. We received assurances from the Nominations Committee that he met the criteria of eligibility both in terms of his affinity with co-operative Values and Principles and his relevant skills and experience for the role of Independent Non-Executive Director. We were satisfied that appropriate due diligence was conducted by reference to the Board Composition Charter and necessary background checks completed.

Member Nominated Directors

Our Co-op also has Directors elected directly by members. As well as being able to show very clearly their commitment to bringing members' voices to the boardroom, before being put to a ballot of eligible members, these individuals also need to demonstrate 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:

- the selection process for the ballot is fair, transparent and objective
- the background information gathered on the candidates is satisfactory

In 2023, one Member Nominated Director was elected by Co-op members.

Our findings

The Member Nominated Director Joint Selection and Approval Committee has the primary responsibility for the selection process of Member Nominated Director candidates, and is made up of both members of the National Members' Council and Board.

As well as receiving a detailed report from Co-op's search partner on the search and selection process, we interviewed the Chair of the Committee and posed questions on themes including the search methodology across the Co-op sector and how the Committee had satisfied itself that candidates would have the time commitment required to interact fully with the Council and its members.

As a result, the Committee can confirm that the selection process leading to the shortlisting of Margaret Casely-Hayford, John Dalley, Christine Tacon and Ben Reid to a ballot of members was fair, transparent and objective and that all proper background checks were made. Margaret Casely-Hayford was subsequently re-elected by Co-op members to the role of Member Nominated Director.

We welcomed the fact that all four candidates demonstrated co-operative backgrounds and commitment to co-operative Values and Principles.

Whilst we are satisfied that there was a contested election of Member Nominated Directors, we hope that our Co-op continues to attract high-calibre candidates with 1,000 or more membership points with the required skills and experience in future years.

Finally, it was confirmed that all Directors met our Co-op's trading requirement of 1,000 points. We have also received assurances from the Group Secretary that all Independent Non-Executive Directors and Member Nominated Directors are 'independent' for the purposes of our Rules.

Committee Membership

The Committee Membership for the 2023/4 Council year includes:

David Paterson (Chair)

June Morrison

Aimee Higgins

Ewen MacLeod (substitute Janson Woodall)

The Committee would like to thank previous Chair of the Committee Marlene Corbey and Committee Member Rebecca Hamilton for their work in 2022/3.

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 member-owners 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, 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 member-owners, 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

Our Co-op is the UK's largest consumer co-operative owned by over five million active member-owners who have a say on how we're run. Our member-owners 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, member-owners (and their communities) in relation to the material decisions it makes. Our members elect representatives to the National Members' Council which has a voice at the highest level of our Co-op (see more in the below section).

Across the year we work together with our member-owners to take action to support our shared Vision. This includes opportunities to learn more about our Co-op, choose how we support local communities, stand together on campaigns, help develop our products and services and shape our national partnerships.

2023 saw a significant milestone with Co-op members taking over one million actions through 86 Join In opportunities across product and service design, shaping our community plan, our campaigns and our unique Co-op ownership model. Participating through Join In is just one of the ways members engage across this, together with cause selection, donating, voting and our insight panel, members have taken over 2.5m actions this year against a target of 2m. This represents an increase on last year of 30%.

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 Council, as well as attending the AGM in person or joining digitally. Our AGM is the forum through which our eligible member-owners¹ can hear more about our performance, put questions to our Board and vote on AGM motions, which have been put forward by our member-owners, our Members' Council and our Board. Our 2023 AGM offered member-owners the chance to attend our AGM in person, as well as being able to join the meeting online, where they could listen to the meeting and put their questions to the Board in real time. This year, for the first time, we also ran two Join In Live events for member-owners ahead of our AGM where members could discuss motions, ask questions and obtain further detail from Directors and Senior Leaders. In total, 179 members attended the sessions, allowing them to be better informed on the motions before they cast their vote.

All motions are voted for on a 'one member, one vote' basis, except for Independent Society Members, whose votes are weighted based on the amount of trade they do with our Co-op.

For the first time, our members also helped raise funds for our Co-op charity partner, Barnardo's, the UK's largest children's charity. For each member-owner's vote, £1 was donated to our charity partnership to support 75,000 young people across the UK.

We will keep members updated on our plans for our 2024 AGM via our website at www.co-operative.coop/agm.

Each year we publish a 'You Said, We Did' report that outlines the actions our Board and leadership have taken in response to motions passed at our AGM. This is also available on our website.

Our Member Pioneers have made great things happen with our members in local communities. They worked together with Co-op member-owners, colleagues and local causes to make a difference. Our 900 Member Pioneers engaged with 62,000 people every month and as well as encouraging member-owner activity and engagement, they brought our Co-op Vision to life, investing 121,000 hours in our communities. They connected key contacts in their communities and brought people together to increase co-operation through local forums.

During 2023, Member Pioneers delivered more than 300 Live Local events across the UK with member-owners, colleagues, customers and causes, engaging over 200,000 people. Themes included Fairtrade, Member Participation and Sustainability. Member Pioneers also buddy with our National Members' Council as part of our wider activity to encourage greater member-owner participation.

As we move forward with our strategy, we will continue to ask our members what matters most to them in our social value delivery, including leading up to our Annual General Meeting, and we will ensure that we are focused on delivering on what they tell us in the most effective way.

We continue to interact with members through social media channels, including Facebook, Instagram, TikTok and X (formerly Twitter).

¹ To be eligible to vote, you must be at least 16 years old and have spent a minimum of £250 at Co-op over a 12-month period. See more details at www.co-operative.coop/get-involved/voting

Our National Members' Council

Our National Members' Council (Council) is made up of 100 Co-op member-owners from around the UK, including colleagues. They met regularly during 2023, providing the opportunity for our Council to ask questions and provide input on decisions, to make sure things were being done in a way that benefited our member-owners and communities.

In addition to formal routes, there are many informal ways our Board, Chair and individual Directors interact with Council, its committees, working groups and members.

During 2023 this included:

- Attendance at Council sessions to update on developments on our Co-op.
- Directors' Forums, where Board members answer questions from the Members' Council.
- Board members attending regular Council Values and Principles Committee Meetings in addition to Join In Live events.
- Regular discussions between the Group Secretary and Council Secretary to make sure there is a good flow of information between the Board and the Council.
- Regular meetings between the Council Leadership and MNDs.
- Board and Council report to each other on meetings and activity.

During 2022, our Council identified a number of issues that they wished to focus on during 2023 to enable Council to have the greatest impact on those issues which are of greatest importance to Council and to Members. These priorities were 'Cost of Living and Co-operating for a Fairer World in Difficult Times', 'Business Performance and Governance including Council Effectiveness' and 'Member Participation and Community'.

Our customers

Whilst we are committed to ensuring our Co-op is run for the benefit of our member-owners, who form a significant proportion of our customer base, our relationship with both member and non-member customers is 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.

In 2023, our Analytics & Insight teams conducted numerous projects to help us better understand our customers and members. These included:

- Finalising a full segmentation of our food customers by combining qualitative research, third-party market data, and analysis of our member-owner base.
- A segmentation of the pre-need market in Funeralcare to inform decision making, which was delivered by bringing together quantitative research with Experian MOSAIC data.
- A detailed study of customer experiences in our stores to help us set priorities for the service we provide both in our stores and e-commerce businesses.
- A deep dive into customer perceptions of our own-brand offer, and own-brand in convenience, to support the development of our own-brand strategy.

- A programme of research to underpin the evolution of our membership proposition – this includes feedback from member-owners on in-app gamification trials, what we offer to members in Funeralcare, a regular pulse survey to understand members' experiences and perceptions, and strategic qualitative research to inform how we communicate our Co-op Difference in 2024.
- Behavioural economics research to enable us to effectively build our strategy for pricing and promotions.
- A check in on cost of living pressures and how these are impacting our customers and member-owners.
- Several quantitative studies to inform our insurance business ahead of new consumer duty changes.
- Numerous smaller studies to support decision making across our Life Services and Food business – examples include understanding usage and attitudes towards bakery in convenience, pack testing for food, research to input into major events like Christmas, Easter, etc. for our Food business, testing communications for Funeralcare and exploring perceptions of our memorials offer in Funeralcare.
- In customer experience, we are now able to email customers who have swiped their membership card in store with a link to our regular pulse survey. We are also trialling a digital survey for customers buying a funeral from us at need.

Our colleagues

Our Board recognises the importance of engaging our 56,000 colleagues. Our Directors believe that they are all individually and collectively responsible for hearing what our colleagues have to say and making sure these views are considered when making decisions. We have currently not adopted the methods set out in the UK Corporate Governance Code (a colleague appointed director, a workforce advisory panel or a designated Non-Executive Director). However, there are many formal and informal ways that this happens, including through communicating with our colleague member-owners. In 2023, at least two of our Directors attended each of our Colleague Voice listening sessions and this will continue throughout 2024. A Member Nominated Director attends our Member Council's People and Communities Committee. The members of our Remuneration Committee have oversight of all colleague reward and benefits and passionately champion colleague wellbeing. All Directors continue to visit stores, funeral homes, depots and sites relevant to our community mission.

Having engaged colleagues who are connected to our Co-op and feel valued for their contribution has never been more important. It is fundamental to our Co-op's ongoing and future success. In 2023, we saw a significant improvement in colleague engagement (as measured in our annual Talkback colleague survey). Our colleague engagement activities which contributed to this year included:

- Measuring colleague engagement and experience through our core listening tools – Talkback and Colleague Voice (delivered at both a local and national level). These tools highlight where we need to focus to improve the everyday experience of our colleagues. In 2023, despite another turbulent year, our overall colleague engagement score improved from 68% to 72% (+4 percentage points on 2022).
- In 2023, our Colleague Voice activity (refreshed in 2022) added significant value, providing honest and direct feedback, with excellent commitment from our Board to drive action in response.
- Our Colleague Insight team continued to run listening sessions, discussion groups, one-to-one interviews and surveys, taking onboard colleague suggestions and representing the voice of colleagues across our support centre, Food stores and Funeralcare operations. In 2023 they continued to improve the insight received from colleagues at various points in the colleague journey (for example at onboarding and offboarding) and introduced a trial of a new Colleague Panel mechanism.

- In 2022, we introduced a programme of hackathon events for resolving colleague irritants. The hackathons (delivered through a cross-functional team, including store colleagues) were designed to implement change at pace, with colleagues resolving issues collaboratively at every level of our Co-op. The programme continued in 2023, and the latest hackathon looked at the hugely impactful and important topic of colleague safety.
- Our Members' Council has a keen interest in our colleagues, and we have a number of colleague member-owners on the Council. Council regularly holds the Board to account on colleague issues and a Council Remuneration Group meets quarterly with the Chair of the Remuneration Committee and senior members of the People Team. In 2023, a new People and Communities Committee was established to focus on our Community Strategy, our Colleague Co-op Members and Fairer for Colleagues and all People aspects of our Co-operate Report.
- Regular Board updates on culture, colleague engagement, wellbeing and diversity & inclusion were provided by our Operating Board team.
- Colleagues received regular wellbeing communications, focusing on all areas of wellbeing – health, mental wellbeing and financial wellbeing, with a particular focus on the latter. To support our colleagues during the cost of living crisis, we increased our colleague discount on own-brand products to 30% during winter 2022-23. This was hugely appreciated by colleagues in all parts of our Co-op and we have since been able to extend this increase indefinitely.
- Our annual Being Co-op awards event took place in Angel Square in early October. The awards celebrate the amazing work our colleagues do, making a real co-operative difference for our communities, member-owners and customers. It was great to shine a light on some of our fantastic colleagues. There was a colleague choice and CEO choice winner in each of the 8 categories.
- In 2023, we again made significant investment to align our minimum hourly rate for frontline colleagues to the Real Living Wage, meaning an inflation-busting 10.1% increase for around 50,000 colleagues. This helped ensure our colleagues felt valued for their contribution.

Yet again, our frontline colleagues have continued to do an amazing job despite the external backdrop of rising living costs, inflation and energy prices. To thank our colleagues for all their hard work in 2023, we made an additional payment onto colleagues' membership cards in December and also reintroduced the £10 contribution towards an end of year celebration.

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.

We continue to work with our suppliers directly and as part of collaborative initiatives to build our understanding of issues and develop solutions and action plans in response to the many social and environmental challenges facing our supply chain, from human rights issues to climate change. Our participation in collaborative initiatives is a key part of our approach as we recognise that we will have a greater impact working together than on our own.

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: co-operative.coop.

Fairtrade partners

In 2024 we are incredibly proud to be celebrating 30 years of Fairtrade; three decades of standing with farmers and workers for fairer terms of trade, supporting them to improve their livelihoods and invest in their communities.

Our ambition is to be the UK's biggest supporter of Fairtrade and our commitment to Fairtrade began when we first stocked CaféDirect in 1992, predating the launch of the Fairtrade mark by two years. In 1998, we became the first food retailer in the UK to start selling Fairtrade products in our Food 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 which continues to this day. Since 2017, all the cocoa used as an ingredient in Co-op products is Fairtrade and 100% of our tea, coffee, chocolate, bananas, African roses and bagged sugar is Fairtrade. More recently in 2022, Co-op made an industry-first commitment to source 100% South African wine as Fairtrade, including both own label and branded. Despite another volatile year for global supply chains, in 2023 we maintained steady volumes of Fairtrade ingredients sold and continued to be a Fairtrade leader in the UK. We are committed to continue growing our contribution to Fairtrade producers and workers around the world.

You can read more about our food sustainability plans in our Co-operate Report at co-operative.coop.

You can also read more about how we work with our suppliers and the impact we have in Fairtrade communities here - coop.co.uk/our-suppliers.

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. Our community plan is a critical part of delivering our Vision and the communities we serve need support more than ever due to the inequalities intensified by the cost of living crisis. By partnering with community organisations, local causes, charities and our Co-op Academies, our plan has helped to create social value for member-owners and their communities. Support from our member-owners has provided access to food; supported mental wellbeing; created opportunities for young people; and empowered communities to take the initiative and tackle climate change and protect nature.

Our work in communities is powered by our member-owners and, in 2023, when our members chose Co-op own-brand products they helped raise funds to support their local communities through:

- The Local Community Fund - helping thousands of local community causes that our member-owners care about across the UK.
- The Community Partnerships Fund - supporting strategic partnerships with like-minded organisations targeting communities where support can have the greatest impact.

Co-op membership also means member-owners can get involved in opportunities such as supporting our community activities, campaigning on issues or helping to develop Co-op products.

Examples of how we have engaged with and supported our member-owners' communities during the year include:

- Since the Local Community Fund launched in 2016, members have raised £107m for more than 36,000 unique community projects. In 2023, our members supported 3,955 local community projects (2022: 4,482), and the total amounted to over £10.5m (2022: £12.4m). One million people were supported by projects in our latest Local Community Fund pay out in 2023.
- In 2023, the Community Partnership Fund distributed £4.2m to support our community partnerships and committed a further £3.5m to support activity in 2024.
- Our partnership with Hubbub continues to grow, providing access to food, leading to the world's largest Community Fridge Network, with over 600 fridges across the UK. In 2023, the Community Fridge network was visited over 1.3m times. We also continue to work with Your Local Pantry in communities in the UK. The network supports people to save an average of £21 on every shop.
- Our partnership with Mind, SAMH and Inspire came to an end in 2023, although its legacy lives on with more than 60 new mental wellbeing services being set up across the UK, supporting over 30,000 people. Over 81% of those supported feel their wellbeing improved and 77% feel more closely connected to community. Our partnership also signposted more than 3.5m people to information, activity and support for mental wellbeing from 2020-23.
- In 2023, for the second year, we also partnered with Mind, SAMH, Inspire and Rethink Mental Illness on the UK's biggest mental health conversation, Time To Talk Day. To date, we have generated over five million more conversations (over three million in 2023) including more conversations among young people and people from diverse backgrounds which we will continue in 2024.
- Over 15,000 people have accessed our new bereavement resources with Cruse Bereavement Support and our pilot activity engaged 2,800 people with 86% reporting improved mental wellbeing.
- In March 2023 we concluded the first cohort of the Peer Action Collective (PAC), reaching 6,861 young people. PAC provides 10-25 year olds impacted by violence with a voice and the opportunity to make their own communities safer and fairer places to live. We have extended our partnership with the Youth Endowment Fund to reach 11,000 more young people through PAC with a £2.5million Community Partnerships Fund investment matched by other funders¹ to a total £7.5million.
- We launched our partnership with Barnardo's in 2023 to bring communities together to support young people. Together, we'll raise £5m to help 750,000 young people access basic needs, improve their mental wellbeing and create opportunities for their future. In 2023, our colleagues, members and customers went big for Barnardo's and raised £1.2m.
- In November 2023 we launched the Young Gamechangers Fund together with the Co-op Foundation and the #iwill Fund. The £4.5million Fund will support young activists, campaigners, disrupters, co-operators, and social entrepreneurs to lead youth-led social action across the UK. The Foundation also awarded £1.4m from its Future Communities Fund to fund grassroots, youth-led organisations to help develop diverse leaders of the future.
- In the winter of 2023, our Warm Spaces Funding boost, provided local community groups with vital support during the coldest months, supporting 588 projects with a £1m donation and generating £1.4m match funding via our partnership with Crowdfunder, benefiting an estimated 61,235 people.
- The Co-op Academies Trust (CAT) is one of the largest multi-academy trusts serving the North of England, with 32 primary, secondary, special, and post-16 academies. The Trust provides an education based on co-operative Values and Principles for 19,500 young people.
- Our Member Pioneers are an important way of connecting all of our activities within and across our communities, and of engaging directly with our member-owners and their communities. In 2023, our 900 Member Pioneers engaged with over 62,000 people every month. As well as encouraging member-owner activity and engagement, they brought our Co-op Vision to life, investing 121,000 hours in our communities.

¹ Six funders including #iwill and Youth Endowment Fund

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), which are all retail co-operatives. Through FRTS, our Co-op collaborates with ISMs on the management and operation of its centralised buying function, while observing competition law requirements. Six formal FRTS Board meetings were held during the year.

ISMs are members of our Co-op and are also represented on our Members' Council.

We are passionate about proactively growing the co-operative economy by promoting, developing and uniting co-operatives and, throughout 2023, have continued to share our thoughts, experiences and learnings with other co-operatives. In 2023, we delivered a session at the Co-ops UK 2023 Practitioners Forum. The session discussed what modern democratic engagement could look like beyond the AGM and was hosted by Kate Brown, our Council President and members of the team. Our CEO Shirine Khoury-Haq delivered a plenary at Co-op Congress 2023 and our INED Lord Victor Adebowale and Paul Gerrard, our Director of Campaigns, Public Affairs & Board Secretariat, participated in a panel discussion on Social Care alongside Andy Burnham, Mayor of Greater Manchester, and discussed whether a co-operative pilot across Greater Manchester could be a scalable solution to tackle some of the challenges faced in the area.

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). Our Co-op Academies remain a key part of our Vision.

During 2023, individual Board directors and senior leaders across all parts of our Co-op have visited Co-op Academies and supported CAT's Annual Governors Conference with a session on diversity and inclusion led by a Co-op Board member. In September, we held our Board meeting at the newly built Co-op Academy Belle Vue in Manchester where our Board members met students and staff.

In 2024, we are planning visits and presentations by CAT students and colleagues with our Members' Council.

For more information on the CAT, please see our Co-operate Report at [co-operative.coop](https://www.co-operative.coop).

Environment

Our approach to sustainability is critical in our current and future plans and is embedded in our wider Vision. We are delighted our Co-op Sustainability Strategy has received board approval and we will continue to drive forward our sustainability agenda and our ambitious approach to climate action, ensuring that we keep focused on protecting people and the planet.

We can't deliver our commitments alone, so we work with our member-owners, communities, customers, colleagues and suppliers continued to be vital. You can read more about our Climate Plan and progress across sustainability at www.coop.co.uk and in our Co-operate Report at [co-operative.coop](https://www.co-operative.coop).

Financial Statements

Consolidated income statement for the 53 week period ended 6 January 2024

What does this show? Our income statement shows our income for the year less our costs. The result is the profit or loss that we've made.

| Continuing Operations | Notes | 2023* | 2022 |
|--|-------|---------------|--------------------|
| | | £m | (restated**) £m |
| Revenue (excluding funeral plans) | 2 | 11,176 | 11,397 |
| Insurance revenue (funeral plans) | 2, 21 | 86 | 87 |
| Total Revenue | | 11,262 | 11,484 |
| Operating expenses (excluding insurance service expenses on funeral plans) | 3 | (11,125) | (11,424) |
| Insurance service expenses (funeral plans) | 21 | (80) | (81) |
| Other income | 5 | 9 | 9 |
| Operating profit / (loss) | 1 | 66 | (12) |
| Profit on sale of petrol forecourt stores | | - | 319 |
| Finance income | 6 | 126 | 125 |
| Finance costs (excluding insurance finance expenses on funeral plans) | 7 | (148) | (149) |
| Insurance finance expenses (funeral plans) | 7, 21 | (16) | (15) |
| Profit before tax | 1 | 28 | 268 |
| Taxation | 8 | (27) | (10) |
| Profit from continuing operations | | 1 | 258 |
| Discontinued operation | | | |
| Profit on discontinued operation (after tax) | 9 | 2 | 67 |
| Profit for the period (all attributable to members of the Society) | | 3 | 325 |

* The 2023 figures represent the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks to 31st December 2022.

** The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for further details.

The accompanying notes on pages 153 - 222 form an integral part of these financial statements.

Non-GAAP measure: underlying loss before tax**

What does this show? The table below adjusts the operating profit / (loss) 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) to show the underlying profit or loss that we've made.

| Continuing Operations | Notes | 2023 | 2022 |
|--|-------|------------|-------------------|
| | | £m | (restated*) £m |
| Operating profit / (loss) - as above | | 66 | (12) |
| Add back / (deduct): | | | |
| One-off items | 1 | 12 | 39 |
| Property disposals and closures | 1 | (9) | (64) |
| Impairment of non-current assets | 1 | 32 | 105 |
| Change in value of investment properties | 24 | (4) | 15 |
| Underlying operating profit | 1 | 97 | 83 |
| Less underlying net interest on loans and deposits | 6, 7 | (31) | (55) |
| Less underlying net interest expense on leases | 6, 7 | (68) | (76) |
| Underlying loss before tax | | (2) | (48) |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

** Refer to Note 1 for a definition of Underlying operating profit and Underlying loss before tax. Further detail on the Group's alternative performance measures (APMs) is given in the Jargon Buster section on page 252.

Consolidated statement of comprehensive (loss) / income for the 53 week period ended 6 January 2024

What does this show? Our statement of comprehensive (loss) / income includes other income and costs that are not included in the consolidated income statement on the previous page. These generally relate to revaluations of our pension schemes and insurance finance income or expense on funeral plans.

| | Notes | 2023 £m | 2022 (restated*) £m |
|--|-------|----------------|---------------------------|
| Profit for the period | | 3 | 325 |
| Items that will never be reclassified to the income statement: | | | |
| Remeasurement losses on employee pension schemes** | 25 | (1,310) | (732) |
| Related tax on items above | 8 | 328 | 183 |
| | | (982) | (549) |
| Items that are or may be reclassified to the income statement: | | | |
| Revaluation gain on properties prior to transfer to Investment properties | 24 | 3 | - |
| Insurance finance (expense) / income on funeral plans *** | 21 | (37) | 453 |
| Tax on funeral plan liabilities (insurance contracts) | 8 | 9 | (113) |
| | | (25) | 340 |
| Other comprehensive losses for the period net of tax | | (1,007) | (209) |
| Total comprehensive (loss) / profit for the period (all attributable to members of the Society) | | (1,004) | 116 |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for further details.

** The material remeasurement loss recognised in the year on our pension schemes includes the accounting impact of the buy-in transaction undertaken by the pension scheme trustee with Rothesay Life Plc, a specialist UK Insurer, to insure scheme benefits through a bulk annuity insurance policy helping to insure the Group against the primary investment and longevity risks it is exposed to. Further detail of the transaction and impact is given in Note 25 (Pensions). The impact of the buy-in is that the assets transferred to the insurer are replaced on the balance sheet with an estimate of the IAS19 reserve for insured members (so the asset equals the liability). This has reduced the scheme assets by circa £1.0bn and drives the majority of the remeasurement loss noted above. In addition to the impact of the buy-in transaction; a further £0.3bn remeasurement charge has been recorded reflecting an increase in scheme liabilities primarily due to forecast inflation being higher than assumed previously.

*** Under IFRS 17 the Group has elected to disaggregate that element of finance income / expense that arise due to changes in the discount rate and record the impact of those changes in other comprehensive income (OCI) rather than in the Income statement. The large gain noted above in 2022 primarily arises due to movements in the discount rate in 2022.

**** The 2023 figures represent the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks to 31st December 2022.

The accompanying notes on pages 153 - 222 form an integral part of these financial statements.

Consolidated balance sheet

as at 6 January 2024

What does this show? Our balance sheet is a snapshot of our financial position as at 6 January 2024. It shows the assets we have and the amounts we owe.

| | Notes | 2023 £m | 2022 (restated*) £m |
|--|-------|--------------|---------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 1,543 | 1,631 |
| Right-of-use assets | 12 | 827 | 882 |
| Goodwill and intangible assets | 13 | 917 | 934 |
| Investment properties | 24 | 40 | 40 |
| Investments in associates and joint ventures | | 5 | 5 |
| Funeral plan investments | 14 | 1,346 | 1,369 |
| Derivatives | 27 | - | 1 |
| Pension assets (net pension assets for schemes in surplus) | 25 | 359 | 1,584 |
| Trade and other receivables | 17 | 1 | 5 |
| Finance lease receivables | 12 | 21 | 34 |
| Contract assets | | 6 | 7 |
| Deferred tax assets | 15 | 52 | - |
| Total non-current assets | | 5,117 | 6,492 |
| Current Assets | | | |
| Inventories | 16 | 440 | 433 |
| Trade and other receivables | 17 | 594 | 605 |
| Finance lease receivables | 12 | 8 | 9 |
| Contract assets | | 1 | 1 |
| Derivatives | 27 | - | 7 |
| Short-term investments | 18 | 200 | - |
| Cash and cash equivalents | 18 | 395 | 447 |
| Total current assets | | 1,638 | 1,502 |
| Total assets | | 6,755 | 7,994 |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 19 | 470 | 763 |
| Lease liabilities | 12 | 1,054 | 1,124 |
| Trade and other payables | 20 | 18 | 31 |
| Insurance contract liabilities (funeral plans) | 21 | 1,010 | 987 |
| Re-insurance contract liabilities (funeral plans) | 21 | 7 | 7 |
| Derivatives | 27 | 10 | 14 |
| Provisions | 22 | 55 | 59 |
| Pension liabilities (net pension liabilities for schemes in deficit) | 25 | 3 | 3 |
| Deferred tax liabilities | 15 | - | 258 |
| Total non-current liabilities | | 2,627 | 3,246 |
| Current liabilities | | | |
| Interest-bearing loans and borrowings | 19 | 218 | 17 |
| Lease liabilities | 12 | 179 | 182 |
| Trade and other payables | 20 | 1,564 | 1,403 |
| Insurance contract liabilities (funeral plans) | 21 | 88 | 86 |
| Re-insurance contract liabilities (funeral plans) | 21 | 1 | 1 |
| Derivatives | 27 | 3 | 2 |
| Provisions | 22 | 55 | 34 |
| Total current liabilities | | 2,108 | 1,725 |
| Total liabilities | | 4,735 | 4,971 |
| Equity | | | |
| Members' share capital | 23 | 76 | 75 |
| Retained earnings | 23 | 1,935 | 2,942 |
| Other reserves | 23 | 9 | 6 |
| Total equity | | 2,020 | 3,023 |
| Total equity and liabilities | | 6,755 | 7,994 |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement. As the restatement applies to all previous years including the closing 2021 balance sheet (as at 1 January 2022) then for comparative purposes we have also included an adjusted opening 2022 balance sheet (as at 2 January 2022) in Note 33 on page 222. The accompanying notes on pages 153 - 222 form an integral part of these financial statements.

Board's certification

The financial statements on pages 153 - 222 are hereby signed on behalf of the Board pursuant to Section 80 (1) (a) of the Co-operative and Community Benefit Societies Act.

Debbie White - Chair

Rachel Izzard - Chief Financial Officer

Dominic Kendal-Ward - Group Secretary

3 April 2024

Consolidated statement of changes in equity

for the 53 period ended 6 January 2024

What does this show? Our statement of changes in equity shows how our reserves have changed during the period.

| For the 53 weeks ended 6 January 2024 | | Members' share capital | Retained earnings | Other reserves | Total equity |
|---|-------|------------------------|-------------------|----------------|----------------|
| | Notes | £m | £m | £m | £m |
| Balance at 31 December 2022 (as previously reported) | | 75 | 2,637 | 6 | 2,718 |
| Impact of retrospective adoption of IFRS 17 | 33 | - | 305 | - | 305 |
| Balance at 31 December 2022 (*restated for IFRS 17) | | 75 | 2,942 | 6 | 3,023 |
| Profit for the period | | - | 3 | - | 3 |
| Other comprehensive income / (loss): | | | | | |
| Remeasurement losses on employee pension schemes | 25 | - | (1,310) | - | (1,310) |
| Tax on remeasurement losses (pension schemes) | 8 | - | 328 | - | 328 |
| Insurance finance income (funeral plans) | 21 | - | (37) | - | (37) |
| Tax on funeral plan liabilities (insurance contracts) | 8 | - | 9 | - | 9 |
| Revaluation gain on properties prior to transfer to Investment properties | 24 | - | - | 3 | 3 |
| Total other comprehensive loss | | - | (1,010) | 3 | (1,007) |
| Items taken directly to retained earnings: | | | | | |
| Shares issued less shares withdrawn | 23 | 1 | - | - | 1 |
| Total of items taken directly to retained earnings | | 1 | - | - | 1 |
| Balance at 6 January 2024 | 23 | 76 | 1,935 | 9 | 2,020 |

* The brought forward figures have been restated following the adoption of IFRS 17 (Insurance Contracts). See details of the restatement in the table below.

| For the 52 weeks ended 31 December 2022 (restated*) | | Members' share capital | Retained earnings | Other reserves | Total equity |
|---|-------|------------------------|-------------------|----------------|--------------|
| | Notes | £m | £m | £m | £m |
| Balance at 1 January 2022 (as originally reported) | | 74 | 2,859 | 6 | 2,939 |
| Impact of adoption of IFRS 17 | 33 | - | (33) | - | (33) |
| Balance at 2 January 2022 (restated for IFRS 17) | | 74 | 2,826 | 6 | 2,906 |
| Profit for the period (restated for IFRS 17) | | - | 325 | - | 325 |
| Other comprehensive income / (loss): | | | | | |
| Remeasurement gain on employee pension schemes | 25 | - | (732) | - | (732) |
| Tax on items taken directly to other comprehensive income | 8 | - | 183 | - | 183 |
| Insurance finance income (funeral plans) | 21 | - | 453 | - | 453 |
| Tax on funeral plan liabilities (insurance contracts) | 8 | - | (113) | - | (113) |
| Total other comprehensive loss | | - | (209) | - | (209) |
| Items taken directly to retained earnings | | | | | |
| Shares issued less shares withdrawn | 23 | 1 | - | - | 1 |
| Total of items taken directly to retained earnings | | 1 | - | - | 1 |
| Balance at 31 December 2022 (restated for IFRS 17) | 23 | 75 | 2,942 | 6 | 3,023 |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

The accompanying notes on pages 153 - 222 form an integral part of these financial statements.

Consolidated statement of cash flows

for the 53 week period ended 6 January 2024

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 | 2023 £m | 2022 £m |
|---|-------|--------------|------------|
| Net cash from operating activities | 10 | 602 | 455 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (182) | (132) |
| Proceeds from sale of property, plant and equipment | 1 | 23 | 47 |
| Purchase of intangible assets | | (23) | (15) |
| Acquisition of businesses, net of cash acquired | | - | (4) |
| Disposal of businesses | | 10 | 10 |
| Disposal of petrol forecourts | | 4 | 408 |
| Purchase of investments for pre-paid funeral plan sales | 14 | (73) | (76) |
| Receipts from funds for pre-paid funeral plans performed or cancelled | 14 | 113 | 108 |
| Short-term investments | 18 | (200) | - |
| Interest received on deposits* | | 18 | 2 |
| Net cash (used) / generated in investing activities | | (310) | 348 |
| Cash flows from financing activities | | | |
| Interest paid on borrowings | | (57) | (59) |
| Interest paid on lease liabilities | 12 | (70) | (78) |
| Interest received on subleases | | 2 | 2 |
| Repayment of corporate investor shares | 19 | - | (1) |
| Repayment of borrowings (net) | 19 | (101) | (1) |
| Increase in other borrowings | 19 | 1 | - |
| RCF (revolving credit facility) repayment | 19 | - | (163) |
| Payment of lease liabilities | 12 | (123) | (128) |
| Derivative settlements | | 3 | 16 |
| Individual member share capital | 23 | 1 | - |
| Net cash used in financing activities | | (344) | (412) |
| Net (decrease) / increase in cash and cash equivalents | | (52) | 391 |
| Cash and cash equivalents at beginning of period | | 447 | 56 |
| Cash and cash equivalents at end of period (per balance sheet) | 18 | 395 | 447 |

* Interest received on deposits has been classified in investing activities in the tables above in line with IAS 7 in both 2023 and 2022 (previously in 2022 it was included as a separate line item within financing activities and the balance was not material for reclassification).

The balances above include cashflows from Discontinued operations of £3m (2022: £72m). The Group also holds £200m (2022: £nil) of short-term investments. These are excluded from the cash and cash equivalents figure noted above but are included with our net debt metric calculation (see table below). The accompanying notes on pages 153 - 222 form an integral part of these financial statements.

| Group net debt | Notes | 2023 £m | 2022 £m |
|---|-------|----------------|------------|
| Interest-bearing loans and borrowings: | | | |
| - current | | (218) | (17) |
| - non-current | | (470) | (763) |
| Total Interest-bearing loans and borrowings | | (688) | (780) |
| Lease liabilities: | | | |
| - current | | (179) | (182) |
| - non-current | | (1,054) | (1,124) |
| Total Lease liabilities | | (1,233) | (1,306) |
| Total debt | | (1,921) | (2,086) |
| - Group cash | | 395 | 447 |
| - Short-term investments | | 200 | - |
| Group net debt | 19 | (1,326) | (1,639) |
| Add back: accrued interest on amortised debt | | 11 | 11 |
| Group net debt (excluding accrued interest on amortised debt)* | 19 | (1,315) | (1,628) |
| Group net debt (excluding lease liabilities)* | 19 | (93) | (333) |
| Add back: accrued interest on amortised debt | | 11 | 11 |
| Group net debt (excluding lease liabilities and accrued interest on amortised debt)* | 19 | (82) | (322) |

*Details of the Group's alternative performance measures (APMs) including our net debt metric are explained further in the Jargon Buster (page 252).

Notes to the financial statements

Section A - where do our profits or losses 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.

| 2023 (53 weeks to 6 January 2024) | Food (i) £m | Wholesale £m | Federal (f) £m | Funeral* (h) £m | Insurance £m | Legal £m | Costs from supporting functions £m | Total £m |
|--|-------------------|-----------------|----------------------|-----------------------|-----------------|-------------|---|---------------|
| Revenue from external customers | 7,262 | 1,480 | 2,142 | 281 | 29 | 68 | - | 11,262 |
| Underlying operating profit / (loss) (a) | 154 | 14 | - | (11) | 14 | 21 | (95) | 97 |
| One-off items (a) (i) | 9 | - | - | - | - | - | (21) | (12) |
| Property, business disposals and closures (a) (ii) | 9 | (1) | - | - | - | - | 1 | 9 |
| Impairments (a) (ii) | (20) | (1) | - | - | - | - | (11) | (32) |
| Change in value of investment properties | - | - | - | - | - | - | 4 | 4 |
| Operating profit / (loss) (b) | 152 | 12 | - | (11) | 14 | 21 | (122) | 66 |
| Profit before tax (Funerals only) (h) | | | | 13 | | | | |
| Depreciation and amortisation | 314 | 8 | - | 27 | - | 1 | 21 | 371 |
| EBITDA (g) | 466 | 20 | - | 16 | 14 | 22 | (101) | 437 |
| Underlying EBITDA (g) | 468 | 22 | - | 16 | 14 | 22 | (74) | 468 |
| Additions to non current assets (d, e) | 151 | 5 | - | 19 | - | - | 30 | 205 |

* Funeral segment revenue comprises £86m (2022: £87m) in relation to our pre-need funeral plan business recorded under the newly adopted accounting standard IFRS 17 (Insurance Contracts) and £195m (2022: £188m) for at-need funerals recorded under IFRS 15.

**A reclassification adjustment has been processed in the first half of 2023 in Federal Sales and Federal operating expenses with net nil impact to profit. This adjustment restates the 2023 Co-op Interim Report reported Federal revenue, increasing from £957m to £1,049m and a corresponding increase in Federal operating expenses. This flows through to Group operating expenses, increasing from £5,432m to £5,524m. Group Revenue at 2023 Interim would thus increase to £5,522m. The reclassification has no impact on reported profit at 2023 Interim.

| 2022 (restated*) (52 weeks to 31 December 2022) | Food (i) £m | Wholesale £m | Federal (f) £m | Funeral (h) £m | Insurance £m | Legal £m | Costs from supporting functions £m | Total £m |
|--|-------------------|-----------------|----------------------|----------------------|-----------------|-------------|---|---------------|
| Revenue from external customers | 7,805 | 1,439 | 1,895 | 275 | 24 | 46 | - | 11,484 |
| Underlying operating profit / (loss) (a) | 139 | 22 | - | (1) | 8 | 8 | (93) | 83 |
| One-off items (a) (i) | (21) | (2) | - | (2) | - | - | (14) | (39) |
| Property, business disposals and closures (a) (ii) | 7 | (1) | - | (1) | - | - | 59 | 64 |
| Impairments (a) (ii) | (71) | - | - | (3) | - | - | (31) | (105) |
| Change in value of investment properties | - | - | - | - | - | - | (15) | (15) |
| Operating profit / (loss) (b) | 54 | 19 | - | (7) | 8 | 8 | (94) | (12) |
| Profit before tax (Funerals only) (h) | | | | 11 | | | | |
| Depreciation and amortisation | 331 | 8 | - | 27 | - | 1 | 23 | 390 |
| EBITDA (g) | 385 | 27 | - | 20 | 8 | 9 | (71) | 378 |
| Underlying EBITDA (g) | 470 | 30 | - | 26 | 8 | 9 | (70) | 473 |
| Additions to non current assets (d, e) | 115 | 4 | - | 14 | - | - | 18 | 151 |

*The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

** The 2023 figures represent the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks to 31st December 2022.

Notes to the financial statements continued

1 Operating segments continued

a) Underlying 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. This is the non-GAAP measure of segmental profitability that is monitored by the Group Board (which is the Chief Operating Decision Maker (CODM)). Further detail on the Group's alternative performance measures (APMs) is given in the Jargon Buster section on page 252.

(i) One-off items totalling a £12m charge (2022: £39m charge) includes £10m of non-recurring net income in relation to the transitional service agreement following the sale of our petrol forecourt sites in the prior year, a net charge of £20m in relation to legal cases and associated provisions, a further £4m of costs in relation to the discretionary help given to support our colleagues through the Winter cost-of-living crisis (through spend added to colleagues membership cards) and a £2m gain from the release of property provisions. In the prior period the £39m charge comprised £26m of redundancy costs primarily within our Support Centre, £12m in relation to the Winter cost-of-living support for colleagues and net £1m other.

(ii) Gains from property and business disposals of £9m (2022: net £64m) comprise a £9m gain on food stores, £1m gain in Wholesale and a £1m loss on non-trading properties sold during the year.

(iii) Impairment charges of £32m (2022: £105m) are split: Food £20m (2022: £71m), Wholesale £1m (2022: £nil), Funerals £nil (2022: £3m) and Costs from supporting functions of £11m (2022: £31m) and relates to £11m (2022: £30m) of Property, plant and equipment, £21m (2022: £60m) of Right-of-use assets and £nil (2022: £15m) of Intangible assets.

b) Each segment earns its revenue and profits from the sale of goods and provision of services, mainly from retail activities. Transactions between operating segments excluded in the analysis are £272m (2022: £284m) of sales of goods by Food to Wholesale net of supplier income and £149m (2022: £145m) of pass through recharges (e.g. payroll and transport costs) made by Food to Wholesale.

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). Our other holding and support companies are included within costs from supporting functions.

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.

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. In the current period revenue in the Federal segment includes £207m (2022: £40m) of sales at nil margin for goods supplied to AFS (Arthur Foodstores Limited - the entity that was sold to Asda as part of the disposal of our petrol forecourt estate in October 2022).

g) EBITDA (earnings before interest, tax, depreciation and amortisation) and underlying EBITDA are non-GAAP measures of performance which help us to understand the profits our business segments are generating before capital investment and interest charges. EBITDA is calculated by adding back depreciation and amortisation charges to Operating profit (which is calculated before interest charges). Underlying EBITDA is calculated in a similar way but starting from underlying operating profit. Further details on the Group's alternative performance measures (APMs) is given on page 252.

(h) The Funeral segment includes the results of our pre-need funeral plan business recorded under the newly adopted accounting standard IFRS 17 (Insurance Contracts) which were previously recorded under IFRS 15. Overall profitability recorded under IFRS 17 and IFRS 15 is broadly comparable however under IFRS 17 our operating profit (as noted in the Operating segment tables) is lower. This is partly because of the phasing of revenue being spread over the life of a funeral plan rather than all at redemption and partly because the balance of where profit is recognised in the Income statement shifts such that we see lower finance expense under IFRS 17 but higher operating expenses. This reduction to Operating profit is offset by a reduction in net finance charge (which is recorded below operating profit and does not feature in the Operating segment tables). Underlying operating profit remains our primary alternative performance measure and basis of our segmental reporting, however for the Funeral segment we do not consider it to be the most helpful metric to understand the performance of the business as a result of the impact of IFRS 17. As such we have included a profit before tax figure as an additional metric in the segmental tables for the Funeral business to aid a reader's understanding of the performance of that business.

| Funerals segment (£m) | 2023 | 2022 |
|--------------------------------|------|------|
| Operating loss | (11) | (7) |
| Finance income (funeral plans) | 17 | 28 |
| Finance cost (funeral plans) | (16) | (15) |
| Finance income (other) | 25 | 7 |
| Finance costs (other) | (2) | (2) |
| Profit before tax | 13 | 11 |

(i) The comparative figures in our Food business also include the revenue and profit from petrol forecourt stores sold in October 2022. The 2023 figures represent the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks to 31st December 2022.

Notes to the financial statements continued

1 Operating segments continued

j) A reconciliation between Underlying operating profit, Underlying loss before tax and Profit before tax (Continuing operations) is provided below:

| Continuing Operations | Notes | 2023 | 2022 |
|---|-------|------------|-------------------|
| | | £m | (restated*) £m |
| Underlying operating profit* | | 97 | 83 |
| Underlying net interest on loans and deposits | 6, 7 | (31) | (55) |
| Underlying net interest expense on leases | 6, 7 | (68) | (76) |
| Underlying loss before tax | | (2) | (48) |
| One-off items | 1 | (12) | (39) |
| Gain on property, business disposals and closures (see table below) | 1 | 9 | 64 |
| Impairment of non-current assets (see table below) | 1 | (32) | (105) |
| Profit on disposal of petrol forecourt stores | 1 | - | 319 |
| Change in value of investment properties | 24 | 4 | (15) |
| Finance income (net pension income) | 6 | 77 | 43 |
| Fair value movement on foreign exchange contracts and commodity derivatives (net) | 6, 7 | (6) | 20 |
| Fair value movement on interest rate swaps | 6, 7 | 4 | (11) |
| Fair value movement on quoted Group debt | 6, 7 | (10) | 28 |
| Finance income (funeral plans) | 6 | 17 | 28 |
| Finance costs (funeral plans)* | 7 | (16) | (15) |
| Net other non-cash finance costs | 7 | (5) | (1) |
| Profit before tax (from continuing operations) | | 28 | 268 |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

| Losses from property and business disposals and closures and impairment of non-current assets | 2023 | | 2022 | |
|---|------|-------------|------|-------|
| | £m | £m | £m | £m |
| <u>Disposals, closures and onerous contracts:</u> | | | | |
| - proceeds | 23 | | 47 | |
| - less net book value written off | (14) | | (15) | |
| - provisions released | - | | 32 | |
| | | 9 | | 64 |
| Impairment of non-current assets | | (32) | | (105) |
| Total | | (23) | | (41) |

See previous page (a) (iii) for details of the impairments.

Notes to the financial statements continued

2 Revenue

What does this show? This note shows our revenue (which excludes VAT) across our different businesses.

| | 2023* | 2022 (restated**) |
|--|---------------|----------------------|
| | £m | £m |
| Retail sales | 7,284 | 7,822 |
| Member reward earned on sale of goods | (22) | (17) |
| Provision of services** | 295 | 261 |
| Insurance revenue (funeral plans)** | 86 | 87 |
| Member reward earned on provision of services | (3) | (3) |
| Wholesale sales | 1,480 | 1,439 |
| Federal sales | 2,142 | 1,895 |
| Revenue (as shown in the Consolidated income statement) | 11,262 | 11,484 |

* The 2023 figures represent the 53 week period ended 6th January 2024 with the 2022 comparatives representing 52 weeks.

** The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

Accounting policies

Unless stated otherwise, 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. As noted below, Revenue on funeral plans (our pre-need business) is recognised in line with IFRS 17 (Insurance Contracts).

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 (at-need business only), Legal services and Insurance businesses. Revenue is recognised when separate performance obligations are delivered to the customer. Revenue is recognised as distinct performance obligations are delivered to the customer.

Insurance revenue (funeral plans)

The Group has adopted IFRS 17 (Insurance Contracts) from 1 January 2023 which specifically applies to the Group's pre-need funeral plans (including the re-insurance of the payment waiver risk where Group waives the remaining payments if a customer dies during the payment term subject to conditions). Under IFRS 17 the Group recognises revenue over the contract coverage period (being the duration of the funeral plan). Further detail as to the accounting policies used to record revenue, recognise profit and value the insurance contract liability are given in Note 33.

Member rewards

During the year, the member rewards earned as part of our membership offer were recognised as a reduction in sales at the point they were earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. During the year, member rewards were earned at 2% of eligible spend value. The Community reward on member's spend is recognised as an operating expense in the income statement when it is earned. Community rewards are also earned at 2% of eligible spend value during the year.

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:

| | 2023 | 2022 |
|--|---------|-------------------|
| | £m | (restated*) £m |
| Cost of goods and services recognised as an expense* | (7,880) | (8,077) |
| Employee benefits expense (see below) | (1,456) | (1,444) |
| Distribution costs | (474) | (501) |
| Gain on property, business disposals and closures (before impairments) | 9 | 64 |
| Impairment of plant, property and equipment and goodwill | (11) | (45) |
| Impairment of right-of-use assets | (21) | (60) |
| Net gain on other plant and equipment disposals | 1 | 2 |
| Change in value of investment properties | 4 | (15) |
| Depreciation of plant, property and equipment | (225) | (244) |
| Depreciation of right-of-use assets | (106) | (119) |
| Amortisation of intangible assets | (40) | (27) |
| Charge on allowance for expected credit losses on trade receivables | (10) | (12) |
| Credit on allowance for expected credit losses on trade receivables | 9 | 11 |
| Subscriptions and donations | (7) | (6) |
| Community reward earned | (20) | (18) |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

Employee benefits expense

| | 2023 | 2022 |
|--|----------------|----------------|
| | £m | £m |
| Wages and salaries | (1,310) | (1,293) |
| Social security costs | (87) | (90) |
| Pension costs - defined benefit schemes | (6) | (6) |
| Pension costs - defined contribution schemes | (53) | (55) |
| Total employee benefits expense | (1,456) | (1,444) |

Employee benefits expense includes executive directors.

The average number of people employed by the Group in the UK during the 53 week period ended 6th January 2024 (including executive directors) was:

| | 2023 | 2022 |
|--------------|---------------|---------------|
| | Number | Number |
| Full-time | 17,899 | 18,627 |
| Part-time | 39,205 | 40,463 |
| Total | 57,104 | 59,090 |

As at the balance sheet date (6th January 2024) there were 56,465 employees; 17,804 (full-time) and 38,661 (part-time).

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 91 - 108.

Notes to the financial statements continued

3 Operating expenses continued

| Auditor remuneration and expenses | 2023 £m | 2022 £m |
|---|------------|------------|
| Audit of these financial statements | 3.8 | 2.6 |
| Amounts receivable by the Society's auditor in respect of: | | |
| - Audit of financial statements of subsidiaries in respect of the Society | 0.8 | 0.4 |
| Services relating to: | | |
| - Audit-related assurance services | - | - |
| - Non-audit services | 0.1 | 0.1 |
| Total | 4.7 | 3.1 |

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? 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 | 2023 £m | 2022 £m |
|-----------------------------------|------------|------------|
| Food - Long-term agreements | 162 | 156 |
| Food - Bonus income | 74 | 66 |
| Food - Promotional income | 260 | 281 |
| Total Food supplier income | 496 | 503 |
| Wholesale - Long-term agreements | 32 | 27 |
| Wholesale - Bonus income | 12 | 15 |
| Wholesale - Promotional income | 72 | 81 |
| Wholesale supplier income | 116 | 123 |
| Total supplier income | 612 | 626 |

| Percentage of Cost of Sales before deducting Supplier income | % | % |
|--|-------------|-------------|
| Food - Long-term agreements | 3.0% | 2.6% |
| Food - Bonus income | 1.4% | 1.1% |
| Food - Promotional income | 4.8% | 4.7% |
| Total Food supplier income percentage | 9.2% | 8.4% |
| Wholesale - Long-term agreements | 2.4% | 2.0% |
| Wholesale - Bonus income | 0.9% | 1.1% |
| Wholesale - Promotional income | 5.3% | 6.1% |
| Total Wholesale supplier income percentage | 8.6% | 9.2% |

All figures exclude any income or purchases made as part of the Federal joint buying group.

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.

| | 2023 | 2022 |
|--|----------|----------|
| | £m | £m |
| Rental income from non-investment properties | 6 | 6 |
| Rental income from investment properties | 3 | 3 |
| Total other income | 9 | 9 |

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 properties, refer to Note 24.

Notes to the financial statements continued

6 Finance income

What does this show? Finance income arises from the interest earned on our pension scheme, interest earned on the cash and short-term investments that we hold 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.

| | 2023 | 2022 |
|---|------------|------------|
| | £m | £m |
| <i>Underlying finance income:</i> | | |
| Interest income from finance lease receivables | 2 | 2 |
| Interest receivable on deposits | 25 | 3 |
| Total underlying finance income | 27 | 5 |
| <i>Non-underlying finance income:</i> | | |
| Net pension finance income | 77 | 43 |
| Fair value movement on foreign exchange contracts and commodity derivatives | - | 20 |
| Fair value movement on interest rate swaps (Note 27) | 4 | - |
| Fair value movement on quoted Group debt (Note 19) | - | 28 |
| Unrealised fair value movement on funeral plan investments (Note 14) | 17 | 28 |
| Other non-underlying finance income | 1 | 1 |
| Total non-underlying finance income | 99 | 120 |
| Total finance income | 126 | 125 |

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, foreign exchange contracts and commodity derivatives (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 insurance finance interest expense (from the unwind of the discounting applied to our funeral plan liabilities).

| | 2023 | 2022 |
|---|--------------|-------------------|
| | £m | (restated*) £m |
| <i>Underlying finance costs:</i> | | |
| Loans repayable within five years | (56) | (58) |
| Loans repayable wholly or in part after five years | - | - |
| Total underlying loan interest payable | (56) | (58) |
| Underlying interest expense on lease liabilities | (70) | (78) |
| Total underlying finance cost | (126) | (136) |
| <i>Non-underlying finance costs:</i> | | |
| Fair value movement on interest rate swaps (Note 27) | - | (11) |
| Fair value movement on foreign exchange contracts and commodity derivatives | (6) | - |
| Fair value movement on quoted Group debt | (10) | - |
| Other non-underlying finance interest | (6) | (2) |
| Insurance finance expenses (funeral plans)* | (16) | (15) |
| Total non-underlying finance cost | (38) | (28) |
| Total finance costs | (164) | (164) |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

Total interest expense on financial liabilities (including lease liabilities) that are not at fair value through the income statement was £117m (2022: £125m).

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 2023.

| | Footnote | 2023 £m | 2022 (restated*) £m |
|--|----------|------------|---------------------------|
| Current tax credit - current period | (i) | 1 | 11 |
| Current tax credit - adjustment in respect of prior periods | | - | 2 |
| Net current tax credit - in respect of continuing operations | | 1 | 13 |
| Net current tax charge - in respect of discontinued operations | | (1) | (14) |
| Total current tax charge | | - | (1) |
| Deferred tax charge - current period | (ii) | (29) | (16) |
| Deferred tax credit - adjustments in respect of prior periods | (iii) | 3 | (2) |
| Deferred tax charge - impact of rate change (see note below) | (ii) | (2) | (5) |
| Net deferred tax charge - in respect of continuing operations | | (28) | (23) |
| Total deferred tax charge | | (28) | (23) |
| Total tax charge reported in the income statement | | (27) | (10) |
| Total tax charge attributable to a discontinued operation | | (1) | (14) |
| Total tax charge | | (28) | (24) |

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 23.5% (2022:19%) as follows:

| | Footnote | 2023 £m | 2022 (restated*) £m |
|---|----------|------------|---------------------------|
| Profit before tax from continuing operations | | 28 | 268 |
| Profit before tax from discontinued operation | | 3 | 81 |
| Total profit before tax | | 31 | 349 |
| Tax charge at 23.5% (2022: 19%) | | (7) | (66) |
| Current tax reconciliation: | | | |
| Expenses not deductible for tax (including one-off costs) | (iv) | (9) | (2) |
| Depreciation and amortisation on non-qualifying assets | (v) | (10) | (10) |
| Non-taxable profits arising on business disposals | (vi) | - | 61 |
| Capital gains arising on property disposals | (vii) | (1) | (1) |
| Adjustments in respect of prior periods | (iii) | - | 2 |
| Impact on current tax for movement in temporary tax differences (see below) | | 27 | 15 |
| Total current tax charge | | - | (1) |
| Deferred tax reconciliation: | | | |
| <i>(Utilisation) / increase of temporary tax differences - see Note 15 footnote (vii):</i> | | | |
| Utilisation of capital allowances in excess of depreciation on qualifying assets | | (10) | (2) |
| Utilisation of brought forward tax losses | | (1) | (1) |
| Pension timing differences | | (20) | (10) |
| Unwind of restatement adjustment on adoption of IFRS 16 | | (4) | (3) |
| IFRS 17 Funeral plan liabilities | | 5 | (4) |
| Unrealised gains on investment properties, rolled-over gains and historic business combinations | | 1 | 10 |
| Other timing differences | | - | (5) |
| Subtotal of deferred tax reconciling items | | (29) | (15) |
| Other deferred tax items: | | | |
| Adjustment in respect of previous periods | | 3 | (2) |
| Impact of restatement of deferred tax to enacted rate | (viii) | (2) | (6) |
| Total deferred tax charge | | (28) | (23) |
| Total tax charge | | (28) | (24) |

Notes to the financial statements continued

8 Taxation continued

Tax expense on items taken directly to consolidated statement of comprehensive income or consolidated statement of changes in equity

| | 2023 | 2022 (*restated) |
|--|------------|---------------------|
| | £m | £m |
| Actuarial gains and losses on employee pension scheme | 328 | 183 |
| IFRS 17 Funeral plan liabilities | 9 | (113) |
| Tax on items taken directly to consolidated statement of comprehensive income | 337 | 70 |

Of the £328m tax taken directly to the consolidated statement of comprehensive income, £308m credit (2022: £70m credit restated) arises on the actuarial movement on employee pension schemes. There is also a £20m credit (2022: £40m charge) being the impact of the 25% rate on the deferred tax related to the employee pension schemes as noted below. The restated 2022 credit of £70m is made up of a £183m credit relating to the employee pension schemes less a deferred tax charge of £113m on an IFRS 17 credit in other comprehensive income in 2022. There was no movement this year directly to the consolidated statement of comprehensive income in respect of investment properties revaluations.

Based on legislation previously passed, the Chancellor increased the enacted corporation tax rate of 19% 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 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.

As the rate of corporation tax will be 25% for all periods after the period end, it is appropriate to recognise deferred tax at that rate.

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 2023 due to the fact it has a number of brought forward capital allowances (£60m gross claimed in 2023) and tax losses (£5m gross utilised in 2023) that offset its taxable profits for the period. These allowances and losses are explained in more detail in Note 15.

The current tax charge nets to £nil.

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 2023, giving rise to a small current tax liability of £0.1m (2022: £0.1m). This is the Group's only non-UK resident entity for tax purposes, which employs 161 part-time and 132 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 2023 revenue of Manx Co-operative Society is £43m and all other revenue reflected in the consolidated income statement is generated by UK trading activities. The net assets of Manx Co-operative Society at 6 January 2024 were £16m, compared to net assets of the consolidated Group of £2,020m. 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 Isle of Man resident subsidiary has not resulted in any additional tax charge in 2023 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.

Notes to the financial statements continued

8 Taxation continued

ii) 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 which require us to make these adjustments in our annual tax returns. The £28m deferred tax charge mainly relates to the net use of temporary differences in respect of the movements on pension assets and capital allowances not yet claimed.

Note 15 gives further detail on how each deferred tax balance has moved in the year.

iii) The deferred tax adjustments in respect of prior years is a common adjustment. It reflects the difference between what is known at the time and reflected in the notes to these accounts and when the final tax returns are submitted to HMRC. On some occasions, this might require us to adjust the tax charge for the period.

iv) 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.

v) 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).

vi) In 2022 the Group disposed of its shares in Arthur Food Stores Limited (the entity that was sold to Asda as part of the disposal of our petrol forecourt estate). The disposal falls within the substantial shareholder exemptions (SSE) which means any gain or losses arising on the disposal are not brought into tax.

vii) During the year a number of properties were sold, where the net taxable profit was less than the accounting profit.

viii) 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 impact of recognising deferred tax at 25% has been to increase the tax charge by £2m 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 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 have been disposed of in previous years) 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 CISGIL

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. Operating expenses in 2022 reflects the release of any remaining provisions associated with the disposal. Other income includes £3m (2023) and £72m (2022) of income following payments received in respect of a legal claim.

| Results of discontinued operation - Insurance (underwriting business) | 2023 £m | 2022 £m |
|---|------------|------------|
| Operating expenses (net) | - | 3 |
| Other income | 3 | 78 |
| Profit before tax | 3 | 81 |
| Tax | (1) | (14) |
| Profit for the period from discontinued operation | 2 | 67 |

| Segmental analysis - Insurance (underwriting business) | Revenue from external customers £m | Underlying segment operating profit £m | Profit before tax £m | Additions to non-current assets £m | Depreciation and amortisation £m |
|--|---------------------------------------|---|-------------------------|---------------------------------------|-------------------------------------|
| 53 weeks ended 6 January 2024 | - | - | 3 | - | - |
| 52 weeks ended 31 December 2022 | - | - | 81 | - | - |

The table below shows a summary of the cash flows of discontinued operations:

| Cash flows used in discontinued operations: | 2023 £m | 2022 £m |
|--|------------|------------|
| Net cash from discontinued operations | 3 | 72 |

Cash flows from financing and investing activities were not material in any period.

Notes to the financial statements continued

9 Profit 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 material 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 / (loss) to net cash flow from operating activities

What does this show? This note shows how we reconcile from our operating profit / (loss), 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.

| | 2023 | 2022 (restated*) |
|--|------------|---------------------|
| | £m | £m |
| Operating profit / (loss) | 66 | (12) |
| Depreciation and amortisation charges | 371 | 390 |
| Non-current asset impairments | 32 | 105 |
| Profit on closure and disposal of businesses and non-current assets | (10) | (66) |
| Change in value of investment properties | (4) | 15 |
| Retirement benefit obligations | (9) | (12) |
| (Increase) / decrease in inventories | (7) | 36 |
| Decrease / (increase) in receivables | 14 | (121) |
| Increase in insurance contract liabilities (funeral plans) | (28) | (34) |
| Increase in payables and provisions | 174 | 80 |
| Tax received | - | 2 |
| Net cash flow from operating activities before net cash operating inflow from discontinued operations | 599 | 383 |
| Net cash flow from operating activities relating to discontinued operations | 3 | 72 |
| Net cash flow from operating activities | 602 | 455 |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

Accounting policies

Refer to note 18 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 - 18) 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 6 January 2024 | Property £m | Plant and equipment £m | Total £m |
|---|----------------|------------------------------|--------------|
| <u>Cost or valuation:</u> | | | |
| At 31 December 2022 | 1,359 | 2,619 | 3,978 |
| Additions | 19 | 143 | 162 |
| Disposals | (11) | (43) | (54) |
| Transfer to Investment properties (Note 24) | (5) | - | (5) |
| At 6 January 2024 | 1,362 | 2,719 | 4,081 |
| <u>Depreciation:</u> | | | |
| At 31 December 2022 | 609 | 1,738 | 2,347 |
| Charge for the period | 26 | 199 | 225 |
| Impairment | 5 | 6 | 11 |
| Disposals | (6) | (39) | (45) |
| At 6 January 2024 | 634 | 1,904 | 2,538 |
| <u>Net book value:</u> | | | |
| At 6 January 2024 | 728 | 815 | 1,543 |
| At 31 December 2022 | 750 | 881 | 1,631 |
| Capital work in progress included above | - | 26 | 26 |

The impairment charge of £11m (2022: £30m) primarily relates to poor performing food stores (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 31 December 2022 | Property £m | Plant and equipment £m | Total £m |
|---|----------------|------------------------------|--------------|
| <u>Cost or valuation:</u> | | | |
| At 1 January 2022 | 1,442 | 2,731 | 4,173 |
| Additions | 8 | 96 | 104 |
| Disposal of petrol forecourt stores | (60) | (121) | (181) |
| Disposals | (31) | (87) | (118) |
| At 31 December 2022 | 1,359 | 2,619 | 3,978 |
| <u>Depreciation:</u> | | | |
| At 1 January 2022 | 610 | 1,651 | 2,261 |
| Charge for the period | 27 | 217 | 244 |
| Impairment | 2 | 28 | 30 |
| Disposal of petrol forecourt stores | (16) | (76) | (92) |
| Disposals | (14) | (82) | (96) |
| At 31 December 2022 | 609 | 1,738 | 2,347 |
| <u>Net book value:</u> | | | |
| At 31 December 2022 | 750 | 881 | 1,631 |
| At 1 January 2022 | 832 | 1,080 | 1,912 |
| Capital work in progress included above | 1 | 14 | 15 |

Notes to the financial statements continued

11 Property, plant and equipment continued

Critical accounting estimates and judgements

Impairment

In the context of considering potential impairment of plant, property and equipment; 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. For freehold stores the fair value of the CGUs (less costs to sell) is estimated using internal valuations based on rateable values or recent market values where known. Where the VIU estimates are higher than the fair value estimates the VIU estimates have been used in the impairment assessments. The VIU 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 for FY24 and FY25 derived from Board approved four-year plan cash flow assumptions.</p> <p>These forecasts are based on the four-year plan for FY24 - FY25 and then subject to a long term growth rate of 0% for the remainder of the lease period and then 1.9% (2022: 1.9%) into perpetuity after the lease period reflecting the UK's long-term post war growth rate which is in-line with industry norms for the period of the lease. Where we have known lease exit dates then the remaining lease terms have been used. Perpetuities are included in cash flows with 1.9% growth (2022: 1.9%) where stores are expected to be operated beyond their current lease term (adjusted for rent expense given the impact of IFRS 16 leases).</p> <p>Cash flows include estimated periodic 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 for FY24 and FY25 derived from Board approved four-year plan cash flow projections.</p> <p>These forecasts are based on budget for FY24, four-year plan for FY25 and then subject to a long term growth rate of 1.9% (2022: 1.9%) into perpetuity reflecting the UK's long-term post war growth rate which is in-line with industry norms for the period of the lease. Where we have known lease exit dates then the remaining lease terms have been used. Perpetuities are included in cash flows with 1.9% growth (2022: 1.9%) where the Hub is expected to be operational beyond its current lease terms (adjusted for rent expense given the impact of IFRS 16 leases).</p> <p>Cash flows include an appropriate estimate of periodic capital maintenance costs.</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 and Sensitivity analysis | <p>A post tax discount rate has been calculated for impairment purposes, with the Food segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 9.6% (2022: 10.1%).</p> <p>The post tax discount rate has been 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 2% increase in discount rate and a decrease in growth to minus 2%; 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>A post tax discount rate has been calculate for impairment purposes, with the Funeralcare segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 11.6% (2022: 10.9%).</p> <p>The post tax discount rate has been 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 2% increase in discount rate and a decrease in growth to minus 2%; 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

All properties are measured at cost less accumulated depreciation and impairment losses.

Land is not depreciated

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. Whilst the individual food stores represent the cash generating units, the lowest level at which internal management monitor the performance of the business is at a total Food segment level. To meet the requirements of IAS 36 CGUs are grouped together for impairment testing which considers the carrying value of the Food business' goodwill asset, and all its other assets within the scope of impairment, against the recoverable amount of the entire Food business.

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 1st January 2023 | 821 | 61 | 882 |
| Depreciation charge for the year | (93) | (13) | (106) |
| Additions | 79 | 5 | 84 |
| Disposals | (12) | - | (12) |
| Impairment | (21) | - | (21) |
| Balance at 6th January 2024 | 774 | 53 | 827 |
| Balance at 1st January 2022 | 1,014 | 72 | 1,086 |
| Depreciation charge for the year | (102) | (17) | (119) |
| Additions | 116 | 7 | 123 |
| Disposals | (16) | (1) | (17) |
| Disposal of petrol forecourt stores | (131) | - | (131) |
| Impairment | (60) | - | (60) |
| Balance at 31st December 2022 | 821 | 61 | 882 |

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 (2022: 1 and 20 years), and leases of funeral branches are typically between 1 and 10 years in length (2022: 1 and 10 years). Vehicle and equipment leases are typically between 1 and 4 years in length (2022: 1 and 4 years) and in some cases the Group has options to purchase the assets at the end of the contract term. Additions to right-of-use assets may vary to the lease liability additions figure noted in the table below due to the accounting treatment of lease incentives and dilapidation provisions under IFRS 16.

In the context of potential impairment, the critical accounting estimates and judgments set out in Note 11 (Property, plant and equipment) are also applicable for right-of-use assets. Impairment of £21m (2022: £60m) comprises £11m (2022: £33m) against food stores where future cashflow forecasts do not support the carrying value of the right-of-use assets we hold, £nil (2022: £nil) against funeral branches and a £10m charge in our Corporate centre primarily against the value of the right-of-use asset held for our Support Centre at Angel Square. The comparative period included a £27m charge in the Corporate centre which included a £20m reduction in the value of the right-of-use asset that we hold against our central Support Centre at Angel Square as our utilisation has changed following the transition to hybrid working.

| Lease liabilities | 2023 | 2022 |
|---|----------------|----------------|
| | £m | £m |
| Current | (179) | (182) |
| Non-current | (1,054) | (1,124) |
| Lease liabilities included in the Consolidated balance sheet | (1,233) | (1,306) |

| Lease liabilities | 2023 | 2022 |
|-------------------------------------|----------------|----------------|
| | £m | £m |
| At the start of the period | (1,306) | (1,516) |
| Additions | (80) | (120) |
| Disposals | 30 | 31 |
| Disposal of petrol forecourt stores | - | 171 |
| Interest expense | (70) | (78) |
| Payments | 193 | 206 |
| Total lease liabilities | (1,233) | (1,306) |

The Group recognised rent expense from short-term leases of £2m (2022: £2m).

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 material event or material change in circumstances within its control.

As at 6 January 2024, potential discounted future cash outflows of £165m (2022: £141m) 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 £96m (2022: £99m) 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 £1m (2022: £6m) was received, a net lease liability of £nil (2022: £1m) was recognised and net book value of £1m (2022: £5m) disposed creating a profit on disposal of £nil (2022: £nil).

B. As a lessor

Lease income from lease contracts in which the Group acts as a lessor is as below:

| | 2023 £m | 2022 £m |
|---|------------|------------|
| Operating lease (i) | | |
| Lease income | 9 | 9 |
| Finance lease (ii) | | |
| Finance income on the net investment in the lease | 2 | 2 |

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.

| | 2023 £m | 2022 £m |
|---|------------|------------|
| Less than one year | 5 | 5 |
| One to two years | 4 | 4 |
| Two to three years | 4 | 4 |
| Three to four years | 3 | 3 |
| Four to five years | 2 | 3 |
| More than five years | 31 | 31 |
| Total undiscounted lease payments receivable | 49 | 50 |

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.

| | 2023 £m | 2022 £m |
|---|------------|------------|
| Less than one year | 8 | 11 |
| One to two years | 8 | 10 |
| Two to three years | 7 | 9 |
| Three to four years | 6 | 8 |
| Four to five years | 5 | 7 |
| More than five years | 22 | 24 |
| Total undiscounted lease payments receivable | 56 | 69 |
| Less: Unearned finance income | (14) | (17) |
| Present value of minimum lease payments receivable | 42 | 52 |
| Impairment loss allowance | (13) | (9) |
| Finance lease receivable (net of impairment allowance) | 29 | 43 |

Notes to the financial statements continued

12 Leases continued

B. As a lessor - continued

ii. Finance lease - continued

| | 2023 | 2022 |
|---|-----------|-----------|
| | £m | £m |
| Current | 8 | 9 |
| Non-current | 21 | 34 |
| Finance lease receivable as per Consolidated balance sheet | 29 | 43 |

The average term of finance leases entered into is 9 years (2022: 13 years).

Impairment of finance lease receivables

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 6 January 2024 | Goodwill | Computer software | Acquired customer relationships and other intangibles | Total |
|---|--------------|-------------------|---|--------------|
| | £m | £m | £m | £m |
| <u>Cost:</u> | | | | |
| At 31 December 2022 | 1,131 | 361 | 43 | 1,535 |
| Additions | - | 26 | - | 26 |
| Disposals | (5) | - | - | (5) |
| At 6 January 2024 | 1,126 | 387 | 43 | 1,556 |
| <u>Accumulated amortisation and impairment:</u> | | | | |
| At 31 December 2022 | 387 | 176 | 38 | 601 |
| Charge for the period | - | 39 | 1 | 40 |
| Disposals | (2) | - | - | (2) |
| At 6 January 2024 | 385 | 215 | 39 | 639 |
| <u>Net book value:</u> | | | | |
| At 6 January 2024 | 741 | 172 | 4 | 917 |

The impairment charge is £nil (2022: £15m). In the comparative period it primarily related to software licenses in our Food business that we no longer intend to use. Computer software includes £18m (2022: £15m) of intangible work in progress.

| For period ended 31 December 2022 | Goodwill | Computer software | Acquired customer relationships and other intangibles | Total |
|---|--------------|-------------------|---|--------------|
| | £m | £m | £m | £m |
| <u>Cost:</u> | | | | |
| At 1 January 2022 | 1,245 | 346 | 43 | 1,634 |
| Additions | - | 15 | - | 15 |
| Disposal of petrol forecourts | (107) | - | - | (107) |
| Disposals | (7) | - | - | (7) |
| At 31 December 2022 | 1,131 | 361 | 43 | 1,535 |
| <u>Accumulated amortisation and impairment:</u> | | | | |
| At 1 January 2022 | 383 | 138 | 38 | 559 |
| Charge for the period | - | 27 | - | 27 |
| Impairment | 4 | 11 | - | 15 |
| At 31 December 2022 | 387 | 176 | 38 | 601 |
| <u>Net book value:</u> | | | | |
| At 31 December 2022 | 744 | 185 | 5 | 934 |

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Goodwill

The components of goodwill are as follows:

| | 2023 | 2022 |
|------------------|------------|------------|
| | £m | £m |
| Food | 721 | 723 |
| Other businesses | 20 | 21 |
| | 741 | 744 |

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 four-year plan, taken into perpetuity and discounted to present value at a pre-tax rate of 9.6% (2022: 10.1%). A long-term growth rate of 1.9% has been applied beyond the four-year plan period FY24 - FY27 (2022: 1.9%). In each of the current and comparative years, sensitivity analysis has been performed on this assumption, testing for a 2% increase in discount rate and a decrease in revenue growth / cashflow to minus 2%; within both these sensitivities the cash flows remain well in excess of the current carrying value.

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. Further detail is provided on pages 120 - 127 covering Task force on Climate-Related Financial Disclosures (TCFD) for further details.

For the Funerals goodwill impairment review, average selling price increases, wage and cost inflation have been applied in line with the assumptions in the four-year plan. Although inherently uncertain this also includes our best estimate of future death rates. Cash flows have been projected based on the four-year plan and into perpetuity from year four and discounted back to present value using a pre-tax discount rate of 11.6% (2022: 10.9%). A long term growth rate of 1.9% has been applied beyond the four-year plan period (2022: 1.9%). Sensitivity analysis has been performed with the discount rate increased by 2% and a decrease in revenue growth / cashflow to minus 2%, and under these sensitivities no further material amounts of impairment are calculated.

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 (CGU), 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, known as a Funeralcare Hub.

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: | 2023 £m | 2022 £m |
|--|--------------|--------------|
| Current | - | - |
| Non-current | 1,346 | 1,369 |
| Funeral plan investments | 1,346 | 1,369 |

| Funeral plan investments held by the Group are as follows: | 2023 £m | 2022 £m |
|--|--------------|--------------|
| Fair value through the income statement: | | |
| Funeral plan investments (see below) | 1,346 | 1,369 |
| Total Funeral plan investments | 1,346 | 1,369 |

| Funeral plan investments: | 2023 £m | 2022 £m |
|---|--------------|--------------|
| At start of period | 1,369 | 1,372 |
| Net plan investments (including ongoing instalments) | 73 | 76 |
| Plans redeemed | (95) | (90) |
| Plans cancelled | (18) | (17) |
| Unrealised fair value movement on funeral plan investments (Note 6) | 17 | 28 |
| At end of period | 1,346 | 1,369 |

The funeral 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 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. The majority of these investments are held in whole of life insurance policies issued by The Royal London Mutual Insurance Society Limited. Whilst the main driver of their value is underlying investment performance, some policies also feature security of initial investment value at death and reduced investment volatility.

See Note 27 for further detail on the accounting policy for 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% (2022: 25.0%). 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.

| | | 2023 | 2022 |
|---|-----------|-----------|-------------------|
| | | £m | (*restated) £m |
| Net deferred tax in the balance sheet comprises: | | | |
| Deferred tax asset - continuing operations | | 395 | 400 |
| Deferred tax liability - continuing operations | | (343) | (658) |
| Net deferred tax asset / (liability) | | 52 | (258) |
| Comprised of: | | | |
| | Footnote: | | |
| Other temporary differences | (i) | (5) | (6) |
| Retirement benefit obligations | (ii) | (89) | (395) |
| Capital allowances on fixed assets | (iii) | 315 | 314 |
| Unrealised gains on investment properties, rolled-over gains and historic business combinations | (iv) | (145) | (138) |
| Tax losses | (v) | 21 | 22 |
| IFRS 16 adjustment | (vi) | 43 | 47 |
| IFRS 17 Funeral plan liabilities | (vii) | (88) | (102) |
| | | 52 | (258) |

| | | 2023 | 2022 |
|--|--------|-----------|-------------------|
| | | £m | (*restated) £m |
| The movements in the net deferred tax asset / (liability) during the period are set out below: | | | |
| At beginning of the period as originally reported | | (156) | (314) |
| Adjustment to opening reserves | | (102) | 11 |
| Restated balance brought forward | | (258) | (303) |
| Income statement charge (see Note 8) | (vii) | (28) | (23) |
| Additions / disposals | | 1 | (2) |
| <u>Reported in other comprehensive income:</u> | | | |
| Retirement benefit obligations (see Note 8) | (ii) | 328 | 183 |
| IFRS 17 Funeral plan liabilities | (viii) | 9 | (113) |
| At end of the period (continuing operations) | | 52 | (258) |

Finance Act 2021 enacted an increase in the main rate of corporation tax to 25% to take effect from 1 April 2023. As the temporary differences which would give rise to a corporation tax charge at the point they unwind, will fall after 2023, the appropriate rate at which to charge deferred tax, is also 25%. Due to the reduction of the pension surplus in the year, this has led to the Group's deferred tax assets being higher than the corresponding deferred tax liabilities. Set against this is an increase in the deferred tax liability of £88m which relates to the adoption of IFRS 17 and the tax which needs to be applied to movements going through other comprehensive income and the profit and loss account. At the period end, there is an excess of £52m of deferred tax assets over liabilities. Due to the forecasts prepared by the Group for the next 4 years, we can see that the deferred tax asset will be steadily unwound. We therefore consider it appropriate to recognise the deferred tax asset.

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 partially 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. During 2023 the amount of expense provisions deferred for tax purposes reduced meaning a larger net liability is shown.

ii) During the period, the Group's pension scheme surplus decreased by c£1.2bn resulting in a decrease in the corresponding deferred tax liability of £328m. This amount represents the theoretical future tax cost to the Group in respect of the current pension scheme surplus.

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 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.

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 £7m increase in the liability over the year is mainly due to disposal of properties under class (c) above.

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 decrease in asset of £1m is 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 decrease in asset of £4m is mainly in respect of the unwind during the year.

vii) This movement is made up of a net £28m current year utilisation of temporary differences, see Note 8 for more detail.

(viii) These movements relate to the adoption of IFRS 17 which required us to restate the 2022 position leading to a £102m adjustment to brought forward reserves. Movements going through the consolidated income statement and other comprehensive income have been treated as taxable which has led to a reduction in the deferred tax asset for the Group.

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: | 2023 | 2022 |
|---|------------|------------|
| | £m | £m |
| Raw materials, consumables and work in progress | 4 | 4 |
| Finished goods and goods for resale | 436 | 429 |
| | 440 | 433 |

The period end inventory provision is £27m (2022: £44m) and a net credit of £17m (2022: net charge of £15m) 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. Balance excludes any supplier income value on goods not sold at year-end.

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).

| | 2023 | 2022 (restated*) |
|-------------|------------|---------------------|
| | £m | £m |
| Non-current | 1 | 5 |
| Current | 594 | 605 |
| | 595 | 610 |

| | 2023 | 2022 (restated*) |
|--------------------------------------|------------|---------------------|
| | £m | £m |
| Trade receivables | 351 | 371 |
| Prepayments | 43 | 28 |
| Accrued income | 118 | 132 |
| Other receivables | 95 | 90 |
| | 607 | 621 |
| Allowance for expected credit losses | (12) | (11) |
| | 595 | 610 |

*The comparative figures have been restated following the adoption of IFRS 17 (Insurance contracts). See Note 33 for further details on the restatement.

Trade receivables are non-interest bearing and the Group's standard payment terms are between 7 and 60 days.

Non-current debt includes £nil (2022: £4m) of deferred consideration receivable in respect of the agreement with Markerstudy Insurance Services Ltd to provide marketing and distribution services for motor and insurance products with an additional £5m (2022: £10m) included in current. These balances are all included within Other receivables.

Within trade receivables is £84m (2022: £60m) of supplier income that is due from Food and Wholesale suppliers. Accrued income includes £96m (2022: £116m) in relation to supplier income that has been recognised but not yet billed. As at 2nd March 2024 (reflecting the close of Period 2 for the Group), £77m (2022: £45m) of the trade receivables balance had been invoiced and settled and £87m (2022: £102m) 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:

| | 2023 | 2022 |
|--|------|------|
| | £m | £m |
| Opening allowance for expected credit losses | 11 | 10 |
| Charge to the income statement | 10 | 12 |
| Credit to the income statement | (9) | (11) |
| Closing allowance for expected credit losses | 12 | 11 |

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 27 which outlines our approach to financial risk management.

Accounting policies

Refer to Note 27 Financial Instruments for the accounting policies relating to trade receivables and allowances for expected credit losses.

Notes to the financial statements continued

18 Cash and cash equivalents and short-term investments

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.

| Cash and cash equivalents | 2023 | 2022 |
|----------------------------------|------------|------------|
| | £m | £m |
| Cash in hand | 53 | 63 |
| Cash at banks | 342 | 384 |
| Cash and cash equivalents | 395 | 447 |

The Group has a right of set-off across our bank accounts as part of a pooling arrangement with our principal bank. The Cash at banks figures include amounts receivable from customers or banks for debit or credit card payment transactions made by customers of £37m (2022: £39m) in the two days before year-end which don't clear the bank (and show on our bank statement) until the first working day of the new year.

| Short-term investments | 2023 | 2022 |
|---------------------------------------|------------|----------|
| | £m | £m |
| Cash deposits with banks (> 3 months) | 200 | - |
| Short-term investments | 200 | - |

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 immaterial 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 £26m (2022: £25m), 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.

Short-term investments; these balances represent cash deposits placed with banks where the term is > 3 months. Deposits are on a fixed term basis and mature in May 2024 in-line with the maturity of the 2024 Bonds. Balances are held at amortised cost and are included within our net debt calculation as short term investments.

Notes to the financial statements continued

Section C - what are our major liabilities?

This section of the accounts (notes 19 - 22) outlines the key liabilities that we have at the balance sheet date.

19 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: | 2023 | 2022 |
|---|--------------|--------------|
| | £m | £m |
| £300m 5.125% Sustainability Bond due 2024 (amortised cost)* | - | 299 |
| £109m 11% Final repayment subordinated notes due 2025 | 109 | 109 |
| £20m 11% Instalment repayment notes (final payment 2025) | 3 | 5 |
| £105m 7.5% Bond Notes due 2026 (fair value) | 105 | 95 |
| £245m 7.5% Bond Notes due 2026 (amortised cost) | 253 | 255 |
| Total (excluding lease liabilities) | 470 | 763 |
| Lease liabilities | 1,054 | 1,124 |
| Total Group interest-bearing loans and borrowings | 1,524 | 1,887 |

| Current liabilities: | 2023 | 2022 |
|---|------------|------------|
| | £m | £m |
| £300m 5.125% Sustainability Bond due 2024 (amortised cost) * / ** | 202 | 2 |
| £20m 11% Instalment repayment notes (final payment 2025)*** | 2 | 2 |
| £245m 7.5% Bond Notes due 2026 (amortised cost) ** | 9 | 9 |
| Other borrowings | 2 | 1 |
| Corporate investor shares | 3 | 3 |
| Total (excluding lease liabilities) | 218 | 17 |
| Lease liabilities | 179 | 182 |
| Total Group interest-bearing loans and borrowings | 397 | 199 |

* As noted in our 2022 Annual report and Accounts on the 1st March 2023 the Group repurchased £100m of the £300m 5.125% Sustainability Bond (due May 2024) from bond holders following an over-subscribed tender exercise. The bonds were bought back at 99% of par value. The remaining £200m principal on the Sustainability Bond matures in May 2024 and as such is classified as a current liability in the current reporting period in the tables above.

** The amortised cost balances in current liabilities includes £11m (£9m on the 2026 bonds and £2m on the 2024 bonds) of accruals for interest payments that will be made within 1 year of the balance sheet date. These balances are excluded from our net debt metric as defined in the Jargon Buster on page 252.

*** Interest on the £109m (11% Final repayment subordinated notes 2025) is settled annually in December such that any interest accrual as at the balance sheet date (6 January) is not material for disclosure in the table above. The £2m balance noted represents the repayment of capital instalment due < 1 year.

See Note 27 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

19 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, any short-term deposits and any short-term investments that we hold. Some of our bond 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 6 January 2024 | Start of period £m | Non cash movements | | Cash flow £m | End of period £m |
|--|-----------------------|--------------------|-------------|-----------------|---------------------|
| | | New leases £m | Other £m | | |
| Interest-bearing loans and borrowings: | | | | | |
| - current | (17) | - | (203) | 2 | (218) |
| - non-current | (763) | - | 194 | 99 | (470) |
| Lease liabilities | | | | | |
| - current | (182) | (12) | (178) | 193 | (179) |
| - non-current | (1,124) | (68) | 138 | - | (1,054) |
| Total debt | (2,086) | (80) | (49) | 294 | (1,921) |
| Group cash and short term investments: | | | | | |
| - cash | 447 | - | - | (52) | 395 |
| - short-term investments | - | - | - | 200 | 200 |
| Group net debt | (1,639) | (80) | (49) | 442 | (1,326) |
| Less: interest accrued on amortised debt | 11 | - | 30 | (30) | 11 |
| Group net debt (excluding accrued interest on amortised debt) | (1,628) | (80) | (19) | 412 | (1,315) |

*See the Jargon Buster on page 252 for further details of the Group's net debt APM metric. The £11m of interest accruals will be paid within 1 year (and are shown in the Current liabilities table on the previous page).

| For period ended 31 December 2022 | Start of period £m | Non cash movements | | Cash flow £m | End of period £m |
|--|-----------------------|--------------------|-------------|-----------------|---------------------|
| | | New leases £m | Other £m | | |
| Interest-bearing loans and borrowings: | | | | | |
| - current | (180) | - | - | 163 | (17) |
| - non-current | (796) | - | 31 | 2 | (763) |
| Lease liabilities | | | | | |
| - current | (210) | (17) | (161) | 206 | (182) |
| - non-current | (1,306) | (103) | 285 | - | (1,124) |
| Total debt | (2,492) | (120) | 155 | 371 | (2,086) |
| Group cash: | | | | | |
| - cash & overdrafts | 56 | - | - | 391 | 447 |
| Group net debt | (2,436) | (120) | 155 | 762 | (1,639) |
| Less: interest accrued on amortised debt | 11 | - | 34 | (34) | 11 |
| Group net debt (excluding accrued interest on amortised debt) | (2,425) | (120) | 189 | 728 | (1,628) |

Details of the Group's bank facilities are shown in Note 27.

Notes to the financial statements continued

19 Interest-bearing loans and borrowings - continued

Terms and repayment schedule

The Group has two bonds in issue, firstly a £300m Sustainability Bond was issued in May 2019 with an interest rate of 5.125%. On 1st March 2023, the Group repurchased £100m of this bond leaving £200m repayable in May 2024. The bond proceeds were fully allocated against the cost of purchasing Fairtrade products for resale by the end of 2020. Secondly, a £350m Bond issued in May 2011, repayable in May 2026. This bond currently has an interest rate of 7.5%.

The Group also has two subordinated debt instruments in issue: £109m 11% final repayments notes due December 2025 and £20m 11% instalment repayment notes, with final repayment in December 2025. The value of the remaining instalments outstanding on the £20m 11% instalment repayment notes was £5m as at 6 January 2024.

On the 20th of March 2023, the Group concluded an amendment and extension exercise on its £400m Revolving Credit Facility. The facility increased in size to £442.5m until September 2024 when it will fall to £360m. The £360m facility will mature in March 2026. The facility was undrawn as at 6 January 2024.

Further details of the Group's remaining banking facilities are given in Note 26.

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. As at 6 January 2024, Corporate Investor Shares borrowings were £3m (2022: £3m).

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 quoted Bond 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 27). The unhedged portion of the quoted Bond 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 27.

Notes to the financial statements continued

20 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.

| | 2023 £m | 2022 £m |
|-------------|--------------|--------------|
| Current | 1,564 | 1,403 |
| Non-current | 18 | 31 |
| | 1,582 | 1,434 |

| | 2023 £m | 2022 £m |
|---|--------------|--------------|
| Trade payables | 1,050 | 967 |
| Value Added Tax, PAYE and social security | 33 | 14 |
| Accruals | 360 | 300 |
| Deferred income | 36 | 53 |
| Other payables | 103 | 100 |
| | 1,582 | 1,434 |

Further details on the maturity profile of trade and other payables can be found in Note 26.

Deferred income includes £27m (2022: £39m) in relation to the marketing and distribution arrangement entered into with Markerstudy Insurance Services Ltd (remaining term of 3 years and 4 months) following the sale of our Insurance underwriting business (CISGIL). Accruals includes capital expenditure accruals of £36m (2022: £25m), payroll accruals of £142m (2022: £103m) as well as standard cost accruals of £182m (2022: £172m).

Other payables also includes £38m (2022: £32m) 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 £4m (2022: £1m) of member reward earned that had previously been written back has been charged to the income statement. This follows a re-assessment of expected redemption rates.

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 £12m (2022: £40m) relating to payments due to Co-op suppliers under these arrangements. During the year ended 6 January 2024, the maximum facility was £108m (2022: £110m).

Accounting policies

Refer to Note 27 Financial instruments for the accounting policies relating to trade payables.

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities)

What does this show? The disclosures in this note cover the insurance and re-insurance contracts that the Group holds (where they are material for Group reporting). These exclusively relate to the liabilities that we have on funeral plans. The extensive disclosures that are given are required under the new accounting standard for Insurance contracts (IFRS 17). The various tables show how the balance sheet liability has moved during the period as well as showing the movements in the Income statement and in other comprehensive income (OCI). We also give details of the key accounting estimates that we make in relation to the accounting for insurance contracts, how sensitive our numbers are to some of those assumptions and estimates as well as outlining the key accounting policy choices we have made.

| Insurance contract liabilities (by nature) | Liabilities for remaining coverage | | Liabilities for claims incurred | Total |
|--|------------------------------------|----------------|---------------------------------|--------------|
| | Excluding loss component | Loss component | | |
| | £m | £m | £m | £m |
| 2023 | | | | |
| Insurance contract liability as at 1 January 2023 | 1,073 | - | - | 1,073 |
| Insurance revenue | (86) | - | - | (86) |
| <i>Insurance service expenses:</i> | | | | |
| - Incurred claims and other expenses | - | - | 77 | 77 |
| - Amortisation of insurance acquisition cashflows | 2 | - | - | 2 |
| - Loss on onerous contracts and reversals of those losses | - | 1 | - | 1 |
| Insurance service result | (84) | 1 | 77 | (6) |
| Insurance finance expenses - Income statement | 16 | - | - | 16 |
| Insurance finance expense - other comprehensive income | 36 | - | - | 36 |
| Total changes in Statement of comprehensive income | (32) | 1 | 77 | 46 |
| <i>Cashflows:</i> | | | | |
| - Premiums received less premiums refunded | 63 | - | - | 63 |
| - Claims and other expenses paid (including investment components) | - | - | (77) | (77) |
| - Insurance acquisition flows | (7) | - | - | (7) |
| Total cashflows | 56 | - | (77) | (21) |
| Insurance contract liability as at 6 January 2024 | 1,097 | 1 | - | 1,098 |

| Insurance contract liabilities (by nature) | Liabilities for remaining coverage | | Liabilities for claims incurred | Total |
|--|------------------------------------|----------------|---------------------------------|--------------|
| | Excluding loss component | Loss component | | |
| | £m | £m | £m | £m |
| 2022 | | | | |
| Insurance contract liability as at 2 January 2022 | 1,537 | - | - | 1,537 |
| Insurance revenue | (87) | - | - | (87) |
| <i>Insurance service expenses:</i> | | | | |
| - Incurred claims and other expenses | - | - | 79 | 79 |
| - Amortisation of insurance acquisition cashflows | 2 | - | - | 2 |
| - Losses on onerous contracts and reversals of those losses | - | - | - | - |
| Insurance service result | (85) | - | 79 | (6) |
| Insurance finance expenses - Income statement | 15 | - | - | 15 |
| Insurance finance income - other comprehensive income | (451) | - | - | (451) |
| Total changes in Statement of comprehensive income | (521) | - | 79 | (442) |
| <i>Cashflows:</i> | | | | |
| - Premiums received less premiums refunded | 63 | - | - | 63 |
| - Claims and other expenses paid (including investment components) | - | - | (79) | (79) |
| - Insurance acquisition flows | (6) | - | - | (6) |
| Total cashflows | 57 | - | (79) | (22) |
| Insurance contract liability as at 31 December 2022 | 1,073 | - | - | 1,073 |

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

| Insurance contract liabilities (by component) 2023 | Estimates of present value of future cashflows £m | Risk adjustment £m | Contractual service margin £m | Total £m |
|--|--|--------------------------|-------------------------------------|--------------|
| Insurance contract liability as at 1 January 2023 | 896 | 55 | 122 | 1,073 |
| <i>Changes that relate to current services:</i> | | | | |
| - Contractual service margin recognised for service provided | - | - | (6) | (6) |
| - Risk adjustment for the risk expired | - | (4) | - | (4) |
| - Experience adjustments | 3 | - | - | 3 |
| <i>Changes that relate to future services:</i> | | | | |
| - Contracts initially recognised in the period | (12) | 1 | 11 | - |
| - Changes in estimates that adjust the contractual service margin | 21 | (1) | (20) | - |
| - Changes in estimates that do not adjust the contractual service margin | 1 | - | - | 1 |
| Insurance service result | 13 | (4) | (15) | (6) |
| Insurance finance expenses - Income statement | 13 | 1 | 2 | 16 |
| Insurance finance expenses - other comprehensive income | 33 | 3 | - | 36 |
| Total changes in Statement of comprehensive income | 59 | - | (13) | 46 |
| <i>Cashflows:</i> | | | | |
| - Premiums received less premiums refunded | 63 | - | - | 63 |
| - Claims and other expenses paid (including investment components) | (77) | - | - | (77) |
| - Insurance acquisition flows | (7) | - | - | (7) |
| Total cashflows | (21) | - | - | (21) |
| Insurance contract liability as at 6 January 2024 | 934 | 55 | 109 | 1,098 |

| Insurance contract liabilities (by component) (2022) | Estimates of present value of future cashflows £m | Risk adjustment £m | Contractual service margin £m | Total £m |
|--|--|--------------------------|-------------------------------------|--------------|
| Insurance contract liability as at 2 January 2022 | 1,401 | 102 | 33 | 1,536 |
| <i>Changes that relate to current services:</i> | | | | |
| - Contractual service margin recognised for service provided | - | - | (6) | (6) |
| - Risk adjustment for the risk expired | - | (5) | - | (5) |
| - Experience adjustments | 6 | - | - | 6 |
| <i>Changes that relate to future services:</i> | | | | |
| - Contracts initially recognised in the period | (3) | - | 2 | (1) |
| - Changes in estimates that adjust the contractual service margin | (70) | (22) | 93 | 1 |
| - Changes in estimates that do not adjust the contractual service margin | - | - | - | - |
| Insurance service result | (67) | (27) | 89 | (5) |
| Insurance finance expenses - Income statement | 14 | 1 | - | 15 |
| Insurance finance income - other comprehensive income | (430) | (21) | - | (451) |
| Total changes in Statement of comprehensive income | (483) | (47) | 89 | (441) |
| <i>Cashflows:</i> | | | | |
| - Premiums received less premiums refunded | 63 | - | - | 63 |
| - Claims and other expenses paid (including investment components) | (79) | - | - | (79) |
| - Insurance acquisition flows | (6) | - | - | (6) |
| Total cashflows | (22) | - | - | (22) |
| Insurance contract liability as at 31 December 2022 | 896 | 55 | 122 | 1,073 |

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

What does this show? The disclosures on the following two pages relate to re-insurance contracts (in relation to the payment waiver liabilities we have on low cost instalment plans (LCIPs*). The tables show how the balance sheet liability has moved during the period as well as showing the movements in the Income statement and other comprehensive income (OCI).

| Re-insurance contract liabilities (by nature) 2023 | Assets for remaining coverage | | Amounts recoverable on insured claims | Total |
|--|-----------------------------------|-------------------------|---------------------------------------|------------|
| | Excluding loss recovery component | Loss recovery component | | |
| | £m | £m | £m | £m |
| Net re-insurance contract liability as at 1 January 2023 | 8 | - | - | 8 |
| An allocation of re-insurance premium | 1 | - | - | 1 |
| <u>Amounts recoverable from re-insurers for incurred claims:</u> | | | | |
| - Amounts recoverable for incurred claims and other expenses | - | - | (1) | (1) |
| - Loss recovery on onerous underlying contracts and adjustments | - | - | - | - |
| Net income from re-insurance contract held | 1 | - | (1) | - |
| Re-insurance finance income - Income statement | - | - | - | - |
| Re-insurance finance expense - other comprehensive income | 1 | - | - | 1 |
| Total changes in Statement of comprehensive income | 2 | - | (1) | 1 |
| <u>Cashflows:</u> | | | | |
| - Premiums paid (net of commission) | (2) | - | - | (2) |
| - Amounts received | - | - | 1 | 1 |
| Total cashflows | (2) | - | 1 | (1) |
| Net re-insurance contract liability as at 6 January 2024 | 8 | - | - | 8 |

*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 the Group 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 the Group (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 the Group and the third party insurer and has nothing to do with the customer. The Society continues to apply instalment monies received against customers' individual funeral plans until such time as a plan is redeemed and or cancelled. The assured benefit between the Group and the 3rd party is judged to represent an insurance contract and as such falls under the scope of IFRS 17 (Insurance Contracts).

| Re-insurance contract liabilities (by nature) 2022 | Liabilities for remaining coverage | | Amounts recoverable on insured claims | Total |
|---|------------------------------------|-------------------------|---------------------------------------|------------|
| | Excluding loss recovery component | Loss recovery component | | |
| | £m | £m | £m | £m |
| Net re-insurance contract liability as at 2 January 2022 | 12 | - | - | 12 |
| An allocation of re-insurance premium | 1 | - | - | 1 |
| <u>Amounts recoverable from re-insurers for incurred claims:</u> | | | | |
| - Amounts recoverable for incurred claims and other expenses | - | - | (1) | (1) |
| - Loss recovery on onerous underlying contracts and adjustments | - | - | - | - |
| Net income from re-insurance contract held | 1 | - | (1) | - |
| Re-insurance finance income - Income statement | - | - | - | - |
| Re-insurance finance income - other comprehensive income | (2) | - | - | (2) |
| Total changes in Statement of comprehensive income | (1) | - | (1) | (2) |
| <u>Cashflows:</u> | | | | |
| - Premiums paid (net of commission) | (3) | - | - | (3) |
| - Amounts received | - | - | 1 | 1 |
| Total cashflows | (3) | - | 1 | (2) |
| Net re-insurance contract liability as at 31 December 2022 | 8 | - | - | 8 |

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

| Re-insurance contract liabilities (by component) 2023 | Estimates of present value of future cashflows | Risk adjustment | Contractual service margin | Total |
|---|--|--------------------|-------------------------------|------------|
| | £m | £m | £m | £m |
| Net re-insurance contract liability as at 1 January 2023 | 8 | - | - | 8 |
| <i>Changes that relate to current services:</i> | | | | |
| - Contractual service margin recognised for service provided | - | - | - | - |
| - Risk adjustment for the risk expired | - | - | - | - |
| - Experience adjustments | - | - | - | - |
| <i>Changes that relate to future services:</i> | | | | |
| - Contracts initially recognised in the period | - | - | - | - |
| - Changes in estimates that adjust the contractual service margin | (1) | - | 1 | - |
| - Changes in the contractual service margin due to recognition of a loss recovery component from onerous underlying contracts | | | - | - |
| Re-insurance service result | (1) | - | 1 | - |
| Re-insurance finance income - Income statement | - | - | - | - |
| Re-insurance finance income - other comprehensive income | 1 | - | - | 1 |
| Total changes in Statement of comprehensive Income | - | - | 1 | 1 |
| <i>Cashflows:</i> | | | | |
| - Premiums and similar expenses paid | (2) | - | - | (2) |
| - Amounts received | 1 | - | - | 1 |
| Total cashflows | (1) | - | - | (1) |
| Net re-insurance contract liability: 6 January 2024 | 7 | - | 1 | 8 |

| Re-insurance contract liabilities (by component) 2022 | Estimates of present value of future cashflows | Risk adjustment | Contractual service margin | Total |
|---|--|--------------------|-------------------------------|------------|
| | £m | £m | £m | £m |
| Net re-insurance contract liability as at 2 January 2022 | 11 | 1 | - | 12 |
| <i>Changes that relate to current services:</i> | | | | |
| - Contractual service margin recognised for service provided | - | - | - | - |
| - Risk adjustment for the risk expired | - | - | - | - |
| - Experience adjustments | - | - | - | - |
| <i>Changes that relate to future services:</i> | | | | |
| - Contracts initially recognised in the period | 1 | (1) | (1) | (1) |
| - Changes in estimates that adjust the contractual service margin | (1) | - | 1 | - |
| Re-insurance service result | - | (1) | - | (1) |
| Re-insurance finance income - Income statement | - | - | - | - |
| Re-insurance finance income - other comprehensive income | (2) | - | - | (2) |
| Total changes in Statement of comprehensive Income | (2) | (1) | - | (3) |
| <i>Cashflows:</i> | | | | |
| - Premiums and similar expenses paid | (2) | - | - | (2) |
| - Amounts received | 1 | - | - | 1 |
| Total cashflows | (1) | - | - | (1) |
| Net re-insurance contract liability: 31 December 2022 | 8 | - | - | 8 |

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

| Contractual service margin (2023) | Contracts using the fair value approach | All other contracts | Total |
|---|---|------------------------|-------------|
| | £m | £m | £m |
| Contractual service margin as at 1 January 2023 | 105 | 17 | 122 |
| <i>Changes that relate to current services:</i> | | | |
| - Contractual service margin recognised for service provided | (5) | (1) | (6) |
| <i>Changes that relate to future services:</i> | | | |
| - Contracts initially recognised in the period | - | 11 | 11 |
| - Changes in estimates that adjust the contractual service margin | (16) | (4) | (20) |
| Sub-total | (21) | 6 | (15) |
| Insurance finance expenses | 1 | 1 | 2 |
| Contractual service margin as at 6 January 2024 | 85 | 24 | 109 |

Historical plans sold prior to 2020 were fair valued at transition.

| Contractual service margin (2022) | Contracts using the fair value approach | All other contracts | Total |
|---|---|------------------------|------------|
| | £m | £m | £m |
| Contractual service margin as at 2 January 2022 | 33 | - | 33 |
| <i>Changes that relate to current services:</i> | | | |
| - Contractual service margin recognised for service provided | (5) | (1) | (6) |
| <i>Changes that relate to future services:</i> | | | |
| - Contracts initially recognised in the period | - | 2 | 2 |
| - Changes in estimates that adjust the contractual service margin | 77 | 16 | 93 |
| Sub-total | 72 | 17 | 89 |
| Insurance finance expenses | - | - | - |
| Contractual service margin as at 31 December 2022 | 105 | 17 | 122 |

| New business (2023) | Profitable contracts issued | Onerous contracts issued | Total |
|--|--------------------------------|-----------------------------|----------|
| | £m | £m | £m |
| <i>Insurance contracts:</i> | | | |
| - Estimate of present value of future cashflows, excluding insurance acquisition costs | 39 | - | 39 |
| - Estimate of insurance acquisition cashflows | 6 | - | 6 |
| Estimate of present value of future cash outflows | 45 | - | 45 |
| Estimate of present value of future cash inflows | (56) | - | (56) |
| - Risk adjustment | 1 | - | 1 |
| - Contractual service margin | 11 | - | 11 |
| Profit on contracts at initial recognition | 1 | - | 1 |

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

| New business (2022) | Profitable contracts issued | Onerous contracts issued | Total |
|--|--------------------------------|-----------------------------|-------|
| | £m | £m | £m |
| <i>Insurance contracts:</i> | | | |
| - Estimate of present value of future cashflows, excluding insurance acquisition costs | 47 | - | 47 |
| - Estimate of insurance acquisition cashflows | 6 | - | 6 |
| Estimate of present value of future cash outflows | 53 | - | 53 |
| Estimate of present value of future cash inflows | (55) | - | (55) |
| - Risk adjustment | - | - | - |
| - Contractual service margin | 2 | - | 2 |
| Loss on onerous contracts at initial recognition | - | - | - |

| Insurance revenue | 2023 | 2022 |
|---|-----------|-----------|
| | £m | £m |
| <i>Amounts relating to changes in liabilities for remaining coverage:</i> | | |
| - Contractual service margin recognised for services provided | 6 | 6 |
| - Change in risk adjustment for non financial risk for risk expired | 4 | 5 |
| - Expected incurred claims and other insurance service | 73 | 74 |
| - Other amounts including experience adjustments for premium receipts | - | - |
| - Recovery of insurance acquisition cash flows | 3 | 2 |
| Total insurance revenue | 86 | 87 |

| Insurance revenue | 2023 | 2022 |
|---|-----------|-----------|
| | £m | £m |
| Contracts using the fair value approach | 74 | 78 |
| All other contracts | 12 | 9 |
| Total insurance revenue | 86 | 87 |

Historical plans sold prior to 2020 were fair valued at transition.

| Contractual service margin maturity | 2023 | 2022 |
|-------------------------------------|------------|------------|
| | £m | £m |
| - Less than 1 year | 6 | 6 |
| - 1 to 2 years | 5 | 6 |
| - 2 to 3 years | 5 | 5 |
| - 3 to 4 years | 5 | 5 |
| - More than 4 years | 88 | 100 |
| Total | 109 | 122 |

| Fulfilment cashflows | 2023 | 2022 |
|----------------------|--------------|--------------|
| | £m | £m |
| - Less than 1 year | 59 | 65 |
| - 1 to 2 years | 61 | 56 |
| - 2 to 3 years | 62 | 56 |
| - 3 to 4 years | 62 | 56 |
| - 4 to 5 years | 61 | 55 |
| - > 5 years | 1,402 | 1,381 |
| Total | 1,707 | 1,669 |

The figures in the table above are undiscounted and exclude cashflows relating to re-insurance as these are not material.

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

Critical accounting estimates

Under IFRS 17 (Insurance Contracts) the Group's funeral plan liabilities reflect the current estimate of the present value of the future cashflows to provide the funeral. These are calculated using actuarial advice and are based on a range of assumptions and estimates. The assumptions used are management's best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

The main actuarial assumptions include estimates in relation to discount rates, future costs to deliver a funeral including inflation and expense assumptions, mortality rates, risk adjustments and plan cancellation rates. The insurance contract liability calculation is most sensitive to changes in the discount rate and inflation assumptions and further detail on these items is noted below.

Discount rates - the Group applies a bottom-up approach to derive the discount rate such that our insurance contract liabilities (funeral plans) are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium (credit spread). The risk free rate has been derived by reference to market yields on sterling-denominated high quality corporate bonds of appropriate duration consistent with the funeral plans at that date (UK Gilt curve at the valuation date converted from continuous to annual rates). The illiquidity premium is determined by reference to observable market rates (assessed as 20% of the average credit spread on 10-15 year A rated and 10-15 year AA rated bonds at the valuation date (allowing for the part of the credit spread that relates to default risk and that the liabilities are not perfectly illiquid).

Inflation - the rate of inflation is set based on the Bank of England Forward Inflation Curve at the valuation date converted from continuous to annual. From 2022 onwards a reduction of 25 basis points has been applied to allow for high levels of demand for inflation linked gilts increasing inflation expectations. Years 2023 to 2026 have been adjusted to reflect managements' view based on experience of funeral cost inflation.

| Financial assumptions | | | 2023 | 2022 | 2021 (On transition) |
|-----------------------|--|-------------------------------------|-------|-------|-------------------------|
| Discount rate | Risk free rate - UK Gilt curve | Year 1 | 3.55% | 3.87% | 0.83% |
| | | Year 2 | 3.02% | 3.69% | 0.84% |
| | | Year 3 | 2.99% | 3.64% | 0.83% |
| | | Year 4 | 3.10% | 3.64% | 0.86% |
| | | Year 5 | 3.29% | 3.67% | 0.93% |
| | | Year 10 | 4.76% | 4.36% | 1.45% |
| | | Year 15 | 5.04% | 4.66% | 1.50% |
| | | Illiquidity premium (credit spread) | | 0.16% | 0.24% |
| Inflation rate | Bank of England curve less 25 bps plus management view | Year 1 | 3.22% | 4.75% | 5.18% |
| | | Year 2 | 3.33% | 3.50% | 4.09% |
| | | Year 3 | 3.30% | 2.00% | 3.81% |
| | | Year 4 | 3.18% | 2.25% | 3.71% |
| | | Year 5 | 3.09% | 3.26% | 3.68% |
| | | Year 10 | 3.25% | 3.52% | 3.87% |
| | | Year 15 | 3.20% | 3.64% | 3.64% |

Further details of the Group's approach to financial risk management are noted in Note 27 (Financial risk management) covering: credit risk, interest rate risk, foreign currency risk and liquidity risk.

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

Sensitivities

The following sensitivity analysis shows the impact on insurance contract liabilities and profit before tax for reasonably possible movements in the key financial assumptions noted on the previous page with all other assumptions held constant.

The combination of assumptions will have a material effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

The discount rate sensitivity noted below covers the risk free rate plus the illiquidity premium (see discount rate derivation noted overleaf).

| Change in Insurance contract liability - £m | 2023 | 2022 |
|---|------|------|
| Discount rate - decrease of 1.0% | 126 | 128 |
| Inflation rate - increase of 1.0% | 130 | 134 |
| Mortality stress +20% | 16 | 12 |

| Change in Profit before tax - £m | 2023 | 2022 |
|-----------------------------------|------|------|
| Discount rate - decrease of 1.0% | - | - |
| Inflation rate - increase of 1.0% | (6) | (7) |
| Mortality stress +20% | (1) | (1) |

Discount rate - the impact of a change in discount rate flows through other comprehensive income (OCI) rather than the Income statement and so doesn't impact Profit before tax (PBT) in either 2023 or 2022.

Inflation - changes to our inflation assumptions are deemed to be non-financial, as the ultimate inflationary cost risk does not relate to a financial market indices, and to the extent that they can be covered are first charged to the contractual service margin (CSM) buffer rather than direct to the Income statement. As the CSM would be reduced by the modelled sensitivities, the impact to PBT noted in the table above, reflects 1 year's impact across the 20 year CSM period.

Mortality - to the extent that they can be covered are first charged to the contractual service margin (CSM) buffer rather than direct to the Income statement. As the CSM would be reduced by the modelled sensitivities, the impact to PBT noted in the table above, reflects 1 year's impact across the 20 year CSM period.

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

Accounting Policies

Summary of material accounting policies:

In applying the new insurance standard and the requirements of IFRS 17 the Group has adopted a variety of new accounting policies in relation to the accounting for funeral plans and the waiver insurance on instalment plans. The Group has elected to use the General Measurement Model (GMM) under IFRS 17 to measure the liability for remaining coverage. A summary of the material accounting policies is noted below:

Initial recognition - an insurance contract is defined as a contract under which the Group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. The new standard applies to all of the Group's funeral plans and also covers the re-insurance of the payment waiver risk on instalment plans.

Level of aggregation and onerous contracts - the aggregation of insurance contracts determines the 'unit of account' to be used when applying IFRS 17 which affects the allocation of the contractual service margin (CSM) to insurance revenue and the level at which onerous contracts are identified. IFRS 17 specifically requires that portfolios of re-insurance contracts are separately held from portfolios of insurance contracts issued. The aggregation requirements of IFRS 17 arrange insurance and re-insurance contract cash flows into buckets based on two stages or levels:

- **Portfolio level:** (1) by primary risk type and (2) whether contracts are managed together.
- **Group level:** (1) by time of issuance (one-year issuing period); and (2) by degree of expected profitability at initial recognition.

Application by Co-op:

Portfolio level:

The following IFRS 17 portfolios were identified for the Group's consolidated financial statements:

- Pre-need funeral plans - (insurance contracts issued)
- Premium waiver on underlying Instalment plans – (re-insurance contracts held)

Group level: Time of issuance - Cohort year. IFRS 17 requires a portfolio of contracts to be divided into annual 'cohorts' or shorter time buckets. A group of contracts may not include contracts issued more than one year apart. Co-op allocates cohorts by annual periods based on the financial year of issue.

Group level: Degree of profitability at initial recognition. IFRS 17 requires portfolios of contracts issued in a given cohort year to be assessed by 'sets' for the purpose of determining whether contracts are onerous or have no significant possibility of becoming onerous. The Group determines the sets based on assessed similarities in pricing and margin and expected sensitivity to future changes in financial and non-financial assumptions over the coverage period. Losses on onerous contracts are taken to the Income statement as incurred.

Fulfilment Cashflows:

IFRS 17 requires insurance liabilities to be measured at a current fulfilment value. Fulfilment cashflows cover:

- (A) best estimates of future cashflows;
- (B) an adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows; and
- (C) a risk adjustment for non-financial risk.

(A) Best estimate of future cashflows - IFRS 17 requires an explicit, unbiased and probability weighted estimate (i.e. expected value) of the present value of the future cash outflows less the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk.

For the Group these cashflows mainly comprise; premiums received from customers for pre-paid plans and LCIPs, premiums paid or repayable to re-insurers, internal and external direct fulfilment costs of delivering funerals on behalf of the policy holder, amounts recoverable from re-insurers and insurance acquisition cash flows attributable to the portfolio of contracts.

(B) An adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows; - a key component of IFRS 17 is the need to reflect the time value of money when estimating insurance cash flows, and the financial risks related to those cash flows. The Group applies a bottom-up approach to derive the discount rate based on a risk free rate plus an illiquidity premium. Risk free rates are determined by reference to the yields of highly liquid AAA-rated sovereign securities (UK Gilts). The illiquidity premium is determined by reference to observable market rates. The discount rate used to determine the finance costs relating to funeral plans, uses the discount rate at initial recognition of the funeral plan cohort.

(C) A risk adjustment (RA) for non-financial risk - this reflects the compensation Co-op requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the Group fulfils insurance contracts. The risk adjustment reflects an amount that Co-op would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount. IFRS 17 does not prescribe any methodologies for calculating the RA but instead outlines principles that the technique used to quantify the RA will need to adhere to. The RA is important because it is a component of the fulfilment cash flows and therefore impacts the profitability classification of funeral plans. The release of the RA over time is a key component of revenue, along with the contractual service margin. Co-op estimate the RA using a confidence level (probability of sufficiency) approach at 70%.

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

Accounting Policies - continued

Insurance acquisition cashflows - IFRS 17 requires expenses that are "directly attributable" to issuing and fulfilling insurance contracts to be included in the measurement of insurance contracts. This includes insurance acquisition cash flows, which are defined as cash flows arising from the costs of selling, underwriting, and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The classification and reporting of expenses under IFRS 17 involves the following 3 steps:

- 1) Classification of all expenses into one of the following categories:
 - Directly attributable acquisition (direct costs of acquiring new funeral plans such as internal salaries or external commission paid);
 - Directly attributable maintenance (direct costs of servicing already acquired funeral plans such as costs of handling claims or policy changes);
 - Non-directly attributable expenses.
- 2) Allocation of directly attributable expenses into IFRS 17 Portfolios and then to current and future cohort groups of contracts.
- 3) Amortisation of each group of directly attributable acquisition costs in a manner consistent with the revenue earning pattern of the related contracts in the group. Directly attributable maintenance and non-directly attributable expenses are fully expensed when incurred.

When estimating fulfilment cash flows, the Group allocates fixed and variable overheads directly attributable to the fulfilment of insurance contracts. This requires management judgement and is undertaken in-line with our normal internal processes for allocating central overheads to cost centres. We also make an assessment as to the amount of maintenance costs such as claims handling, policy administration and associated overheads.

Contractual Service Margin (CSM) and Coverage units - the CSM for a group of insurance contracts at the end of each reporting period represents the unearned profit relating to future service to be provided under the contracts in the group and is calculated using a roll-forward approach. The five items that are included in the CSM roll forward are:

- the effect of new contracts added to the group;
- interest accretion on the carrying amount of the CSM;
- the change in fulfilment cash flows relating to future service (limited by the amount of CSM);
- the effect of any currency exchange differences on the CSM; and
- the amounts recognized as insurance revenue because of the transfer of services in the period ("amortization of CSM").

The concept of "coverage units" was introduced in IFRS 17 as a means of reflecting the pattern of services provided under a group of contracts and recognizing revenue from CSM (effectively "amortization" of CSM) according to that pattern. The number of coverage units in a group is based on the quantity of service provided by the contracts in the group. For each group of contracts, we are required to consider the quantity of service and its expected coverage period.

Co-op have determined that it is appropriate to measure coverage units based on the maximum expected funeral benefit per period of all the contracts in the IFRS 17 group. The maximum expected pay-out represents the total funeral benefit per period of all contracts expected to be in force in the group for that period. For portfolios of Premium waiver reinsurance contracts, the coverage units will be based on the maximum expected recoverable per period.

Experience adjustments:

Experience variances represents the expected expenses, claims and amortisation of acquisition cash flows which are reported as part of the insurance service revenue. This is offset with the actual expenses and claims incurred in the period and recovery of acquisition cash flows.

Low Cost Investment 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 the Group 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 the Group (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 the Group and the third party insurer and has nothing to do with the customer. The Society continues to apply instalment monies received against customers' individual funeral plans until such time as a plan is redeemed and or cancelled.

The assured benefit between the Group and the 3rd party is judged to represent an insurance contract and as such falls under the scope of IFRS 17 (Insurance Contracts).

Notes to the financial statements continued

21 Insurance and re-insurance contracts (funeral plan liabilities) continued

Accounting Policies - continued

Presentation and Disclosures:

The Group has elected to apply certain disclosure policies as permitted under IFRS 17:

- 1) The change in the risk adjustment (RA) for non-financial risk is disaggregated between insurance service result and insurance finance expense in the Income statement;
- 2) Income and expenses from a group of reinsurance contracts is presented as a single amount;
- 3) The Group has elected to disaggregate that element of finance income / expense that arise due to changes in the discount rate and record the impact of those changes in other comprehensive income (OCI) rather than in the Income statement. The large gain recorded in OCI in 2022 primarily arises due to movements in the discount rate in 2022. The discount rate used to determine the finance costs relating to funeral plans, uses the discount rate at initial recognition of the funeral plan cohort.
- 4) Changes to our inflation assumptions are deemed to be non-financial, as the ultimate inflationary cost risk does not relate to a financial market indices, and to the extent that they can be covered are first charged to the CSM buffer rather than direct to the Income statement.

The table below summarises where the financial impact of a change in the assumptions used in the actuarial calculations would be reflected in our financial statements:

| Assumption | Financial Statement Impact |
|--------------------|---|
| Discount rate | Consolidated statement of comprehensive (loss) / income |
| Fulfilment costs | Consolidated income statement |
| Inflation rate | Consolidated income statement |
| Risk adjustment | Consolidated income statement |
| Maintenance costs | Consolidated income statement |
| Mortality rates | Consolidated income statement |
| Cancellation rates | Consolidated income statement |

Notes to the financial statements continued

22 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.

| | 2023 | 2022 |
|-------------|------------|-----------|
| | £m | £m |
| Non-current | 55 | 59 |
| Current | 55 | 34 |
| | 110 | 93 |

| 2023 | Uninsured claims £m | Property provisions £m | Restructuring & integration £m | Regulatory & Legal £m | Total £m |
|-----------------------------|------------------------|---------------------------|-----------------------------------|--------------------------|-------------|
| At beginning of the period | 38 | 41 | - | 14 | 93 |
| Credit to income statement | (1) | (6) | - | (1) | (8) |
| Charge to income statement | 18 | 4 | - | 33 | 55 |
| Payments | (17) | (10) | - | (3) | (30) |
| At end of the period | 38 | 29 | - | 43 | 110 |

| 2022 | Uninsured claims £m | Property provisions £m | Restructuring & integration £m | Regulatory & Legal £m | Total £m |
|-----------------------------|------------------------|---------------------------|-----------------------------------|--------------------------|-------------|
| At beginning of the period | 37 | 72 | 3 | 14 | 126 |
| Credit to income statement | (1) | (37) | (3) | (1) | (42) |
| Charge to income statement | 19 | 8 | - | 3 | 30 |
| Payments | (17) | (2) | - | (2) | (21) |
| At end of the period | 38 | 41 | - | 14 | 93 |

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 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. In each of the current and comparative years, sensitivity analysis has been performed in relation to the provision, testing for a 2% increase in inflation related to costs expected to be incurred; this sensitivity does not lead to a material additional provision being calculated. The sensitivity analysis performed considers reasonably possible changes in the inflation assumption.

Regulatory & Legal

These provisions relate to costs from a number of past events that are expected to be incurred within the next one to five years. Typically, these cover potential or on-going legal or regulatory claims and represent management's best estimate of expected future cashflows. The likely outcome in any legal or regulatory claim may be uncertain and difficult to predict based on the evidence and circumstances involved. This means there is considerable inherent uncertainty with any assessment as to whether a provision exists at the balance sheet date. It also means that it is not always possible to give a reliable estimate of any contingent liabilities from such claims. No separate disclosure is made of the detail of such claims, the assumptions used to calculate the amount provided or the uncertainties relating to the range of possible outcomes considered, because in management's view, to do so could seriously prejudice our position.

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 of the accounts (notes 23 - 33) contains additional notes to the accounts.

23 Members' share capital and reserves

What does this show? This note shows the amounts our members have paid to become member-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.

| | 2023 | 2022 (*restated) |
|---|--------------|---------------------|
| | £m | £m |
| Individual shares of £1 each | 67 | 66 |
| Corporate shares of £5 each | 9 | 9 |
| Share capital | 76 | 75 |
| Other reserves | 9 | 6 |
| Retained earnings | 1,935 | 2,942 |
| Total Retained earnings and Other reserves | 1,944 | 2,948 |
| Total Capital resources | 2,020 | 3,023 |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

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% (2022: 21.9%) of the vote at the Annual General Meeting. Each individual member has one vote with individual members totalling 78.1% (2022: 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 £1.0m in the period being the net of new member contributions of £1.1m and withdrawals of £0.1m. We have 5.0m (2022: 4.4m) active members (see also Note 31 Membership and community reward).

Notes to the financial statements continued

23 Members' share capital and reserves - continued

| Other reserves (2023) | Revaluation Reserve £m | Total £m |
|----------------------------------|---------------------------|-------------|
| Balance at 31 December 2022 | 6 | 6 |
| Balance at 6 January 2024 | 9 | 9 |

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.

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 £45m in 2023 (2022: £38m). See Note 31 for more details. It has also invested in future growth through cash capital expenditure additions of £205m (2022: £147m) and still kept within its net debt limits. Total member funds decreased during the period by £1,003m (2022: increased £117m (restated for IFRS 17)). The decrease in the year primarily relates to the accounting impact of the buy-in transaction undertaken by the pension Trustee with Rothesay Life Plc, a specialist UK Insurer, to insure scheme benefits through a bulk annuity insurance policy helping to insure the Group against the primary investment and longevity risks it is exposed to (see Note 25 Pensions for further details).

Notes to the financial statements continued

24 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.

| | 2023 | 2022 |
|--|-----------|-----------|
| | £m | £m |
| Valuation at beginning of period | 40 | 55 |
| Disposals | (12) | - |
| Transfer from Property, plant and equipment (Note 11) | 5 | - |
| Revaluation gain recognised in the Consolidated income statement | 4 | (15) |
| Revaluation gain recognised in the Consolidated statement of other comprehensive Income* | 3 | - |
| Valuation at end of period | 40 | 40 |

* Following a re-assessment of how we have previously categorised certain properties, we reclassified £5m of assets from Property, plant and equipment to Investment properties during the year. Prior to the transfer a £3m 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 properties. 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

25 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.

| | 2023 £m | 2022 £m |
|---|------------|--------------|
| Pension schemes in surplus | 359 | 1,584 |
| Pension schemes in deficit | (3) | (3) |
| Closing net retirement benefit surplus | 356 | 1,581 |

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 81% of the Group's pension assets. The DB section of Pace ('Pace Complete') closed to future service accrual on 28 October 2015. As of November 2023, the vast majority of PACE's liabilities are covered by insurance policies. Further information is provided 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. The main feature over the year has been an insurance "buy-in" transaction in Pace and further details are set out separately below. This has resulted in a reduced balance sheet surplus, but the vast majority of Pace's liabilities are now covered by insurance policies.

Events arising during the year - Pace Insurance "Buy-in"

In November 2023, the Pace Trustee completed a "buy-in" transaction with Rothesay Life Plc, a specialist UK insurer, to insure scheme benefits through a bulk annuity insurance policy. Through this transaction, and in conjunction with pre-existing partial "buy-ins" with Aviva (completed in January 2020 and May 2020), and Pension Insurance Corporation (PIC, completed in February 2020), this means that the Group Section of Pace, and by extension the Group as Principal Employer, is insured against the primary investment and longevity risks it is exposed to. As a result of these four separate insurance transactions, the Pace scheme will receive regular payments from Rothesay, Aviva and PIC to fund all future pension payments. The methodology used to value the latest transaction with Rothesay will result in an accounting decrease in the value of the surplus in the Pace scheme. However, as the insurance contracts are assets of the Pace scheme, and the Pace scheme has retained all responsibility to meet future pension payments to pensioners, this will not be recognised as a settlement and consequently the decrease in value will be recognised through other comprehensive income (OCI) in the year to 6 January 2024. The salary increase link that remains, as applied to pre 2006 benefits since April 2022, is excluded from the Insurance transactions, as are some costs related to GMP equalisation. This ongoing exposure means that the buy-ins don't cover all the Pace liabilities, but the Group's remaining exposure is very small and, at the year-end, there is a surplus remaining in Pace of £283m. The size of the ongoing liability exposure from the salary link and the uninsured GMP equalisation costs is small relative to this surplus.

| | Net 2023 £m | Net 2022 £m |
|--|-------------------|-------------------|
| Schemes in surplus | | |
| The Co-operative Group Pension Scheme (Pace) | 283 | 1,524 |
| Somerfield Pension Scheme | 68 | 32 |
| United Norwest Co-operatives Employees' Pension Fund | 8 | 28 |
| Total schemes in surplus | 359 | 1,584 |
| Schemes in deficit | | |
| Other unfunded obligations | (3) | (3) |
| Total schemes in deficit | (3) | (3) |
| Total schemes | 356 | 1,581 |

Notes to the financial statements continued

25 Pensions continued

Non-Pace schemes

The United and Somerfield schemes use segregated liability driven investment (LDI) mandates which hold government and corporate bonds, along with derivatives. These investments increase (decrease) in value when yields on government bonds fall (rise), and are designed to have similar interest rate and inflation sensitivities to the schemes' liabilities so that the funding position is protected against movements in interest rate and inflation expectations. The schemes' liabilities are in aggregate broadly fully hedged against movements in yields on government bonds. Against a backdrop of market uncertainty, AA corporate bonds, used to discount the liabilities remained relatively stable over the year, whilst inflation expectations fell.

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.

Pace - nature of scheme

As Pace represents around 81% of the Group's pension assets, further information has been included on Pace below. 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. The Somerfield and United schemes are exposed to additional risks from Pace, predominantly investment, inflation and longevity. More detail is set out below.

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 Group'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.

The Groups 'last man standing' obligation to the Co-operative Bank section ("Bank") was removed in 2023. That is the obligation on the Group to support the pension liabilities of the Bank section, if the Bank were to not meet its own section's pension liabilities, was removed completely.

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, Group 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.

Deficit contributions over the 2023 financial year totalled £15m (2022: £17m). Deficit contributions to all schemes have now ceased due to the fact that recent actuarial funding valuations showed all the schemes were in surplus at the relevant valuation date. All scheme funding valuations 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 under a different trust. The contribution risk has also fallen following the buy-in transaction.

Notes to the financial statements continued

25 Pensions continued

Legislative framework for DB schemes - scheme funding regime continued

The average duration of the liabilities at 6 Jan 2024 on an IAS19 basis is approximately 14 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 2022 |
| Somerfield Pension Scheme ('Somerfield Scheme') | 31 March 2022 |
| United Norwest Co-operatives Employees' Pension Fund ('United Fund') | 31 January 2023 |

On 16 June 2023 the High Court issued a ruling in respect of Virgin Media v NTL Pension Trustees II Limited. Whilst this case could have application to other schemes, based on our current understanding the decision reached was based on specific assumptions and related to an amendment which was worsening benefits and so it is unclear as to its wider application and there is a Court of Appeal hearing due in the Summer of 2024 which may clarify this. Our pension scheme Trustee Boards & the Co-op have always had in place comprehensive procedures and practices to ensure full compliance with all legal and regulatory requirements, including taking appropriate external advice whenever any changes have been made. We have no reason to consider that this case will have a material impact on defined benefit values or the financial statements of the Group. Future developments will be kept under review.

Risks associated with DB pension schemes

The liability associated with the pension schemes is material to the Group. Following the buy-in transaction the cash funding risk is now considered to be relatively low. The Group and Trustees work together to address the associated pension risk - in particular, steps have been taken to materially reduce the investment risk in the schemes. The Group has removed its exposure to these risk in the Pace Scheme via the four separate insurance buy-in contracts.

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 did the subsequent Pace Insurance buy-in contracts. 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. | Through its insurance buy-in contracts Pace has minimal further exposure. The Somerfield and United 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 98% 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. | Through its insurance buy-in contracts Pace has minimal further exposure. For the Somerfield and United schemes 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. 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. | Through its insurance buy-in contracts Pace has minimal further exposure. The Somerfield and United 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 97% 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. | Through its insurance buy-in contracts Pace no longer has no further exposure here. The Somerfield and United schemes' funding targets incorporate a margin for prudence to reflect uncertainty in future life expectancy. |

Notes to the financial statements continued

25 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. For the insurance buy-ins under Pace, we apply the assumptions to derive the liability and then set the asset value to match this liability, with separate calculations to derive the salary link and GMP equalisation liabilities.

| Financial assumptions | 2023 | 2022 |
|--|-------|-------|
| Discount rate | 4.76% | 4.76% |
| RPI inflation rate | 3.32% | 3.50% |
| Pension increases in payment (RPI capped at 5% p.a.) | 3.12% | 3.25% |
| Future salary increases | 3.57% | 3.75% |

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) 2022 projections and a long-term future improvement rate of 1.25% p.a. (2022: CMI 1.25% p.a.).

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 | 2023 | 2022 |
|--------------------------------|------|------|
| Male currently aged 65 years | 20.7 | 21.1 |
| Female currently aged 65 years | 22.5 | 23.1 |
| Male currently aged 45 years | 21.8 | 22.2 |
| Female currently aged 45 years | 23.8 | 24.2 |

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 material movements could be experienced.

| Sensitivities | 2023 £m | 2022 £m |
|---|------------|------------|
| Change in liability from a 0.5% decrease in discount rate | 428 | 474 |
| Change in liability from a 0.5% increase in RPI inflation | 264 | 329 |
| Change in liability from a 0.25% increase in long-term rate of longevity improvements | 42 | 44 |

| Changes in the present value of the defined benefit obligation (DBO) | 2023 £m | 2022 £m |
|--|--------------|--------------|
| Opening defined benefit obligation | 5,543 | 9,194 |
| Interest expense on DBO | 261 | 171 |
| Remeasurements: | | |
| a. Effect of changes in demographic assumptions | (95) | (51) |
| b. Effect of changes in financial assumptions | (51) | (3,870) |
| c. Effect of experience adjustments | 491 | 450 |
| Benefit payments from plan | (292) | (351) |
| Closing defined benefit obligation | 5,857 | 5,543 |

Notes to the financial statements continued

25 Pensions continued

| Changes in the fair value of the plan assets | 2023 £m | 2022 £m |
|---|--------------|--------------|
| Opening fair value of plan assets | 7,124 | 11,452 |
| Interest income | 338 | 214 |
| Return on plan assets (excluding interest income) | (966) | (4,203) |
| Administrative expenses paid from plan assets | (6) | (6) |
| Employer contributions | 15 | 18 |
| Benefit payments from plan | (292) | (351) |
| Closing fair value of plan assets | 6,213 | 7,124 |

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.

| Fair value of plan assets | 2023 | | | 2022 | | |
|----------------------------------|--------------|----------------|--------------|--------------|----------------|--------------|
| | Quoted £m | Unquoted £m | Total £m | Quoted £m | Unquoted £m | Total £m |
| Equity instruments | 40 | - | 40 | 35 | - | 35 |
| Liability driven investments | 434 | - | 434 | 2,418 | - | 2,418 |
| Investment grade credit | 329 | - | 329 | 1,735 | - | 1,735 |
| Illiquid / other credit | - | 95 | 95 | - | 944 | 944 |
| Alternative investments* | - | - | - | - | 360 | 360 |
| Cash and cash equivalents | 310 | - | 310 | 53 | 3 | 56 |
| Insurance buy-in contracts | - | 5,005 | 5,005 | - | 1,576 | 1,576 |
| Fair value of plan assets | 1,113 | 5,100 | 6,213 | 4,241 | 2,883 | 7,124 |

| Amounts recognised in the balance sheet | 2023 £m | 2022 £m |
|---|------------|--------------|
| Present value of funded obligations | (5,854) | (5,540) |
| Present value of unfunded liabilities | (3) | (3) |
| Fair value of plan assets | 6,213 | 7,124 |
| Net retirement benefit asset | 356 | 1,581 |

| Amounts recognised in the income statement and other comprehensive income | 2023 £m | 2022 £m |
|---|----------------|--------------|
| Interest expense on defined benefit obligations | (261) | (171) |
| Interest income on plan assets | 338 | 214 |
| Administrative expenses and taxes | (6) | (6) |
| Total recognised in the income statement | 71 | 37 |
| Remeasurement losses on employee pension schemes | (1,310) | (732) |
| Total recognised in other comprehensive income | (1,310) | (732) |
| Total | (1,239) | (695) |

Notes to the financial statements continued

25 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.

The Insurance transactions entered into by the Co-op, in respect of its pension arrangements, are assets of the Co-op pension schemes and the schemes have retained all responsibility to meet future pension payments to pensioners. Insurance annuities are recorded at the same value as the liabilities to which they relate and movements in liabilities will be offset by an equivalent movement in the insurance annuity asset. These movements are recorded through items in other comprehensive income.

The premium cost of the Rothersey transaction was greater than the value of the liabilities secured. As with previous insurance contracts entered into, this is a buy-in transaction where the scheme has retained the responsibility for paying pensions and therefore the loss has been recorded through other comprehensive income.

Notes to the financial statements continued

26 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 55 - 59.

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.

The Group 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). Management has no current reason to expect that any counterparty the Group has invested with 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 material 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 |
|---|-----------------|-------------------|
| | 2023 | 2022 |
| | £m | *(restated) £m |
| Trade and other receivables (excluding prepayments and accrued income)* | 434 | 450 |
| Interest rate swaps | (9) | (13) |
| Foreign exchange contracts and commodity swaps (net) | (4) | 5 |
| Funeral plan investments | 1,346 | 1,369 |
| Finance lease receivables | 29 | 43 |
| Cash | 395 | 447 |
| Short-term investments | 200 | - |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

Interest rate risk and hedging

Interest rate risk arises from movements in interest rates that impact the fair value of 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 6 January 2024 was 84% (at 31 December 2022: 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. At 6 January 2024, the Group had interest rate swaps with a notional contract amount of £105m (at 31 December 2022: £105m).

The Group does not designate interest rate swaps, forward foreign exchange contracts, and commodity swaps 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 27.

The net fair value of swaps at 6 January 2024 was a net liability of £9m (2022: net liability of £13m) comprising assets of £nil (2022: £nil) and liabilities of £9m (2022: £13m). These amounts are recognised as fair value derivatives on the face of the Consolidated balance sheet.

Notes to the financial statements continued

26 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.

At 6 January 2024, the Group had forward currency transactions in Euros and US Dollars with a notional contract amount of £64m (2022: £88m).

Liquidity risk

This is the risk that the Group will not have sufficient monies to fund its future operations and meet its borrowing obligations. The Group has diverse sources of financing through its cash, short-term investments, credit facilities and bonds. These are managed to ensure appropriate flexibility and headroom over the short, medium and long term.

As at 6 January 2024, the Group had available cash and cash equivalents and short-term investments of £595m (2022: £447m) together with committed borrowing facilities totalling £1,107m (2022: £1,166m). These are detailed below:

| Bank facilities as at 31 December 2022 | 2023 | | | 2022 | | |
|---|---------------|----------------|---------------|---------------|----------------|---------------|
| | Expiry | Facility £m | Undrawn £m | Expiry | Facility £m | Undrawn £m |
| Cash and cash equivalents | | | 395 | | | 447 |
| Short-term investments | | | 200 | | | - |
| Cash and cash equivalents and short-term investments | | | 595 | | | 447 |
| Revolving Credit Facility* | Mar 2026 | 443 | 443 | Sept 2024 | 400 | 400 |
| £300m 5.125% Sustainability Bond due 2024 (amortised cost) | May 2024 | 200 | - | 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 | 5 | - | December 2025 | 7 | - |
| £350m 7.5% Bond notes due 2026 | July 2026 | 350 | - | July 2026 | 350 | - |
| Total debt facilities | | 1,107 | 443 | | 1,166 | 400 |
| Total cash and cash equivalents, short-term investments and debt liquidity | | | 1,038 | | | 847 |

*On the 20th of March 2023, Co-op concluded an amendment and extension exercise on its £400m Revolving Credit Facility. The facility increased in size to £442.5m until September 2024 when it will fall to £360m. The £360m facility will mature in March 2026. The facility was undrawn as at 6 January 2024.

Notes to the financial statements continued

26 Financial risk management continued

The following are the maturities of financial liabilities as at 6 January 2024. The contractual cashflows noted include payments of interest and principal:

| | Carrying amount | Contractual cash flows | <1 year | 1 - 2 years | 2 - 5 years | More than 5 years |
|--|-----------------|------------------------|---------|-------------|-------------|-------------------|
| | £m | £m | £m | £m | £m | £m |
| Non-derivative financial liabilities | | | | | | |
| £300m Sustainability Bond 2024 (amortised cost)* | (202) | (205) | (205) | - | - | - |
| £109m 11% Final repayment subordinated notes 2025 | (109) | (133) | (12) | (121) | - | - |
| £20m Instalment repayment notes (final payment 2025) | (5) | (6) | (3) | (3) | - | - |
| £105m 7.5% Bond 2026 (fair value) | (105) | (129) | (8) | (8) | (113) | - |
| £245m 7.5% Bond 2026 (amortised cost) | (262) | (299) | (18) | (18) | (263) | - |
| Lease liabilities | (1,233) | (1,666) | (192) | (180) | (437) | (857) |
| Trade and other payables | (1,582) | (1,582) | (1,544) | (20) | (14) | (4) |

* On the 1st March 2023 the Group repurchased £100m of the £300m 5.125% Sustainability Bond (due May 2024) from bond holders following an over-subscribed tender exercise. The bonds were bought back at 99% of par value.

The following are the maturities of financial liabilities as at 31 December 2022. The contractual cashflows noted include payments of interest and principal:

| | Carrying amount | Contractual cash flows | < 1 year | 1 - 2 years | 2 - 5 years | More than 5 years |
|--|-----------------|------------------------|----------|-------------|-------------|-------------------|
| | £m | £m | £m | £m | £m | £m |
| Non-derivative financial liabilities | | | | | | |
| £300m Sustainability Bond 2024 (amortised cost) | (301) | (323) | (15) | (308) | - | - |
| £109m 11% Final repayment subordinated notes 2025 | (109) | (145) | (12) | (12) | (121) | - |
| £20m Instalment repayment notes (final payment 2025) | (7) | (9) | (3) | (3) | (3) | - |
| £105m 7.5% Bond 2026 (fair value) | (95) | (137) | (8) | (8) | (121) | - |
| £245m 7.5% Bond 2026 (amortised cost) | (264) | (317) | (18) | (18) | (281) | - |
| Lease liabilities | (1,306) | (1,763) | (194) | (183) | (475) | (911) |
| Trade and other payables | (1,434) | (1,434) | (1,385) | (16) | (19) | (14) |

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 6 January 2024 and 31st December 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 6 January 2024 and 31 December 2022, if both 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 6 January 2024 the total amount of guarantees / bonds outstanding was £17m (2022: £17m).

Notes to the financial statements continued

27 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:

| | 2023 | | | 2022 | | |
|---|------------------------------------|----------------------|---------------------------|------------------------------------|----------------------|---------------------------|
| | 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 | - | (9) | 105 | - | (13) |
| Foreign exchange contracts | 64 | - | (2) | 88 | 3 | - |
| Commodity swaps (diesel) | 20 | - | (2) | 22 | 5 | (3) |
| Total recognised derivative assets / (liabilities) | 189 | - | (13) | 215 | 8 | (16) |

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 2026 Bond liabilities carried at fair value through the income statement, showing as a gain of £4m in 2023 (2022: £11m cost) see Notes 6 and 7.

The Group enters into forward contracts for the purchase of energy from third party suppliers for use by the Group. Energy contracts for own use are not required to be accounted for as derivatives. We adopt a layered hedging procurement policy for energy contracts over a period of 3 years to a maximum of 80% of Group forecast demand. At the 2023 year end we had 68% electricity (2022: 78%) and 54% gas (2022: 76%) coverage of our forecast demand for 2024.

Fixed rate sterling bonds

The fixed rate sterling bond 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.

Notes to the financial statements continued

27 Financial instruments, derivatives and valuation of financial assets and liabilities continued

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 | Fair value | Carrying value | Fair value |
|--|----------------|------------|----------------|------------|
| | 2023 | 2023 | 2022 | 2022 |
| | £m | £m | £m | £m |
| Interest-bearing loans and borrowings (held at amortised cost) | 583 | 581 | 685 | 645 |

The table below analyses financial instruments by measurement basis:

| 2023 | Fair value | Amortised cost | Total |
|---------------------------------------|--------------------------|----------------|--------------|
| | through income statement | | |
| | £m | £m | £m |
| Assets | | | |
| Other investments (funeral plans) | 1,346 | - | 1,346 |
| Trade and other receivables | - | 434 | 434 |
| Derivative financial instruments | - | - | - |
| Cash and cash equivalents | - | 395 | 395 |
| Short-term investments | - | 200 | 200 |
| Total financial assets | 1,346 | 1,029 | 2,375 |
| Liabilities | | | |
| Interest-bearing loans and borrowings | 105 | 583 | 688 |
| Derivative financial instruments | 13 | - | 13 |
| Trade and other payables | - | 1,186 | 1,186 |
| Total financial liabilities | 118 | 1,769 | 1,887 |

| 2022 | Fair value | Amortised cost | Total |
|---------------------------------------|--------------------------|----------------|--------------|
| | through income statement | | |
| | £m | £m | £m |
| Assets | | | |
| Other investments (funeral plans) | 1,369 | - | 1,369 |
| Trade and other receivables* | - | 452 | 452 |
| Derivative financial instruments | 8 | - | 8 |
| Cash and cash equivalents | - | 447 | 447 |
| Total financial assets | 1,377 | 899 | 2,276 |
| Liabilities | | | |
| Interest-bearing loans and borrowings | 95 | 685 | 780 |
| Derivative financial instruments | 16 | - | 16 |
| Trade and other payables | - | 1,081 | 1,081 |
| Total financial liabilities | 111 | 1,766 | 1,877 |

* The comparative figures have been restated following the adoption of IFRS 17 (Insurance Contracts). Refer to Note 33 for details of the restatement.

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

27 Financial instruments, derivatives and valuation of financial assets and liabilities continued

Valuation of financial instruments

| 2023 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|--|---------------|---------------|---------------|-------------|
| Assets | | | | |
| Financial assets at fair value through the income statement | | | | |
| - Funeral plan investments | - | - | 1,346 | 1,346 |
| - Derivative financial instruments | - | - | - | - |
| Total financial assets at fair value | - | - | 1,346 | 1,346 |
| Liabilities | | | | |
| Financial liabilities at fair value through the income statement | | | | |
| - Fixed rate sterling 2026 bond | - | 105 | - | 105 |
| - Derivative financial instruments | - | 13 | - | 13 |
| Total financial liabilities at fair value | - | 118 | - | 118 |

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 2026 bonds carried at amortised cost is disclosed in Note 19. The equivalent fair value for the unhedged proportion of the 2026 bonds that are now carried at amortised cost would be £243m (2022: £222m).

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.

| 2022 | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|--|---------------|---------------|---------------|-------------|
| Assets | | | | |
| Financial assets at fair value through the income statement | | | | |
| - Funeral plan investments | - | - | 1,369 | 1,369 |
| - Derivative financial instruments | - | 8 | - | 8 |
| Total financial assets at fair value | - | 8 | 1,369 | 1,377 |
| Liabilities | | | | |
| Financial liabilities at fair value through the income statement | | | | |
| - Fixed rate sterling 2026 bond | - | 95 | - | 95 |
| - Derivative financial instruments | - | 16 | - | 16 |
| Total financial liabilities at fair value | - | 111 | - | 111 |

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.

Notes to the financial statements continued

27 Financial instruments, derivatives and valuation of financial assets and liabilities continued

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 material 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 material 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. 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 obligation to deliver the funeral is treated as an insurance contract liability under the new accounting standard IFRS 17 (Insurance Contracts) and held separately on our balance sheet. The new standard applies to all of the Group's funeral plans (including the re-insurance of the payment waiver on instalment plans) and is effective from 1 January 2023. IFRS 17 is applied retrospectively and requires restatement of comparative figures. See Note 33 for details of the restatements and approach on transition and Note 21 for details of the Group's Insurance contract and Re-insurance contract liabilities and associated accounting policies.

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.

Notes to the financial statements continued

27 Financial instruments, derivatives and valuation of financial assets and liabilities continued

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.

As noted overleaf; the obligation to deliver the funeral is treated as an insurance contract liability under the new accounting standard IFRS 17 (Insurance contracts) and held separately on our balance sheet. The new standard applies to all of the Group's funeral plans (including the re-insurance of the payment waiver on instalment plans) and is effective from 1 January 2023. IFRS 17 is applied retrospectively and requires restatement of comparative figures. See Note 33 for details of the restatements and approach on transition and Note 21 for details of the Group's Insurance contract and Re-insurance contract liabilities and associated accounting policies.

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 interest rate swaps, foreign exchange contracts, 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 monitored regularly based on Board approved Treasury Policy, with changes to the credit limits being reported monthly to the Treasury Committee. The limits are set to minimise the concentration of credit 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, bonds and leases.

Notes to the financial statements continued

27 Financial instruments, derivatives and fair values of financial assets and liabilities continued

Trade receivables

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

28 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.

Commitments:

a) Capital expenditure that the Group is committed to but which has not been accrued for at the period end was £22m (2022: £12m).

Contingent liabilities:

b) i) 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 currently circa 4,700 claims (2022: circa 4,000 claims) and it is anticipated that this number will rise, though it is not possible to predict the point to which this may increase or the rate of increase.

These equal pay claims are initiated in the Employment Tribunal and claimants will need to succeed in three stages to succeed. The first stage concerns whether the roles of store colleagues can be compared with those of warehouse colleagues. In light of European and Supreme Court decisions, Co-op Group has conceded that it will not contest this point. The second and third stages are concerned with an equal value assessment between comparator roles and if this is shown to be the case, a subsequent consideration of Co-op Group's material factor defences (which are the non-discriminatory reasons for any pay differential). It is expected this litigation will take a number of years to final resolution.

The claims are still 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.

b) ii) In early February 2023 a claim was issued against Co-operative Group Limited and certain of its subsidiaries (Co-operative Group Food Limited, Co-operative Foodstores Limited and Rochpion Properties (4) LLP) by the liquidators of The Food Retailer Operations Limited in connection with transactions which took place in 2015 and 2016 relating to the Somerfield supermarket business acquired by Co-op in 2009.

The amount claimed is approximately £450m plus further unquantified amounts of interest and costs. Co-op strongly disputes both liability and the quantum of the claim.

29 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.

| | | 2023 | 2022 |
|--|--------------|------|------|
| | Relationship | £m | £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 23. 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 £2,142m (2022: £1,895m) and the amount due from ISMs in respect of such sales was £142m at 6 January 2024 (2022: £144m). 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

A number of small transactions (such as the purchase of funeral services) 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. Key management personnel transactions noted in the year are £1,000 (2022: £29,000). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2022: £nil). Total compensation paid to key management personnel is shown below.

| Key management personnel compensation | 2023 | 2022 |
|---------------------------------------|------------|------------|
| | £m | £m |
| Short-term employee benefits | 3.6 | 3.1 |
| Post-employment benefits | 0.1 | 0.1 |
| Other long-term benefits | 0.3 | 1.1 |
| Termination benefits | - | 1.6 |
| Total | 4.0 | 5.9 |

Notes to the financial statements continued

30 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 223 for a Group structure diagram.

| | Society holding % | Nature of business |
|--|-------------------|-----------------------|
| 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) All transactions between entities are in the usual course of business.

Notes to the financial statements continued

31 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 | 2023 (unaudited) | 2022 (unaudited) |
|-----------------------|---------------------|---------------------|
| | m | m |
| Active members | 5.0 | 4.4 |

| Membership and community rewards (within the income statement) | £m | £m |
|--|-----------|----|
| Member reward earned | 25 | 20 |
| Community reward earned | 20 | 18 |
| Total reward | 45 | 38 |

Member and community rewards were both earned at 2% (4% in total) of eligible spend during the year.

Full details of our overall investment in our communities can be found in our Co-operate Report.

32 Events after the reporting period

What does this show? This note gives details of any material 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.

There are no material post balance sheet events noted for disclosure in the 2023 Annual Report and Accounts for the 53 week period ended 6 January 2024.

Notes to the interim financial statements continued

33 Prior year restatement (adoption of IFRS 17)

What does this show? Occasionally we need to revise or restate the numbers that we have previously recorded in our published accounts. This may arise due to the introduction of a new accounting standard which may require us to treat certain balances differently than we have previously done. If the new standard requires us to apply the new approach retrospectively then we will change the numbers we have published previously. In such circumstances then this note explains what the change in accounting practice is and how it has affected our numbers in previous years.

IFRS 17 Insurance Contracts

In May 2017, the International Accounting Standards Board (IASB) issued IFRS 17 (Insurance Contracts). IFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, replacing Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (such as life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects and requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

The new standard is applicable to all of the Group's pre-need funeral plans including the re-insurance of the payment waiver risk (where the Group waives the remaining payments if a customer dies during the payment term subject to conditions) and is effective from 1 January 2023.

The Group has transitioned to IFRS 17 from 1 January 2023 but we are required to restate our results from 2 January 2022, adjusting opening reserves as at that date. Consequently we are required to restate the numbers that we presented previously in our financial statements to reflect the adoption of the new standard.

Key Accounting Changes:

The adoption of IFRS 17 in 2023 represents a fundamental change to the way that we currently account for all of our funeral plans and waiver insurance policies under IFRS 15 (Revenue from Contracts with Customers). The main accounting policies the Group has applied under IFRS 17 are shown at the end of this note. The main areas of change include:

- **Revenue recognition** – under IFRS 15 revenue from funeral plans was only recognised at the point the funeral was arranged (at redemption of the plan). IFRS 17 requires revenue to be recognised over the contract coverage period (being the duration of the funeral plan).
- **Liability measurement** - the Group uses the General Measurement Model (GMM) under IFRS 17 to measure the liability for remaining coverage. IFRS 17 requires actuarial modelling of the liability, updated each reporting period for current estimates of expected cash flows. IFRS 15 did not remeasure the liability to reflect a current estimate of the future cash flows to provide the funeral.
- **Re-insurance** - under IFRS 15 the waiver insurance costs were expensed as incurred. IFRS 17 requires the cash flows to be modelled and the expense to be recognised over the contract coverage period.
- **Opening equity** - at 2 January 2022 opening reserves have been restated consistently with IFRS 17.
- **Level of aggregation** - under IFRS 17 we now separate our insurance contracts into portfolios consisting of contracts that are subject to similar risks and that are managed together. Portfolios are further sub-categorised into groups and cohorts. This disaggregation is a new concept to Group and important for determining if a set of contracts is onerous, how contracts are presented and how profit or loss is recognised. If contracts are onerous we'll need to recognise a loss component.

Key Presentational changes:

Under IFRS 17 we are required to present certain items differently or to have new line items entirely for certain balances in comparison to IFRS 15. These requirements see changes to our primary statements and notes to the accounts:

Consolidated income statement:

• Revenue

The result of our insurance activities in relation to funeral plans will be shown within the Funerals operating segment. IFRS 17 is based upon a fulfilment cashflow model and as such revenue and expenses includes the cost of funeral disbursements gross (whereas previously they were shown net under IFRS 15). The disclosure notes will be required to separately show:

- Insurance revenue
- Insurance service expenses
- Insurance service result

• Insurance finance expense

Finance expense will include:

- Net finance expense from insurance contracts and net finance income from re-insurance contracts

Notes to the interim financial statements continued

33 Prior year restatement (adoption of IFRS 17) continued

Comprehensive Statement of Income:

Under IFRS 17 the Group has elected to disaggregate certain elements of finance income / expense that arise due to changes in assumptions (such as the discount rate) and record the impact of those changes in other comprehensive income (OCI) rather than in the Income statement. The large gain recorded in OCI in 2022 primarily arises due to movements in the discount rate.

Consolidated Balance Sheet:

- Assets - Contract assets, which includes fulfilment costs (acquisition costs) of funeral plans, will be included in the measurement of insurance contract liabilities and no longer recognised as an asset (as was the case under IFRS 15). A new line item called Re-insurance Contract Assets will be included in our balance sheet if material. Instalment plan debtors are also netted off the insurance contract liability under IFRS 17.
- Liabilities - Contract liabilities in the balance sheet (as held under IFRS 15) will be replaced with insurance contract liabilities.

Approach on transition:

The Group has transitioned to IFRS 17 from 1 January 2023 but we are required to restate our results from 2 January 2022, adjusting opening reserves as at that date. Under IFRS 17, a fully retrospective approach should be taken to applying the standard on transition (as if all plans had been accounted for under IFRS 17 since inception) unless this approach is impractical. The alternative approach is to fair value the plan liabilities as at the date of transition. IFRS 17 does not define 'impractical' however, we have concluded that it would not be practical to fully apply the standard retrospectively over the full back book. As such, the Group has applied the fair value approach on transition to plans up to 2020, after which we have applied the fully retrospective approach as it is deemed practical to do so.

Using the fair value approach, the CSM is determined as the difference between the fair value of the group of insurance contracts (i.e. what Co-op would have to pay a third party to take on the liability) and its fulfilment cash flows at the transition date. The fair value of the insurance contracts has been measured by applying IFRS 13 Fair Value Measurement and we have taken the following steps to calculate the fair value:

- Measured the undiscounted IFRS 17 fulfilment cashflows at 1st January 2022;
- Discounted the above cash flows based on the expected market return less tax and expenses (at a rate consistent with the wider IFRS 17 calculation);
- Applied a margin for a required profit, which was assessed at 10%.

A summary of the adjustments that are required to restate our prior full year figures (2022) to reflect the new basis of accounting are shown on the following pages. The restatements impact the consolidated income statement, the consolidated statement of comprehensive income and the consolidated balance sheet. There is no impact or change to the consolidated cashflow statement.

| Consolidated income statement for the 52 week period ended 31 December 2022 | As previously reported | IFRS 17 | As restated |
|---|------------------------|-------------|-----------------|
| | £m | £m | £m |
| Revenue (excluding funeral plans) | 11,480 | (83) | 11,397 |
| Insurance revenue (funeral plans) | - | 87 | 87 |
| Total revenue | 11,480 | 4 | 11,484 |
| Operating expenses (excluding insurance service expenses on funeral plans) | (11,484) | 60 | (11,424) |
| Insurance service expenses (funeral plans) | - | (81) | (81) |
| Other income | 9 | - | 9 |
| Operating profit / (loss) | 5 | (17) | (12) |
| Profit on sale of petrol forecourt stores | 319 | - | 319 |
| Finance income | 125 | - | 125 |
| Finance costs (excluding insurance finance expenses on funeral plans) | (202) | 53 | (149) |
| Insurance finance expenses (funeral plans) | - | (15) | (15) |
| Profit before tax | 247 | 21 | 268 |
| Taxation | (4) | (6) | (10) |
| Profit from continuing operations | 243 | 15 | 258 |
| Profit on discontinued operation (after of tax) | 67 | - | 67 |
| Profit for the period | 310 | 15 | 325 |
| Non-GAAP measure | | | |
| Underlying operating profit | 100 | (17) | 83 |
| Underlying loss before tax | (31) | (17) | (48) |

Notes to the interim financial statements continued

33 Prior year restatement (adoption of IFRS 17) continued

| Consolidated statement of comprehensive income (for the 52 week period ended 31 December 2022) | As previously reported | IFRS 17 | As restated |
|---|------------------------|------------|--------------|
| | £m | £m | £m |
| Profit for the period | 310 | 15 | 325 |
| Items that will never be classified to the income statement | | | |
| Remeasurement losses on employee pension schemes | (732) | - | (732) |
| Related tax on items above | 183 | - | 183 |
| Insurance finance income (funeral plans) * | - | 453 | 453 |
| Tax on funeral plan liabilities (insurance contracts) | - | (113) | (113) |
| Other comprehensive (loss) / income for the period net of tax | (549) | 340 | (209) |
| Total comprehensive (loss) / income for the period | (239) | 355 | 116 |

* Under IFRS 17 the Group has elected to disaggregate that element of finance income / expense that arises due to changes in the discount rate and record the impact of those changes in other comprehensive income (OCI) rather than in the Income statement. The large gain noted above on restatement primarily arises due to movements in the discount rate in 2022.

| Funeral - segmental reporting (for the 52 week period ended 31 December 2022) | As previously reported | IFRS 17 | As restated |
|--|------------------------|---------|-------------|
| | £m | £m | £m |
| Revenue (excluding funeral plans) | 271 | (83) | 188 |
| Insurance revenue (funeral plans) | - | 87 | 87 |
| Total revenue | 271 | 4 | 275 |
| Underlying operating profit / (loss) | 16 | (17) | (1) |
| Operating profit / (loss) | 10 | (17) | (7) |
| Underlying EBITDA | 43 | (17) | 26 |
| EBITDA | 37 | (17) | 20 |
| Underlying Profit before tax | (4) | 21 | 17 |
| Profit before tax | (10) | 21 | 11 |

The Funeral segment includes the results of our pre-need funeral plan business recorded under the newly adopted accounting standard IFRS 17 (Insurance Contracts) which were previously recorded under IFRS 15. Overall profitability recorded under IFRS 17 and IFRS 15 is broadly comparable however under IFRS 17 our operating profit (as noted in the table above) is lower primarily because of the phasing of revenue being spread over the life of a funeral plan rather than all at redemption. This reduction to Operating profit is offset by a reduction in net finance charge (which is recorded below operating profit and does not feature in the tables above). Underlying operating profit remains our primary alternative performance measure and basis of our segmental reporting, however for the Funeral segment we do not consider it the most useful metric to understand the performance of the business as a result of the impact of IFRS 17. As such we have included a profit before tax figure as an additional metric in the segmental tables for the Funeral business to aid a reader's understanding of the performance of that business.

| Funerals segment (£m) | 2023 | 2022 |
|--------------------------------|------|------|
| Operating loss | (11) | (7) |
| Finance income (funeral plans) | 17 | 28 |
| Finance cost (funeral plans) | (16) | (15) |
| Finance income (other) | 25 | 7 |
| Finance costs (other) | (2) | (2) |
| Profit before tax | 13 | 11 |

Notes to the interim financial statements continued

33 Prior year restatement (adoption of IFRS 17) continued

| Consolidated balance sheet (as at 31 December 2022) | As previously reported £m | IFRS 17 £m | As restated £m |
|--|------------------------------|---------------|-------------------|
| Non-current assets | | | |
| Funeral plan investments | 1,369 | - | 1,369 |
| Contract assets (funeral plans) | 33 | (33) | - |
| Funeral plan debtors | 167 | (167) | - |
| Other non-current assets | 5,122 | - | 5,122 |
| Total non-current assets | 6,691 | (200) | 6,491 |
| Current assets | | | |
| Contract assets (funeral plans) | 4 | (4) | - |
| Funeral plan debtors | 31 | (31) | - |
| Other current assets | 1,503 | - | 1,503 |
| Total current assets | 1,538 | (35) | 1,503 |
| Non-current liabilities | | | |
| Contract liabilities (funeral plans) | 1,540 | (1,540) | - |
| Deferred tax liabilities | 156 | 102 | 258 |
| Other non-current liabilities | 1,994 | - | 1,994 |
| Insurance contract liabilities (funeral plans) | - | 987 | 987 |
| Re-insurance contract liabilities (funeral plans) | - | 7 | 7 |
| Total non-current liabilities | 3,690 | (444) | 3,246 |
| Current liabilities | | | |
| Contract liabilities (funeral plans) | 183 | (183) | - |
| Other current liabilities | 1,638 | - | 1,638 |
| Insurance contract liabilities (funeral plans) | - | 86 | 86 |
| Re-insurance contract liabilities (funeral plans) | - | 1 | 1 |
| Total current liabilities | 1,821 | (96) | 1,725 |
| Equity | | | |
| Share Capital and Other Reserves | 81 | - | 81 |
| Retained earnings | 2,637 | 305 | 2,942 |
| Total equity | 2,718 | 305 | 3,023 |

As the restatement for IFRS 17 applies to all previous years including the closing 2021 balance sheet (as at 1 January 2022) then for comparative purposes we have also included below an adjusted opening 2022 balance sheet (as at 2 January 2022).

| Consolidated balance sheet (as at 1 January 2022) | Closing position as previously reported (1 January 2022) £m | IFRS 17 £m | Opening position restated (2 January 2022) £m |
|--|--|---------------|--|
| Non-current assets | | | |
| Funeral plan investments | 1,372 | - | 1,372 |
| Contract assets (funeral plans) | 36 | (36) | - |
| Funeral plan debtors | 199 | (199) | - |
| Other non-current assets | 6,446 | - | 6,446 |
| Total non-current assets | 8,053 | (235) | 7,818 |
| Current assets | | | |
| Contract assets (funeral plans) | 4 | (4) | - |
| Funeral plan debtors | 34 | (34) | - |
| Other current assets | 1,089 | - | 1,089 |
| Total current assets | 1,127 | (38) | 1,089 |
| Non-current liabilities | | | |
| Contract liabilities (funeral plans) | 1,614 | (1,614) | - |
| Deferred tax liabilities | 314 | (11) | 303 |
| Other non-current liabilities | 2,226 | - | 2,226 |
| Insurance contract liabilities (funeral plans) | - | 1,414 | 1,414 |
| Re-insurance contract liabilities (funeral plans) | - | 11 | 11 |
| Total non-current liabilities | 4,154 | (200) | 3,954 |
| Current liabilities | | | |
| Contract liabilities (funeral plans) | 164 | (164) | - |
| Other current liabilities | 1,923 | - | 1,923 |
| Insurance contract liabilities (funeral plans) | - | 123 | 123 |
| Re-insurance contract liabilities (funeral plans) | - | 1 | 1 |
| Total current liabilities | 2,087 | (40) | 2,047 |
| Equity | | | |
| Share Capital and Other Reserves | 80 | - | 80 |
| Retained earnings | 2,859 | (33) | 2,826 |
| Total equity | 2,939 | (33) | 2,906 |

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 material.

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://www.coop.co.uk/store-finder>.

Basis of preparation

The Group accounts have been prepared in accordance with UK adopted international accounting standards for the 53 week period ended 6 January 2024 and in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014. 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'.

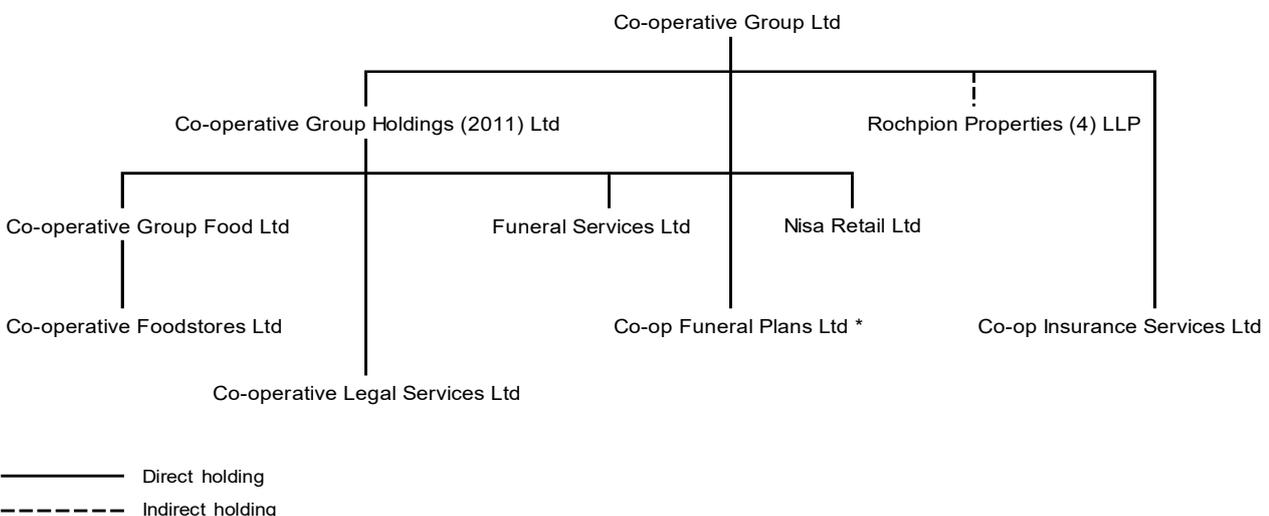
Climate Change Considerations

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 impact on the valuation of the Group's assets or liabilities. Where material the Group has included the impact of climate change within its forecasts, impairment reviews and assessments of going concern and viability. Further detail is given later in this section under 'Material accounting judgements, estimates and assumptions 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 30 (Principal subsidiary undertakings). 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/investors/rules>



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.

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 53 weeks ended 6 January 2024. Comparative information is presented for the 52 weeks ended 31 December 2022. Since the financial periods are virtually in line with calendar years, the current period figures are headed 2023 and the comparative figures are headed 2022. The comparative amounts are not entirely comparable with the results of 2023, which are based on a longer period.

Co-operative Insurances Services Limited and certain small holding companies have prepared accounts for the period ended 31 December 2023. This differs from the Group and the other subsidiaries. For the period ending 6 January 2024, there are no material 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 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.

Material 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.

In assessing the Group's judgements and sources of estimation uncertainty, consideration has also been given to the impact of climate change risk. Details are shown at the end of this section.

Key judgements:

In the process of applying the Group's accounting policies, management has made the following key judgements which have the most material impact on the consolidated financial statements:

• 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 material event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

Key accounting estimates and assumptions:

• Insurance contract liabilities (Note 21)

Under IFRS 17 (Insurance Contracts) the Group's funeral plan liabilities reflect the current estimate of the present value of the future cashflows to provide the funeral. These are calculated using actuarial advice and are based on a range of assumptions and estimates. The assumptions used are management's best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

The main actuarial assumptions include estimates in relation to discount rates, future costs to deliver a funeral including inflation and expense assumptions, mortality rates, risk adjustments and plan cancellation rates. The insurance contract liability calculation is most sensitive to changes in the discount rate and inflation assumptions and further detail on these items is noted below.

Key accounting estimates and assumptions - continued:

• **Insurance contract liabilities (Note 21) -continued**

Discount rate - the Group applies a bottom-up approach to derive the discount rate such that our insurance contract liabilities (funeral plans) are calculated by discounting expected future cash flows at a risk free rate, plus an illiquidity premium (credit spread). The risk free rate has been derived by reference to market yields on sterling-denominated high quality corporate bonds of appropriate duration consistent with the funeral plans at that date (UK Gilt curve at the valuation date converted from continuous to annual rates). The illiquidity premium is determined by reference to observable market rates (assessed as the average credit spread on 10-15 A rated and 10-15 year AA rated bonds at the valuation date).

Inflation - the rate of inflation is set based on the Bank of England Forward Inflation Curve at the valuation date converted from continuous to annual. From 2022 onwards a reduction of 25 basis points has been applied to allow for high levels of demand for inflation linked gilts increasing inflation expectations. Years 2023 to 2026 have been adjusted to reflect managements' view based on experience of funeral cost inflation.

• **Pensions (Note 25)** – 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 material 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 25 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.

This review is performed annually or in the event where indicators of impairment are present. At 6 January 2024, the Group has considered whether general uncertainty in the wider macro-economic environment including the cost-of-living crisis, rising inflation, energy price increases, and the on-going conflicts in Ukraine and the Middle East has the potential to represent a significant impairment indicator.

Despite the difficult trading conditions and associated additional costs of serving our customers the Group's main business areas have proven resilient and the performance of the Group's cash-generating units has remained strong. Therefore, management concluded that the impact of the factors noted on the longer term outlook for these cash generating units did not constitute an indicator of material impairment and hence a full impairment test across all CGUs was not required. This judgement is unchanged from 31 December 2022.

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 9-12% (2022: 10-11%) 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.

• **Provisions (Note 22)** – 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 material provision for the Group relates to regulatory and legal provisions typically in relation to on-going legal or regulatory claims and material assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See Note 22 for further details.

Material accounting judgements, estimates and assumptions in relation to climate change

In assessing the Group's judgements and sources of estimation uncertainty, consideration has been given to the impact of climate change risk. Aside from areas noted below climate change risks do not have any impacts on the Group's other judgements or sources of estimation uncertainty.

Impairment of property, plant and equipment resulting from climate change

IAS 36 takes differing approaches dependant on the nature of the assets where an impairment review is required:

- For goodwill and all intangible assets with an indefinite useful life, an annual impairment test is required;
- For all other assets, IAS 36 requires an impairment test to be carried out where the indicators of impairment are present.

In the context of climate change impacts, the Group's approach is as follows:

Material accounting judgements, estimates and assumptions in relation to climate change - continued

• **Annual impairment reviews** - the Group undertakes an annual impairment review of goodwill as required by IAS 36. This review is based on our Board approved budget and 4 year plan including terminal growth assumptions. The review in respect of the 2023 year end has been based on: 1) the 2024 forecast, which specifically identifies climate change-related costs; and 2) the 4 year plan which does not specifically include the financial impact of climate risks that could crystallise within the time frame of the plan. However, where necessary, the plan has been overlaid with the possible near-term impacts of climate change actions which include but are not limited to: (i) Incremental costs of fleet de-carbonisation; (ii) Replacement of HFC refrigeration; (iii) Supply chain impacts on operations; and (iv) Consumer behavioural impacts on operations.

• **A review of the indicators of impairment** - to assess whether any of those indicators could be present, having been triggered by climate change events or risks, and therefore might require an impairment test to be carried out on other assets, principally dealing with but not limited to: (i) Tangible fixed assets in stores, distribution centres and Funeralcare branches; and (ii) Right of use assets. Examples of indicators of potential impairment include:

External sources

- A decline in an asset's value during the period that is materially more than would be expected from the passage of time or normal use
- Material adverse changes that have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated
- An increase in the period in market interest rates or other market rates of return on investments if these increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially
- The carrying amount of the net assets of the entity exceeds its market capitalisation.

Internal sources

- Evidence of obsolescence or physical damage of an asset
- Material changes in the extent to which, or manner in which, an asset is used or is expected to be used, that have taken place in the period or soon thereafter and that will have an adverse effect on it. These changes include the asset becoming idle, plans to dispose of an asset sooner than expected, reassessing its useful life as finite rather than indefinite or plans to restructure the operation to which the asset belongs.
- Internal reports that indicate that the economic performance of an asset is, or will be, worse than expected.

As part of its stated target of Net Zero by 2035, the Group is committed to decarbonisation of its vehicle fleet and refrigeration. Achievement of the target is heavily dependent on these activities.

• **Refrigeration** – our retail store re-fit programme, which aims to re-fit every Food store over an 8 - 12 year cycle, includes the replacement of HFC refrigeration with HFC-free refrigeration. Until a store is re-fit, it will continue trading using existing refrigeration. At the point of re-fit, existing refrigeration will have a nil net book value. It is recognised that the cost of HFC-free refrigeration is higher than HFC refrigeration by approximately £40k, which has been included in our capital expenditure forecasts. Similarly, but on a smaller scale, our funeral branches and care centres with refrigeration will require replacement.

• **Funeralcare fleet** – as each vehicle comes to the end of its useful life, it will be replaced by an electric vehicle. There are c1,300 vehicles in the fleet. This replacement started in 2023.

• **Food logistics fleet** – this fleet is made up of c2,000 vehicles. We do not yet have a detailed plan of how we will de-carbonise the fleet but will not replace any vehicle until it has come to the end of its useful life.

There is a risk that Coop assets could be materially affected by extreme weather events such as flood. No such event has actually occurred.

No individual store or funeral branch, if affected by an extreme weather event, could have a material impact on the Group's overall results. However, the Food Distribution Centres can more reasonably be regarded as key facilities. Impairment should only be considered if there is evidence that a future event is highly probable (>81%) in a short timescale (<4 years). In conjunction with DNV and Resilience, an assessment of the physical risk to the distribution network of extreme weather events was carried out and indicated that the risk was negligible (see TCFD disclosures on pages 120 - 127).

Impairment of other non-financial assets

The Group's scenario analysis performed as part of the Task Force on Climate-Related Financial Disclosures (TCFD) report did not identify any material impairment risk to other non-financial assets. See TCFD section on pages 120 - 127.

Provisions

The Group takes into account the potential impact of climate change on its legal and constructive obligations, such as potential changes in regulations related to carbon emissions, environmental liabilities and natural disasters. The Group also considers the potential impact of climate change on the costs of complying with environmental regulations and the costs of natural disasters. The Group has reviewed its provisions and concluded that no adjustments need to be made for climate change risks, nor that any new provisions need to be recognised for climate-related matters.

Material accounting judgements, estimates and assumptions in relation to climate change - continued

Pension assets

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. Through its insurance buy-in contracts Pace has minimal further exposure. For the Somerfield and United schemes 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. 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.

New and amended standards adopted by the Group:

IFRS 17 (Insurance Contracts) - the Group has adopted the new insurance standard from 1 January 2023 which has a material impact on how the Group accounts for its funeral plan liabilities. The adoption of IFRS 17 is retrospective and has required the restatement of our prior period numbers. Further detail of the approach on transition, the application of the new standard and the impact of the restatement is given in Note 33.

The Group has considered the following standards and amendments that are effective for the Group for the period commencing 1 January 2023 and concluded that they are either not relevant to the Group or do not have a material impact on the financial statements:

- Amendments to IAS 8 - Definition of Accounting Estimates
- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies
- Amendments to IFRS 17 - Initial application of IFRS 17 & IFRS 9 Comparative Information
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12 - International Tax Reform Pillar Two Model Rules*

* Pillar 2 is being introduced into the UK to support the international actions promoted by the OECD to impose a minimum tax rate of 15%. The Co-op have considered the impact of the new rules and concluded that it has no application for the current year and is very unlikely to apply in 2024. This is because our prevailing Effective Tax Rate is above 15%.

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 2023 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 IAS 1 - Classification of Liabilities as Current or Non-current *
- Amendments to IAS 1 - Non-current Liabilities with Covenants *
- Amendments to IAS 16 - Lease Liability in Sale and Leaseback *
- Amendments to IAS 7 - Supplier Finance Arrangements *
- Amendments to IFRS 10 and IAS 8 - Sale or Contribution of Assets between an Investor and its Associate or Joint venture **

* Effective for annual periods beginning on or after 1 January 2024. ** In December 2015, the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

Going concern basis of preparation

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 19 to the accounts.

In addition, notes 19 and 26 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 ongoing impact of the conflicts in Ukraine and the Middle East and the stagnant UK economy have been taken into account, 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. This is not uncommon for a retail business and represents the usual balance sheet position for the Group and consequently the Directors do not believe that the net liability position impacts their overall assessment of Going Concern as outlined hereafter. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in Note 26, 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 December 2025 (the forecast period), and adjusted for sensitivities considered by the Board to be severe 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. The Group's £350m 7.5% Bond matures in July 2026; our current forecast assumes that we will be able to refinance a broadly equivalent level of debt prior to its maturity. Based on Co-op's past experience of successfully issuing bonds / raising debt, our credit rating and our expectations of the debt markets, the Directors are comfortable that this will be achievable as planned.

Further details of the Director's assessment can be found in the Going concern and Longer Term Viability sections of the Directors' report on pages 114 – 116.

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 Group financial statements (the "financial statements") give a true and fair view of the state of the Group's affairs as at 6 January 2024 and of the Group's income and expenditure for the 53-week period then ended;
- the group 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 53-week period ended 6 January 2024 which comprise:

Group

Consolidated balance sheet as at 6 January 2024

Consolidated income statement for the 53-week period ended 6 January 2024

Consolidated statement of comprehensive income for the 53-week period ended 6 January 2024

Consolidated statement of changes in equity for the 53-week period ended 6 January 2024

Consolidated statement of cash flows for the 53-week period ended 6 January 2024

Related notes 1 to 33 to the financial statements, including material accounting policy information

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 Community 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 financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, 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:

- We confirmed our understanding of the Group's going concern assessment process including the review process over the going concern model and management's related Board memorandum.
- We assessed the adequacy of the going concern assessment period, and considered whether any events or conditions foreseeable after the period indicated a longer review period was required.
- As set out in the section 'Accounting policies and basis of preparation', the Group needs to refinance a £350m bond which matures shortly after the Going Concern assessment period. We utilised our Debt Advisory specialists to assess the likelihood of the Group refinancing the bond.
- We checked the arithmetical accuracy of the cash flow forecasts, including the base case and downside scenarios, covering the going concern assessment period prepared by management and used by the Board in its assessment.
- We obtained copies of all facility agreements and understood the terms and conditions including those related to covenant test ratio requirements. We re-performed the calculation of headroom in respect of the financial covenant test ratios under the base case and by applying sensitivity analysis to assess compliance under severe but plausible downside scenarios.
- For the group's downside scenarios, we considered whether they reflected severe but plausible changes in key assumptions and adequately reflected our assessment of management's historical forecasting accuracy.
- We assessed management's ability to execute feasible, mitigating actions, if applicable, to respond to the downside scenarios, based on our understanding of the group and the sector.
- We obtained a forecast of the future climate-related expenditure, checked whether the related cashflows were appropriately incorporated into the model and checked that the model appropriately reflected the Group's climate-related commitments.
- 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.

Explanation of how we evaluated management's assessment (included in Conclusion section above) and the key observations arising with respect to that evaluation:

In making the going concern assessment, we have considered the following:

The Group has net current liabilities of £470m (2022: £223m), which is common in the retail industry due to the working capital cycle. The Group has net debt of £1,326m (2022: £1,639m) of which £688m (2022: £780m) is subject to covenant testing twice a year.

Cash generated from operating activities was £602m (2022: £455m) and was higher than the prior period mainly as a result of the trading performance alongside a focus on cost control and improved working capital management.

We identified the following significant assumptions made by management which have influenced their going concern assessment:

- Sales growth increases through volume recovery because of significant membership price investment and wider strategic plans to grow the business.

- This growth is tempered with the impact of cost headwinds (through real living wage increases and continuing cost inflation) increasing the cost of goods.
- Whilst capital investment remains tightly controlled, growth plans and an improved balance sheet will allow room for higher investment into future growth.
- The bonds due for maturity in 2024 and 2025 are expected to be repaid in full out of existing cash balances, while the bond maturing in 2026 is expected to be refinanced.

Based on the work we have performed, we have not identified any 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 a period to 31 December 2025.

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.

Overview of our audit approach

| | |
|-------------------|--|
| Audit scope | <ul style="list-style-type: none"> We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further two components. In addition, we performed specified procedures on one component and review scope procedures on two components. The components where we performed full or specific audit procedures accounted for 84.1% of Profit before tax, 99.9% of Revenue and 98.3% of Total assets. |
| Key audit matters | <ul style="list-style-type: none"> Revenue recognition; Supplier income; Transition to IFRS 17 Valuation of insurance contract liabilities – liability for remaining coverage; Revenue recognition in respect of the release of contractual service margin (CSM); Impairment of Food and non-trading corporate, property, plant & equipment and right of use assets; and Group IT Environment |
| Materiality | <ul style="list-style-type: none"> Overall Group materiality of £45m which represented 0.5% of Adjusted Revenue. <p data-bbox="475 1196 1398 1442"><i>Adjusted Revenue is calculated as Group revenue less revenue generated by the Federal Joint Buying Group (Federal per Note 1 of the accounts). 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. As the Group earns no profit on the arrangement, we consider Adjusted Revenue to be a relevant performance benchmark for measuring the value of the Group's activities from which it derives an economic benefit.</i></p> |

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 Group 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, the potential impact of climate change 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 Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we included in our audit scope all nine (2022: nine) reporting components of the Group. Our audit scope therefore represents all the principal business units within the Group.

Of the nine components selected, we performed an audit of the complete financial information of Food, Wholesale, Funeral, and Corporate components ("full scope components") which were selected based on their size or risk characteristics. For the Legal and Insurance components ("specific scope components"), we performed audit procedures on specific accounts within those components 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 Property component was designated as specified audit procedures scope. The remaining two components were designated as review 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 components 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.

The audit scope of these components included procedures which have been designed to address specific areas of risk within the component which will contribute to the overall risk assessment at the Group level.

The review scope components represent CFS Management Services Limited and Angel Square Investments Limited, for which we performed other procedures, including detailed analytical review, testing of cash balances, and testing of intercompany balances for elimination. We performed these procedures to respond to potential risks of material misstatement to the Group financial statements.

Current Period Coverage

| Components | Profit before tax % | Adjusted Revenue ¹ % | Total assets % |
|------------------------------------|---------------------|---------------------------------|----------------|
| Full Scope Components (4) | 78.38 | 98.85 | 97.49 |
| Specific Scope Components (2) | 5.72 | 1.06 | 0.80 |
| Review Scope Components (2) | 0.24 | 0.00 | 0.00 |
| Specified Procedures Component (1) | 15.66 | 0.09 | 1.71 |
| Total | 100 | 100 | 100 |

Prior Period Coverage

| Components | Profit before tax % | Adjusted Revenue ¹ % | Total assets % |
|------------------------------------|---------------------|---------------------------------|----------------|
| Full Scope Components (5) | 80.75 | 99.42 | 98.05 |
| Specific Scope Component (1) | 2.95 | 0.48 | 0.30 |
| Review Scope Components (2) | 0.10 | 0.00 | 0.31 |
| Specified Procedures Component (1) | 16.20 | 0.10 | 1.34 |

| Components | Profit before tax % | Adjusted Revenue ¹ % | Total assets % |
|--------------|---------------------|---------------------------------|----------------|
| Total | 100 | 100 | 100 |

¹Adjusted Revenue is defined in 'Materiality' summary in the 'Overview of our audit approach' section above.

Changes from the prior period

We revised our scope for the Insurance component from full scope in the prior period to specific scope due to the smaller relative contribution to the Group profit which has been made by this component in the current period.

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 operating under our instruction. Of the four full scope components, audit procedures were performed on one of these directly by the primary audit team. For the remaining components, 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, Funeral, Wholesale, Insurance, Corporate and Property component teams worked in the same office location as the primary team when on-site in the Co-operative Group Head Office in Manchester. This allowed the Group audit partner to meet with the component teams during the performance of the audit. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the financial statements.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has determined that the significant future physical risks from climate change are a lack of raw material availability and reduced access to key facilities (depots & data centres). The material future transition risks arising from climate change are potential damage to consumer sentiment in the market and impairment of technological assets as a result of negative impacts from the transition to a more sustainable business.

These are outlined on pages 120 to 127 in the required Task Force for Climate related Financial Disclosures and on pages 55 to 59 in the principal risks and uncertainties. All these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited 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, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in the Accounting Policies and Basis of Preparation and in Note 11 and Note 13 their articulation of how climate change has been reflected in the financial statements and cash flow forecasting, including how this aligns with their commitment to become a net-zero business before 2040. Significant judgements and estimates relating to climate change are included within section “Material accounting judgements, estimates and assumptions in relation to climate change”.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management’s assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on page 120 and the significant judgements and estimates disclosed within section “Material accounting judgements, estimates and assumptions in relation to climate change”. We assessed whether this impact has been appropriately reflected in asset values where these are impacted by future cash flows and associated sensitivity disclosures (see notes [11, 13 and 25]) following the requirements of UK adopted international accounting standards. As part of this evaluation we performed our own risk assessment, which included a review of the most recent Sustainability Report produced by the Group and a review of “Co-op’s Climate Plan” released in April 23, in order to determine the risks of material misstatement in the financial statements arising as a result of climate change and which therefore need to be considered in our audit. This risk assessment was supported by our climate change internal specialists.

We also challenged the Directors’ considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter. However climate change has an impact on one existing key audit matter *Impairment of Food and non-trading corporate, property, plant & equipment and right of use assets*. As explained within the section “Material accounting judgements, estimates and assumptions in relation to climate change” the impact of climate change is considered within the annual impairment assessment of property, plant & equipment and right of use assets.

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</p> <p>2023: £11,262 million (2022: £11,484 million)</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 to misstate revenue throughout the period.</p> | <p>Applicable to all material revenue streams</p> <ul style="list-style-type: none"> ○ We obtained an understanding of and documented the key processes and controls used to record revenue transactions by performing a walkthrough of the processes. ○ We performed analytical procedures over revenue, comparing results with our expectations and corroborating differences. We performed procedures in the month preceding and subsequent to the period-end. |

| Risk | Our response to the risk |
|---|--|
| <p>This is an existing risk of fraud in line with our prior period audit. We have determined the risk to affect overstatement in the current period, reflecting the risk that management could override controls to enhance reported performance.</p> <p>The key areas where management override may arise relate to manual journals posted into revenue or through adjustments in relation to store revenue polling data close to the end of the period.</p> <p>Refer to the Audit Committee Report (pages 81-90); Accounting policies (page 223); and Note 2 of the Consolidated Statements (page 156).</p> | <ul style="list-style-type: none"> ○ We tested whether the Group's revenue recognition policy is in line with the criteria in IFRS 15: Revenue from Contracts with Customers. ○ We performed testing around manual consolidation adjustments. Utilizing our analytics tools, we tested manual journals to revenue during the period and around period-end to a lower threshold and evaluated and corroborated explanations provided by management for any unexpected fluctuations. <p><u>Food- Store revenue</u></p> <ul style="list-style-type: none"> ○ We tested manual journals relating to instances where stores recognise revenue outside the normal automated store EPOS process and ensured that there is no duplication of stores 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 tested a sample of these to supporting evidence to ensure revenue has been recognised correctly. ○ We challenged manual adjustments made in relation to "non-pollled" store data adjustments by comparing these against averages for those stores. <p><u>Funeralcare</u></p> <p>In conjunction with our actuarial colleagues, we:</p> <ul style="list-style-type: none"> ○ Agreed the expected claims and expenses recognized for the period to the change in the liability for the remaining coverage, investigating unusual or material reconciling items; ○ Reconciled the amount of insurance acquisition cash flows included in revenue to the amount included in insurance costs, investigating unusual or reconciling items; and <p><u>Wholesale and Legal Services</u></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><u>CISL</u></p> <ul style="list-style-type: none"> ○ We tested the appropriateness of the release of deferred consideration into revenue during the period. ○ We agreed the frontbook revenue to third party commission statements and traced to cash receipts in the bank for the full year. ○ We reviewed contracts with insurers to agree the revenue recognition steps under IFRS 15. |

Key Observations to the Risk and Audit Committee

Revenue has been recognised appropriately in accordance with IFRS 15: Revenue from Contracts with Customers. The revenue from pre-need funeral plans has been recognized in accordance with IFRS 17: Insurance Contracts. We have not identified instances of management override of controls in relation to revenue.

| Risk | Our response to the risk |
|--|---|
| <p>Supplier income</p> <p>Income through the period 2023: £612m (2022: £626m) Income accrued at period-end 2023: £96m (2022: £116m)</p> <p>The Group receives money back from suppliers, specifically in 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, including performance conditions or promotional periods that span the Group's period end.</p> <p>Due to the complexity and judgement in relation to bonus income and LTA income, there is a risk that a misstatement in the calculation of income may occur either accidentally or purposefully through management override of controls and this could arise at any time during the period.</p> <p>Promotional income relates to short-term promotions which are less complex and settled through offset in the period. The risk of misstatement through the period is reduced, however, the risk related to manipulation at period-end to misstate profit remains.</p> <p>This is an existing risk of fraud in line with our prior period audit. We have determined the risk to affect overstatement in the current period, reflecting the risk that management could override controls to enhance reported performance.</p> <p>Refer to the Audit Committee Report (pages 81-90); Accounting policies (page 223); and Note 4 of</p> | <ul style="list-style-type: none"> ○ We obtained an understanding of and documented the processes used to record supplier income by performing a walkthrough of the processes. ○ We tested key controls identified from our walkthrough of the process including those related to the approval of key contracts. ○ For sample of supplier income recognised during the period, we issued direct requests to third party vendors to confirm the terms of arrangements and sales volumes used. We recalculated the income and accrued income recognised for this sample. ○ We selected a sample of period-end balances from the trade receivables ledger and requested third party balance confirmations. ○ We tested a sample of credit notes received during January 2024 and assessed whether any of these related to arrangements in respect of FY23. ○ We performed analytical review procedures over supplier income compared to cost of sales throughout the period to identify any unusual or unexpected trends. We investigated any discrepancies. ○ 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 are sufficient. ○ We read the Group's disclosures with respect to supplier arrangement amounts. ○ We tested that management's allocation of supplier income earned jointly with other independent societies through the member buying group was applied appropriately. |

| Risk | Our response to the risk |
|--|--------------------------|
| the Consolidated Financial Statements (pages 158-159). | |

| Key Observations to the Risk and Audit Committee |
|--|
| Promotional income, bonus income and LTA income were recognised in the correct period. We did not identify any material misstatements through either management override, error or manipulation of the period-end figures through manual journals. |

| Risk | Our response to the risk |
|--|--|
| <p>Valuation of insurance contract liabilities - Liability for Remaining Coverage</p> <p>Liability for Remaining Coverage 2023: £1,098m (2022: £1,073m)</p> <p>The risk related to the valuation of the Liability for Remaining Coverage is focussed on the present value of future cash flows (PVFCFs), the risk adjustment and the loss component.</p> <p>The risk is significant due to the complexity of the models used to estimate the insurance liabilities, the degree to which insurance liabilities are sensitive to economic and non-economic assumptions set by management and the calculations being contingent on the completeness and accuracy of the data.</p> <p>We believe the specific risk factors contributing to the assessment of the risk as significant include the following:</p> <ul style="list-style-type: none"> • Models are not designed appropriately for their purpose and do not reflect and/or model product | <p>This risk relates to the Funeralcare business.</p> <p>In conjunction with our actuaries, we:</p> <ul style="list-style-type: none"> • Performed process walkthroughs to obtain an understanding of the actuarial modelling, plan data flows, and assumption setting processes and identified relevant controls in place. • Compared management's model validation results with the funeral plan product terms and conditions and management's IFRS 17 valuation policies. For a selection of policies, performed an independent recalculation of the best estimate liabilities and compared the results to the output of the cashflow model used by management; • Assessed the results of management's analysis of movements in insurance contract liabilities to corroborate that there were no changes to the model in the period; • Gained an understanding of the rationale for amounts calculated outside of the core actuarial models and for a sample of such calculations, assessed the appropriateness of the applied methodology and tested that the calculation has been performed appropriately; • Obtained the output of the model baselining exercise of the cash flow model undertaken by management's outsourced actuarial team and assessed the exercise for reasonableness; For CSM and Risk Adjustment at the date of transition, we independently recalculated the output and compared it to management's estimate. • On a sample basis, tested the completeness and accuracy of the policy data used in the models by agreeing this to source systems and previously audited information. For new data requirements, we tested a sample of key data points back to source information. |

| Risk | Our response to the risk |
|---|---|
| <p>terms and conditions effectively.</p> <ul style="list-style-type: none"> • Manual adjustments to liabilities outside of the core actuarial models. • Key plan data utilised by the models is not complete and accurate. • Judgment is involved in setting economic assumptions, particularly discount rates (including the illiquidity premium) and in determining non-economic assumptions, the most significant of which are expenses. Therefore, there is a risk of management override in this area; and • Finally, IFRS 17 explicitly requires that a risk adjustment ('RA') be included above the best estimate cashflows within the liability for remaining coverage. IFRS 17 does not specify the estimation technique that should be used to determine the risk adjustment, so management must develop an appropriate estimation technique. Therefore, due to the inherent judgment required to determine both an appropriate technique and the relevant inputs, we consider the RA to be susceptible to management bias. This risk replaces the valuation of funeral plans liability as a result of transition from IFRS 15 to IFRS 17. <p>This is a new risk in the current period. This risk has arisen in the</p> | <ul style="list-style-type: none"> • Agreed the reconciliation of the plan master file to the input into the valuation model to check that all in-force plans are properly included in the valuation process; • Tested the underlying data on a sample basis back to the source administration system, verifying that the key data fields have been correctly and consistently applied period to period; • Challenged management's methodology for splitting expenses between acquisition and maintenance expenses including the split of attributable and non-attributable costs under IFRS 17, agreeing a sample of expenses back to source information; • Tested the actuarial model to assess whether the expense assumptions were applied appropriately within the model; • Evaluated the appropriateness of the discount rate selected by management and compared the information used to determine the illiquidity premium to the characteristics of the liabilities; • Challenged the results of management's experience analyses to assess whether these supported the adopted non-economic assumptions; • Benchmarked the significant assumptions against those of other comparable industry participants in our wider assumptions benchmarking review; • Performed procedures to test that the assumptions used in the year end valuation were consistent with the approved basis; and • Tested the application of the methodology used to derive the risk adjustment, including the scope of non-financial risks and key judgements applied when updating the calibration result. Compared management's approach to the wider market, where applicable, particularly where adjustments are applied to the calibration to reflect external events and by applying our industry knowledge and experience; and • Considered the adequacy of the disclosures in the financial statements. |

| Risk | Our response to the risk |
|---|--------------------------|
| <p>current period as a result of the adoption of IFRS 17,</p> <p>Refer to the Audit Committee Report (pages 81-90); Accounting policies (page 223); and Note 21, of the Consolidated Financial Statements (pages 186- 196).</p> | |
| Key Observations to the Risk and Audit Committee | |
| We have concluded that the liability for remaining coverage including risk adjustment is fairly stated in accordance with IFRS 17. | |

| Risk | Our response to the risk |
|--|---|
| <p>Revenue recognition in respect of the release of contractual service margin (CSM)</p> <p>Release of CSM (2023: £109m; 2022: £122m)</p> <p>The CSM represents future profit within the in-force book and therefore is highly judgmental.</p> <p>Release of CSM is a key component of insurance revenue under IFRS 17 and its calculation involves significant management judgment. Subsequent to the initial calculation of the CSM, the release of CSM is measured based on coverage units provided and is based on the opening CSM, adjusted for movements in the period which include additions to the CSM during the period in respect of new business, interest accretion and changes in fulfilment cash flows relating to future service.</p> <p>Given the importance of the release of CSM to reported insurance revenue, and the complexity of calculations and subjectivity of assumptions involved in determining coverage units and movements in the CSM, we</p> | <p>This risk relates to the Funeralcare business.</p> <p>In conjunction with our actuarial colleagues, we have:</p> <ul style="list-style-type: none"> ○ Performed a walkthrough of the CSM process and identified management's key controls in place. ○ Evaluated the definition of the coverage units and the appropriateness of the release pattern input into the CSM model; ○ Recalculated the total CSM release to confirm that this is in line with the requirements of the standard; ○ Reconciled the movement in the CSM to the relevant accounts in the Income Statement and changes in fulfilment cashflows relating to future services discounted at appropriate rates and aggregation level in the reserving models tested as part of the fulfilment cashflows; ○ Obtained the output of the model baselining exercise of the cash flow model undertaken by management's outsourced actuarial team and assessed the exercise for reasonableness; For CSM and Risk adjustment at the date of transition, we independently recalculated the output and compared it to management's estimate. ○ On a sample basis, tested the completeness and accuracy of the policy data used in the models by agreeing this to source systems and previously audited information. For new data requirements, we tested a sample of key data points back to source information. ○ Checked the appropriate accretion of interest was included in the model and the discount rates are accurately applied to adjust the CSM; ○ Agreed material input cashflows to the model back to source information; |

| Risk | Our response to the risk |
|--|--|
| <p>consider release of CSM to give rise to a risk of fraud in revenue recognition.</p> <p>This is a new risk in the current period. This risk has arisen in the current period as a result of the adoption of IFRS 17,</p> <p>Refer to the Audit Committee Report (pages 81-90); Accounting policies (page 223); and Note 21 of the Consolidated Financial Statements (pages 186-196).</p> | <ul style="list-style-type: none"> ○ Agreed the grouping of contracts into the onerous, non-onerous and other categories for all new business written during the year and assessed the impact on CSM; ○ Tested the appropriateness of material out-of-model adjustments made to the CSM; (No material OOMAs were noted); and ○ Checked the CSM movement disclosures in the financial statements to the output of the CSM calculation model. |

| Key Observations to the Risk and Audit Committee |
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| <p>We have concluded that the CSM calculation model is appropriate and the related release of CSM is fairly stated in accordance with IFRS 17.</p> |

| Risk | Our response to the risk |
|---|--|
| <p>Transition to IFRS 17</p> <p>The transition to IFRS 17, effective for annual reporting periods beginning on or after 1 January 2023, has resulted in significant changes to the reporting processes and to the consolidated financial statements. This transition, which includes several key judgements required substantial focus during our audit.</p> <p>We have focused on several transition areas, with the following being key areas of focus:</p> <ul style="list-style-type: none"> i) Methodology - The risk of management's methodology not following the requirements of the standard. ii) Models – The risk that models used to calculate best estimate liability (BEL) at transition do not appropriately reflect the Group's IFRS 17 accounting policies. | <p>This risk relates to the Funeralcare business.</p> <p>We have performed the following procedures to address the risk in relation to the transition to IFRS 17:</p> <ul style="list-style-type: none"> • Obtained and challenged managements methodology papers for compliance with IFRS17, and assessed management's implementation of their methodology; • Obtained and assessed management's documentation of their judgements in respect of the impracticability of applying the full retrospective approach and the subsequent application of the fair value transition approach for certain cohorts. • Tested the appropriateness, accuracy and completeness of management's disclosures in respect of IFRS 17 transition in the financial statements. • Performed a reconciliation of the opening retained earnings to the restated retained earnings under IFRS 17. We also tested the restated income statement for the comparative period to ensure that it has been presented in accordance with IFRS 17. |

| Risk | Our response to the risk |
|--|--------------------------|
| <p>iii) Transition approach - The risk that the calculation of the CSM on transition does not appropriately reflect the requirements of IFRS 17 where the full retrospective approach (FRA) was used, or IFRS 13 where the fair value approach (FVA) was used.</p> <p>This is a new risk in the current period. This risk has arisen in the current period as a result of the adoption of IFRS 17,</p> <p>Refer to the Audit Committee Report (page 81-90); Accounting policies (page 223); and Note 33, of the Consolidated Financial Statements (pages 219-222).</p> | |

Key Observations to the Risk and Audit Committee

We have concluded that the transition methodology, models and approach used to implement IFRS 17 on transition were appropriate.

| Risk | Our response to the risk |
|---|--|
| <p>Impairment of Food and non-trading corporate, property, plant & equipment and right of use assets</p> <p>PPE 2023: £1,543m (2022: £1,631m) RoU Assets 2023: £827m (2022: £882m)</p> <p>There is a risk of misstatement when performing an impairment assessment, due to challenges in forecasting for the future effects of the macro-economic environment. These factors can result in a material decline in the valuation of a wide range of assets at a food</p> | <ul style="list-style-type: none"> ○ We documented our understanding of the impairment model and the assessment of indicators of impairment for Food and non-trading corporate PPE and RoUA. ○ We obtained management's impairment indicator workings for store level assets. For those with indicators of impairment, we obtained the Group's impairment model. We confirmed the integrity of data inputs including store-level cash contribution data, listings of stores which were refitted or new in 2022 or 2023 and the carrying values of PPE. We also re-performed manual calculations to check these for accuracy. ○ We challenged the composition and accuracy of the cashflow projections and assessed management's forecasting accuracy by comparing to previous outturn. We considered making adjustments to forecasts where judgement was applied, such as for new and loss making stores in the Food component, as well as macro-economic impact on profits. ○ We tested the key assumptions (such as growth rates, discount rates and perpetuity rates) by corroborating the data inputs to |

| Risk | Our response to the risk |
|---|--|
| <p>store level. This is an existing risk in line with our prior period audit.</p> <p>The macro-economic environment is particularly challenging at the moment with high inflation levels, high interest rates, where the subsequent effect of these issues could lead to a material decline in the valuation of long life assets.</p> <p>The food retail component is most closely impacted by the macro-economic environment. Given the material value of the balances within this component we consider this risk to affect the Food stores Property, Plant & Equipment (PPE) and Right of use Assets (RoUA).</p> <p>Also, we note the presence of a challenging external environment in the property market therefore we consider there to also be a risk on the non-trading corporate PPE and RoU Assets.</p> <p>Refer to the Audit Committee Report (pages 81-90); Accounting policies (page 223); and Notes 11 & 12 of the Consolidated Financial Statements (pages 166-172).</p> | <p>external sources and working with EY Valuation Specialists to compare the key assumptions to external benchmarks.</p> <ul style="list-style-type: none"> ○ We performed a sensitivity analysis on the key inputs into the calculation by assessing the impact reasonably possible changes on these inputs would have on the overall headroom within the calculations. ○ We performed additional sensitivities where management forecast was based on historical trading that was not representative of store performance, such as if the store was closed for a number of months or where 'break even' profitability was assumed in the value in use calculation. ○ For Corporate division non-trading properties, we assessed the appropriateness of assumptions regarding future occupancy or sub-lease rental income to determine whether those assets were impaired. ○ We read the disclosures related to key assumptions and assessed whether reasonably possible changes to key assumptions could give rise to an impairment. |
| Key Observations to the Risk and Audit Committee | |
| <p>The impairment charge in respect of the Food store portfolio appropriately reflects changes in forecast performance. The Corporate right of use asset impairment has been appropriately updated to reflect the highest and best use of the asset under IFRS 13. The disclosures related to the impairment assessments and related sensitivities are in accordance with the requirements of IAS 36 "Impairment of Assets".</p> | |

| Risk | Our response to the risk |
|---|--|
| <p>Group IT Environment</p> <p>With over 600 IT platforms and applications in use, the Group's IT Systems are complex. This complexity, together with the impact of sub-optimal system integration</p> | <ul style="list-style-type: none"> ○ We understood the IT systems, the level of integration between systems and IT general controls for the key systems impacting the recording of transactions and the presentation of the financial statements. |

| Risk | Our response to the risk |
|---|---|
| <p>and automation results in significant dependence on manual workarounds and a high volume of monthly key account reconciliations.</p> <p>Due to the number of IT systems used in the preparation of the financial statements, a significant amount of audit effort is directed towards our response to the risks present from manual workarounds and the high volume of account reconciliations.</p> <p>Accordingly, we have identified the Group IT Environment as an area of audit focus and a Key Audit Matter. This is an existing risk consistent with our prior period audit.</p> | <ul style="list-style-type: none"> ○ We enhanced the testing of manual journals posted as part of the financial close process due to limitations in the Group's IT systems to address the risk of inappropriate journals. ○ We performed procedures on each of the relevant systems throughout the Group to assess the sufficiency of relevant controls. ○ In response to the limitations in the systems which affect the applications and databases within the scope of our audit, we performed the following audit procedures over information provided to us by the Group: <ol style="list-style-type: none"> 1) Testing a sample of transactions within the data processed by the IT systems to underlying source documentation to ensure that the extracted data is accurate. 2) Testing the data extracted from the IT systems to the general ledgers to ensure completeness of data subject to testing. 3) Reconciling trial balance movements in the period to the list of journals posted to ensure completeness. 4) Observing and testing the input parameters being entered to ensure appropriateness of the data extracted from the IT systems for the intended purpose. 5) Recalculating the computations and categorizations performed by the IT systems for a sample of transactions in the extracted data reports to ensure the data was accurate. ○ Due to the lack of systems integration and the presence of manual interventions we increased the extent of our testing 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 to mitigate the risk of material misstatement due to limitations in the functionality of certain of the Group's IT systems and IT general controls and did not identify material misstatements.

In the current period, the procedures performed in respect to Revenue Recognition and Supplier Income have been modified to reflect the fact that we are focussing on the risk of overstatement only. We have also removed goodwill from the scope of the Impairment risk, due to the significant headroom and limited sensitivity in the calculation.

We have removed the risk on Pre-need funeral plan accounting and replaced this with three new risks as a result of the new assumptions applied under IFRS 17 in the current period, these new key audit matters are: Valuation of insurance contract liabilities (Liability for Remaining Coverage), Contractual Service margin (CSM) roll-forward, and Transition to IFRS 17 which became effective for annual reporting periods beginning on or after 1 January 2023.

In the prior period, our auditor's report also included key audit matters in relation to Accounting for the disposal of petrol forecourts (Arthur Food Stores Limited) and the going concern basis of preparation, which are not considered to be key audit matters in the current period. The risk in relation to disposal of petrol forecourts has reduced in current period with immaterial residual balances remaining. The going concern basis of preparation has been downgraded from a key audit matter due to the improvements in both the net debt position and control over working capital and capital expenditure.

Our application of materiality

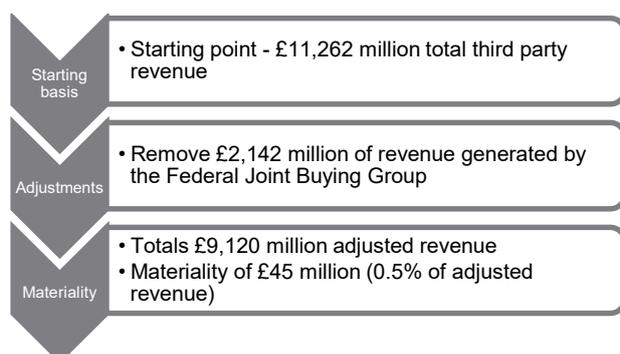
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

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 £45.0 million (2022: £47.9 million), which is 0.5% (2022: 0.5%) of Adjusted Revenue. Revenue is a key performance indicator used by management to monitor the Group's performance and the figure which we believe to be relevant to the members when assessing the performance of the Group. We considered Adjusted Revenue to be a relevant performance metric on which to base our materiality calculation. Adjusted Revenue is defined in 'Materiality' summary in the 'Overview of our audit approach' section above.

In concluding on this benchmark, we considered that the primary users of the financial statements were the Member-owners. Providing services for Member-owners and their communities, Membership benefits, employee discounts and charitable contributions are key performance indicators for Member-owners. These amounts are a function of revenue. This benchmark is consistent with the prior period.



During the course of our audit, we reassessed initial materiality and materiality based on the final figures used per the financial statements and this has not led to any 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% (2022: 50%) of our planning materiality, namely £22.5m (2022: £24.0m).

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 £4.5m to £19.1m (2022: £4.8m to £18.0m).

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 (2022: £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 considering 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 80 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

ISAs (UK) 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 pages 114-116;
- 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 116;
- Directors' statement on fair, balanced and understandable set out on page 128;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 54;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 83; and
- The section describing the work of the audit committee set out on pages 82-90.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 128-129, 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.

- 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, Money Laundering Regulations 2019, Network and Information Systems (NIS) Regulations 2018 and The Funeral Plan: Conduct of Business sourcebook (FPCOB) issued by the Financial Conduct Authority (FCA).
- 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 Group's financial statements to material misstatement, including how fraud might occur 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.
- We used an internal fraud analyser, which compares the general ledger data to the characteristics from a database of fraud schemes, to identify journal entries that exhibit common characteristics. Using the internal fraud analyser, we reviewed the areas of the financial statements that could be more susceptible to fraud and assessed whether this was consistent with our risk assessment procedures. Then applying filters and using our professional judgement, we analysed the underlying journal detail. For those entries in the journal detail determined to be higher risk we selected items for testing.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For laws and regulations having a direct impact on the financial statements, 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, senior management and internal legal counsel 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, inspecting significant correspondence with regulatory authorities and making inquiries with external legal counsel. 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.

- The Group has disclosed in Note 28 that a claim has been received in respect of an historic transaction relating to certain former Somerfield stores. We inspected documentation prepared by management, the in-house legal counsel and management's external legal advisors both at the time of the transaction and in the current period. We discussed the nature of the claim and the basis for the disclosure presented in Note 28 with management, the external legal advisors and members of the Risk and Audit Committee.
- The Group has disclosed in Note 28 that employment tribunal claims have been received in respect of 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. We inspected documentation prepared by management, the in-house legal counsel and management's external legal advisors. We also discussed the nature of the claim and the basis for the disclosure presented in Note 28 with management, the external legal advisors and members of the Risk and Audit Committee.
- During the previous year, new regulation was introduced by the Financial Conduct Authority relating to the Funeral Plan industry. The Group responded to the new requirements by transferring its pre-need funeral plan assets and liabilities into a new entity, establishing a new and separate governance organisation and increased monitoring of compliance with the regulatory requirements. During this transitional period, management continue to address internal control improvements and IT systems developments to strengthen the effectiveness of the control environment. We enquired of members of Funeral management and the Funeral Business, Risk and Audit Committee members to understand the policies and procedures implemented to prevent non-compliance with the new regulatory requirements. We also inspected correspondence with the regulatory authority regarding the new requirements.

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 8 periods, covering the 52-week periods ending 31 December 2016, 5 January 2019, 4 January 2020, 2 January 2021, 1 January 2022, 31 December 2022 and two 53-week periods ending 6 January 2018 and 6 January 2024.

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 20 February 2024. 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.

Ernst & Young LLP
Statutory Auditor
Manchester
3 April 2024

Jargon Buster

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 in the pages that follow 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.

For the first time this year we have recorded our funeral plan liabilities under a new accounting standard for insurance contracts and consequently we have added in some new definitions to the Jargon Buster to help with the new terminology. However, insurance accounting is very complicated and difficult to explain in simple terms. As such; it may help a user to also refer to the accounting policies for funeral plans on page 194 (which gives a holistic view of the approach taken) when considering some of the definitions noted in the Jargon Buster for insurance contracts and funeral plans.

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 IFRS and they are not meant to replace them.

The table overleaf 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.

The Group's primary APM is Underlying profit / (loss) before tax.

During 2023 we have amended our net debt APM metric slightly such that we now show net debt before any interest accruals on the debt that we hold at amortised cost. The adjustment to strip out of the interest accrual from our net debt metric is clearly shown in our net debt reconciliation on page 152 and in our Borrowing note (Note 19) on page 183. We think showing our net indebtedness in this way is helpful to our members as we settle the interest accruals shortly after year-end. We show how we define and calculate net debt on page 255 of this Jargon Buster.

Alternative Performance Measures (APMs) continued

| APM | |
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| <p>Like-for-like sales</p> | <p>Definition and Purpose: 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 opened or closed in the year being removed from the calculation and prior year figures).</p> <p>The calculation includes VAT on sales but excludes fuel sales from our petrol forecourts (which were sold in 2022). 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>Closest IFRS equivalent: There is no close equivalent to this measure under IFRS.</p> <p>Where reconciled in the financial statements: Not applicable as there is no close equivalent to this measure under IFRS.</p> |
| <p>Underlying operating profit before tax</p> | <p>Definition and Purpose: 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.</p> <p>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>Closest IFRS equivalent: Operating Profit.</p> <p>Where reconciled in the financial statements: Income statement Non-GAAP measure table and Note 1 (Operating segments).</p> |

Alternative Performance Measures (APMs) continued

| APM | |
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| <p>Underlying profit / (loss) before tax (PBT)</p> | <p><u>Definition and Purpose:</u> Our underlying PBT figure is simply our underlying operating profit (as calculated above) less our net underlying interest (being the day-to-day interest we pay or earn on our bank borrowings and lease liabilities).</p> <p>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 net 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).</p> |
| <p>EBITDA (Earnings before interest, taxation, depreciation and amortisation)</p> | <p><u>Definition and Purpose:</u> EBITDA is calculated by adding back depreciation and amortisation charges to Operating profit. Operating profit is stated before interest charges and taxation.</p> <p>EBITDA is a non-GAAP measure of performance which helps us to understand the profits our business segments are generating before capital investment and interest charges.</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> Note 1 (Operating segments).</p> |

Alternative Performance Measures (APMs) continued

| APM | |
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| <p>Underlying EBITDA</p> | <p>Definition and Purpose: Underlying EBITDA is calculated by adding back depreciation and amortisation charges to Underlying operating profit. Underlying operating profit is another one of our APMs and is defined in the table above. It is stated before interest charges and taxation.</p> <p>Underlying EBITDA is a non-GAAP measure of performance which helps us to understand the underlying profits our business segments are generating before capital investment and interest charges.</p> <p>Closest IFRS equivalent: There is no close equivalent to this measure under IFRS.</p> <p>Where reconciled in the financial statements: Note 1 (Operating segments).</p> |
| <p>Net debt (interest bearing loans and borrowings only)</p> | <p>Definition and Purpose: Net debt is made up of our of bank borrowings and overdrafts off-set by our cash balances, short-term investments and short-term deposits. The figure excludes any lease liabilities and (newly in 2023 as described in the introduction to this APM section) we also strip out any interest accruals on those bonds held at amortised cost (which is recorded as debt (<1 year) under IFRSs).</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>Closest IFRS equivalent: Interest bearing borrowings less cash and cash equivalents.</p> <p>Where reconciled in the financial statements: Consolidated statement of cashflows.</p> |
| <p>Total debt (including lease liabilities)</p> | <p>Definition and Purpose: 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>Closest IFRS equivalent: Interest bearing loans and borrowings plus lease liabilities.</p> <p>Where reconciled in the financial statements: Consolidated statement of cashflows.</p> |

Jargon Buster

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| Accounting surplus (pensions) | 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. |
| Accrued income | 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 . |
| Acquisition cashflows (funeral plans) | Costs that relate wholly to issuing and fulfilling insurance contracts (funeral plans) . This includes the costs of selling, underwriting, and starting a group of insurance contracts such as internal salaries or external commission paid. |
| Amortisation | Similar to depreciation , but for intangible assets . |
| Asset | 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. |
| Assets held for sale | 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. |
| Associate | 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. |
| Balance sheet | This shows our financial position – what assets we have and the amounts we owe (liabilities). |
| Banking Syndicate | 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. |
| Benefit payments (pensions) | This is the amount our pension funds pays out to pensioners. |
| Bond Notes | These are our debt instruments (loans from banks) that we pay interest on to fund our businesses' operations. |
| Capital expenditure | When we spend money on items that will become assets (such as property or IT systems) this is shown as capital expenditure. The costs 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. |
| Cohort (funeral plans) | We group the funeral plans that we issue in to certain buckets depending on their type, how they are managed (risk profile), when they are issued and if we expect to make a profit or a loss on them. Within this framework we use an annual horizon to bucket plans into a so called 'cohort' year. |

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| Commitments | Where we've committed to spend money on something (such as building projects) in the future but we're not technically liable to pay for it at the balance sheet date as it has not been incurred yet, 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 commitments and contingencies 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 commitments and contingencies note. |
| Contractual service margin (CSM) (funeral plans) | The unearned profit relating to future service to be provided under an insurance contract (i.e. the profit margin we expect to earn over the life of the insurance contract / funeral plan). |
| 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. |
| Coverage period (funeral plans) | A means of reflecting the pattern of services provided under a group of contracts (specifically relates to funeral plans and the time period covered by a group of funeral plans and how revenue is recognised). |
| Coverage unit (funeral plans) | The number of coverage units in a group is based on the quantity of service provided by the contracts in the group (specifically relates to our funeral plans and the time period covered by a group of funeral plans and how revenue is recognised). |
| 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 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 (deferred income) on our balance sheet until the point at which we perform the service at which point we extinguish the liability and recognise the income. |

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| 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 then we reduce the value of that cash at the balance sheet date 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 (see APM section at the start of the Jargon Buster for further details). |
| 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. |
| 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 plan investments . The change in value is called the fair value movement. |

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| 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. |
| Franchise | Sometimes we agree to partner with independent food retailers in a mutually beneficial arrangement whereby Co-op supply the retailer with goods and retail expertise and support (including Co-op branding) through a franchising agreement but we do not own the store or business and it is still run by the independent retailer. |
| Fuel | Refers to fuel sales generated from our petrol forecourts (which were sold in 2022). |
| Fulfilment cashflows (funeral plans) | For funeral plans these cashflows mainly comprise; premiums received from customers for pre-paid plans and LCIPs , premiums paid or repayable to re-insurers, direct internal and external costs of delivering funerals, amounts recoverable from re-insurers and costs of acquiring new insurance contracts (funeral plans) . |
| 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 to cover the costs of the funeral when it is needed. |
| 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 . |
| GAAP | 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 - APM section of the Jargon Buster) where there isn't a standard definition – these measures are called Non-GAAP measures. |

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| General Measurement Model (GMM) (funeral plans) | The GMM model is the overarching approach that we use to account for our funeral plans (insurance contracts) under the new insurance accounting standard (IFRS 17). There's a choice of 3 approaches but the GMM approach is the default choice and most appropriate to our funeral plans as they cover a specific risk over an extended period of time. |
| (UK) Gilts | Bonds (loans) issued to the UK Government and listed on the Stock Exchange. These are considered to have a very low risk of default and are highly liquid (so can be easily traded in an active market) so they are used to help determine a risk free borrowing rate for use in discounting . |
| 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 (e.g. then standard on insurance contracts that we apply to our funeral plans known as IFRS 17. |
| 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 record 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. |
| Insurance contract (funeral plans) | A contract under which the Group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. Our funeral plans are insurance contracts. |
| Insurance risk (funeral plans) | The risk Co-op are exposed to in an insurance contract when we agree to compensate a policy holder if a specified uncertain event occurs. For our funeral plans the risk relates to the uncertain cost of delivering the funeral at some unknown point in the future. |
| 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. |

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| 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. |
| LCIPs | Low cost instalment plans (LCIPs) - this is where customers can take out a funeral plan but pay for it over monthly instalments of between 2 and 25 years. |
| 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. |
| Listed debt securities | People can trade some of our debt such as our bonds on the financial markets. When this is the case, it's a listed debt security. |
| Maintenance cashflows (funeral plans) | Direct costs of servicing already acquired funeral plans such as costs of handling claims or policy changes. |
| 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 (or cash equivalents) that we might have. |
| Net operating assets | Net assets less investments, funeral plans , deferred tax , pension surplus and drawn debt . |
| 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 | Charges or gains in our Income statement that are not regular in size or nature and would otherwise cloud the underlying profitability of the Group are stripped out within our non-GAAP measures . This could include a large impairment or a large restructuring exercise. |
| Onerous contracts | A contract that the Group holds where we think we will lose money on it over its life (so any profit we make will not cover the costs we will incur). As soon as we think we have an onerous contract then we prudently recognise the full expected loss immediately (rather than waiting for it to happen over the course of the contract). |
| 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 . |

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| 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 as a separate segment. |
| 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. |
| Payment waiver risk (funeral plans) | If a customer dies after 12 months of taking out a funeral plan and their instalments are up to date (or the death is an accident < 12 months) then Co-op will still honor the plan without requiring the remaining instalments to be settled. Co-op manage this risk through a re-insurance arrangement with a 3rd party insurer who will cover the cost (risk) in such circumstances. |
| 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. |
| Portfolio (funeral plans) | We bucket up our funeral plans (insurance contracts) into certain groupings for accounting and reporting purposes. We make the distinction of 2 portfolios - one for our funeral plans and one for our re-insurance contracts (the payment waiver on LCIPs). |
| 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. |
| Re-insurance (funeral plans) | If a customer dies after 12 months of taking out a funeral plan and their instalments are up to date (or the death is an accident < 12 months) then Co-op will still honor the plan without requiring the remaining instalments to be settled. Co-op manage this risk through an arrangement with a 3rd party insurer who will cover the cost (risk) in such circumstances. This is known as a re-insurance arrangement. |

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| 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 (subordinated debt instrument), 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 (pensions) | 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. |
| Risk Adjustment (funeral plans) | This reflects the compensation Co-op requires for bearing the uncertainty about the amount and timing of the cash flows that arise from non-financial risk as the Group fulfils its funeral plans (insurance contracts) . The risk adjustment reflects an amount that Co-op would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount. |
| 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. |

| | |
|---|---|
| Sets (funeral plans) | We further sub-divide or funeral plans (insurance contracts) issued in a given cohort year into ‘sets’ to see if they are expected to make a profit or a loss. Sets are based where the funeral plans have similar pricing and margin expectations. |
| 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 net day-to-day interest we incur or receive 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. |
| Work in progress | 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. |

Five year summary (unaudited)

| £m | 2023 | 2022* | 2021 | 2020 | 2019 |
|--|---------------|---------------|---------------|---------------|---------------|
| Revenue | | | | | |
| Food | 7,262 | 7,805 | 7,671 | 7,765 | 7,505 |
| Wholesale | 1,480 | 1,439 | 1,386 | 1,577 | 1,423 |
| Federal | 2,142 | 1,895 | 1,756 | 1,813 | 1,613 |
| Funerals | 281 | 275 | 264 | 272 | 272 |
| Insurance (marketing and distribution) | 29 | 24 | 34 | 6 | - |
| Legal | 68 | 46 | 39 | 37 | 39 |
| Other businesses & Costs from Support functions | - | - | 1 | 2 | 12 |
| Total revenue | 11,262 | 11,484 | 11,151 | 11,472 | 10,864 |
| Underlying (loss) / profit before tax | | | | | |
| Food | 154 | 139 | 156 | 350 | 283 |
| Wholesale | 14 | 22 | 7 | 6 | (10) |
| Funerals | (11) | (1) | 12 | 16 | 12 |
| Insurance (marketing and distribution) | 14 | 8 | 15 | (2) | - |
| Legal | 21 | 8 | 5 | 4 | 6 |
| Other businesses & Costs from Support functions | (95) | (93) | (95) | (139) | (118) |
| Underlying segment operating profit | 97 | 83 | 100 | 235 | 173 |
| Underlying net interest expense on lease liabilities | (68) | (76) | (76) | (72) | (74) |
| Underlying interest | (31) | (55) | (56) | (63) | (64) |
| Underlying (loss) / profit before tax | (2) | (48) | (32) | 100 | 35 |
| EBITDA (i) | | | | | |
| Underlying segment operating profit (above) | 97 | 83 | 100 | 235 | 173 |
| Depreciation (plant, property and equipment) | 225 | 244 | 254 | 250 | 252 |
| Depreciation (right-of-use assets) | 106 | 119 | 122 | 113 | 110 |
| Amortisation | 40 | 27 | 29 | 17 | 17 |
| Underlying segment EBITDA (i) | 468 | 473 | 505 | 615 | 552 |
| Insurance (underwriting business) - (iii) | | | | | |
| Revenue | - | - | 12 | 273 | 315 |
| Underlying PBT | - | - | (1) | 19 | (10) |
| Profit / (loss) on discontinued operation | 2 | 67 | 13 | 5 | (16) |
| Other performance items | | | | | |
| 2% Member reward (iv) | (25) | (20) | (21) | (45) | (59) |
| 2% Community reward (iv) | (20) | (18) | (19) | (13) | (11) |
| Profit / (loss) after tax - continuing operations | 1 | 258 | 32 | 72 | 49 |
| ROCE (i) | 3.5% | 2.7% | 3.2% | 8.1% | 6.0% |
| Balance sheet items | | | | | |
| Total assets | 6,755 | 7,994 | 9,180 | 8,986 | 9,913 |
| Group net debt (excluding leases) | (82) | (322) | (920) | (550) | (695) |
| Group net debt (including leases) | (1,315) | (1,628) | (2,436) | (1,975) | (2,165) |
| Total equity | 2,020 | 3,023 | 2,939 | 2,669 | 2,685 |
| Net debt: EBITDA ratio (excluding leases) | 0.18 | 0.68 | 1.82 | 0.89 | 1.26 |
| Net debt: EBITDA ratio (including leases) | 2.81 | 3.44 | 4.82 | 3.21 | 3.92 |
| Total pension assets | 6,213 | 7,124 | 11,452 | 11,708 | 11,168 |
| Total pension liabilities | (5,857) | (5,543) | (9,194) | (9,854) | (9,304) |
| Total net surplus | 356 | 1,581 | 2,258 | 1,854 | 1,864 |
| Business-specific measures | | | | | |
| Total Food like-for-like sales increase | 4.7% | 3.2% | -2.9% | 6.9% | 1.9% |
| Number of Food stores | 2,349 | 2,377 | 2,584 | 2,613 | 2,611 |
| Total Food sales area ('000 sq ft) (ii) | 7,592 | 7,685 | 8,276 | 8,407 | 8,327 |
| Number of at-need funerals sold | 95,978 | 93,867 | 90,731 | 100,943 | 90,630 |
| Number of pre-need funerals sold | 16,874 | 16,774 | 44,751 | 42,497 | 49,066 |
| Number of funeral homes | 811 | 818 | 830 | 840 | 998 |

* The 2022 comparatives have been restated following the adoption of IFRS 17. The comparatives 2021-2019 have not been restated as this is not required under the new standard on an individual year-by-year basis (and it is not practical to do so). See Note 33 for further details of the impact and transition to IFRS 17.

(i) See Jargon Buster on page 252 for definition.

(ii) Quoted excluding petrol forecourt area but including in-store space at those sites with a petrol forecourt. We sold our forecourt stores in Oct 2022.

(iii) Our Insurance underwriting business has been held as a discontinued operation from 2018 and was sold on 3 December 2020.

(iv) Our membership proposition was updated from October 2020 such that member and community rewards were earned at 2% each during the year (so 4% in total) on own brand purchases (prior to that it was 5% and 1% respectively).

Co-operative Group Limited

Registered society, registered in England and Wales under
the Co-operative and Community Benefit Societies Act

Registered office: 1 Angel Square, Manchester M60 0AG

Registered number: 525R

coop.co.uk

