Co-operating for a Fairer World

Co-op Annual Report & Accounts for 2022

It's what we do

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A successful year for our Co-op in which we have continued to deliver for our members, customers and communities, maintained profitability and significantly reduced debt levels, despite the challenging external environment we have been operating in.

2022 in brief

Group revenue

£11.5bn

Revenue up on FY 2021 (£11.2bn), despite the revenue generated by the Group from the petrol forecourts being £150m lower as a result of their sale during the year

Group profit before tax

£247m

Group profit before tax up by £190m on FY 2021 (£57m)*

Group net debt

£333m down from £920m at 2021 year end

Represents a £587m improvement, driven by disposal of petrol forecourts business, strong cashflow generation and renewed focus of cost discipline

Underlying operating profit

£100m

Underlying operating profit maintained against FY 2021 (£100m), despite energy and salary inflation of over £100m and profits generated by the Group from the petrol forecourts being £10m lower as a result of their sale during the year

Underlying EBITDA

£490m

Underlying EBITDA down by £15m (FY 2021: £505m)*

Net cash from operating activities

£455m

Net cash from operating activities improves by £277m (2021: £178m)

*PBT in 2022 includes £319m of profit on the sale of our petrol forecourts in October 2022.

4.41m active members in 2022 - overall growth achieved for the first time in five years (2021: 4.27 million).

£117m raised for our local communities since 2016, when our Local Community Fund launched, including £24.6m in 2022.

£12m invested in payments on to colleague membership cards during the cost of living crisis. Colleague discount extended to 30% on own brand products.

£1m 'Warm Spaces' funding boost, to support local communities navigating rising energy costs. We became the first retailer to launch such a project.

New partnership launched with **Your Local Pantry**, set to see its network triple within three years from 75 to 225 pantries across the UK.

New colleague **fertility treatment policy** launched, providing unrestricted paid time off for colleagues and support for those with partners undergoing fertility treatment. Menopause policy reviewed and refreshed.

Recipients of both the **Queen's Award for Enterprise for Sustainable Development** and the **Relex Responsible Retailer Award**.

More than **1.5m** people signposted to information, activity and support for mental wellbeing since 2020, through partnerships with Mind, SAMH and Inspire.

Our 2022 Co-operate Report includes detail on the progressive actions we're taking to fulfil our Vision of *'Co-operating for a Fairer World.'* To read the report, visit: www.co-operative.coop/ethics/sustainability-reporting

Co-operating for a Fairer World

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

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

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

It's what we do.

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

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

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

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

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.

Our Co-op continues to stand apart from other operators in its markets, demonstrating the power of co-operation and firmly placing democracy and those issues that matter most to members at the heart of our business. During 2022, our Co-op led the way:

We were the first UK retailer to remove 'use by' dates from own brand yoghurts and add 'freeze me' storage guidance to milk in a bid to reduce food waste at home.

As an industry first, we moved all of the South African wine stocked in our range, across branded and own label, to being 100% Fairtrade.

We were the first UK retailer to sell Fairtrade Ecuadorian roses, as well as the UK's first Fairtrade stir fries and own brand Fairtrade olive oil.

We introduced and continued the rollout of electric hearses in our funeral business, and we were one of the first UK funeral directors to trial the fully electric Tesla hearse.

We became the first national funeral provider to launch a new airborne ashes scattering service, where ashes are scattered by a drone.

We were the only UK pet insurance brand to offer a discount on policies for dogs and cats who had been adopted from a registered pet rehoming charity.

We became the first regulated law firm in the UK to offer our services via the Amazon UK platform, making our services more accessible to more people.

We became the first law firm to partner with the LGBT+ Foundation based in Manchester, providing free wills to their supporters where legacies left in wills will help support the charity's goals.

For more information on our responsible business performance in 2022, please see our Co-operate Report at co-operative.coop

Chair's introduction

> For us to maintain a lasting Co-op impact we need to be clear in terms of our Vision, be commercially successful and have the underlying financial strength to face into whatever short to longer-term headwinds confront us.

Against a rather bleak external backdrop, we are pleased to say that our Co-op enters 2023 in a much stronger financial position than it was in a year ago, and has continued to deliver for our members, customers and communities throughout a challenging 2022. That's something we're very proud of, when we consider the events of the last 12 months and what we're continuing to face into this year.

I wish, in writing this introduction, that we could be living in a world more certain of its future, more confident in its outlook and with its nations more peaceful and respectful in their approach to one another – alas, we know that isn't the case.

The tragic war in Ukraine continues to devastate that nation, with its impact reverberating around the world politically and economically. Our thoughts remain with those affected by the ongoing conflict, and we join them in hoping for peace to return as soon as possible to Ukraine.

Closer to home, it was a highly turbulent, unsettling and volatile year for those living in the UK. The death of Her Majesty The Queen in September marked the passing of our longest serving monarch. The outpouring of grief, respect and remembrance for a lifetime of service and devotion to both country and Commonwealth was both deeply moving and richly deserved.

Her Majesty's death occurred, as we know, during a period of intense political and economic upheaval, with three Prime Ministers and four Chancellors coming and going over a matter of weeks. Soaring inflation and rising interest rates dominated the news agenda and the UK entered a cost of living crisis not witnessed in decades, from which the country will take many years to recover.

On behalf of the Board, we would like to thank our CEO Shirine Khoury-Haq, the Operating Board and wider leadership team and our 57,000 Co-op colleagues for all that has been achieved, during a highly challenging but ultimately successful year for our group in 2022. Shirine was appointed as interim CEO in March, taking on the CEO role permanently in August - she has led through significant changes in our leadership structure and in our business strategies, ensuring our Co-op remains resilient in the face of a challenging environment across all of our businesses.

Much has been made of the need for 'businesses with purpose' to play more active roles in helping our country address some of the environmental and societal issues it faces. Our Co-op has origins that date back to 1844, when the Rochdale Pioneers came together with an enduring Purpose of championing a better way of doing business, going on to later establish the original business of purpose, anchored upon our ethical Values and Principles.

There are notable parallels between the world we live in today and the world which prompted the Rochdale Pioneers to act. Both periods witnessed, and are witnessing, social and economic inequality as well as gaps in access to nutritious food, education, skills and opportunity. These are issues which our Co-op has always faced into and will continue to do so on behalf of our members and their communities.

For us to maintain a lasting Co-op impact, we need to be clear in terms of our Vision, be commercially successful and have the underlying financial strength to face into whatever short or longer-term headwinds confront us.

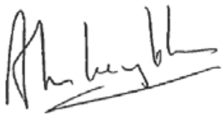
Over the past year, Shirine and her team have brought this clarity to fruition and this report will detail how we have become financially stronger and commercially sustainable, whilst continuing to deliver on our Vision commitments. For the number of active members to increase for the first time in five years, from 4.27 million to 4.41 million, is a testimony to the increased confidence we hope our members have in our Co-op, and the improvements we're making to the way our businesses are run, but also the products and services they offer.

In the face of unprecedented levels of inflation, we have taken the tough but necessary decisions to significantly cut costs to mitigate these headwinds. We've prioritised our capital expenditure and investments. We've streamlined our business processes while at the same time introducing clear strategies for our Food, Funeralcare, Insurance and Legal Services businesses. We also successfully sold our petrol forecourts business, allowing us to focus on our core convenience business. The net result is a Co-op Group which has generated more cash, with net debt greatly reduced and with the foundations in place for us to grow more sustainably in the years ahead.

We are of course not immune to the stark realities facing all consumer-led businesses, with soaring energy and other inflation related costs continuing to weigh heavily on short-term expenses and operating profits. The actions we have taken already have provided us with the ability to weather this over the short term and to capitalise more fully over the longer term.

The Board accepts and understands that ongoing inflation in energy and salary levels will mean our profits are likely to reduce in 2023, as we face into another year of economic uncertainty and higher prices, while committing to invest in our colleagues and communities. The underlying strength of our Co-op provides reasons for optimism and long-term success when things stabilise.

The next 18 months will see change in our Board as Sir Christopher Kelly, Simon Burke, Stevie Spring, Paul Chandler and I all reach the maximum nine years of tenure and will step down at different points during 2023 and early 2024. Our Board remains wholeheartedly committed to supporting our businesses, colleagues and members as we transition through this change. We have been carefully planning ahead to ensure orderly succession, but also the continued momentum of everything we're proud to see our Co-op achieving.



Allan Leighton
Chair, The Co-op Group

Report from the President of the National Members' Council

2022 has truly been a year of challenge and change, both for our National Members' Council and our Co-op.

I'm proud of how our different way of doing business has supported members, colleagues and communities through the cost of living crisis, with Council members using the first year of delivering our Three-Year Plan to align our priorities to key issues and topics whilst keeping members' views and our values at the core of decisions and discussions.

As part of my role as Council President, I co-ordinate how our National Members' Council considers how we deliver our Vision of '*Co-operating for a Fairer World*' during challenging times and how our Co-op best supports our members, customers, communities and colleagues as the cost of living crisis continues.

Ahead of the winter months, we hosted our annual Join In Live events and met with nearly 400 members online and in-person for the first time since 2019. These focused on the launch of our new partnership with Your Local Pantry and asking members to shape how we work together in communities to provide people with access to food. We got lots of great ideas and I was honoured to host our London event in Westminster, where I was able to meet so many local members and hear their ideas about what community and membership means to them.

In my last report, I mentioned that I was keen to see us develop a thriving, active co-operative movement and I think that these last 12 months have made this even more important.

We need to work together and find co-operative solutions to the issues that people from all walks of life are experiencing. Throughout the year, myself and other Council members attended and spoke at high-profile events, including Co-op Congress and the Co-operative Retail Conference. In particular, I've been considering with fellow co-operators how we make membership meaningful. As I entered my second year as President, I felt empowered by the progress we'd made in bringing members closer to our Co-op through opportunities on Join In around how they can play their full part in the business they own. It's clear that when we talk about our Co-op Difference, people connect with it and want to get more involved, so I was delighted to hear that Shirine and our Operating Board have been looking at how we unleash the power of co-operation and take who we are and what we do to the next level. Shirine will speak more to the Operating Board in her overview.

To support our Co-op with deepening member engagement, our Community & Member Participation Joint Working Group has been helping to develop our Member Participation Strategy, so we can create a journey for members from the minute they join Co-op, and create advocates out of our colleagues too. The joint working group has also inputted into proposals for our new charity partnership with Barnado's, which is helping to provide young people with a better future.

Supporting young people to succeed in life despite the constant adversity their generation is facing is something I'm really passionate about. I was thrilled to join our Public Affairs & Campaigns team at the 2022 Labour Party Conference, where we heard from young activists working with Mind as they led thought-provoking panels on mental health and wellbeing. Young people are the future in every sense and their passion for making the world a fairer place is inspiring - we invited some of our young Council members to share their views during a panel to kick off our February Council meeting to help us better understand how we can work with them on the things they care about and appeal to new audiences.

As we get stuck into 2023, I want to say a massive 'thank you' to all of our amazing Council members and our supportive, innovative (and patient!) Council Secretariat team, led by the brilliant Kate Brown. You've pushed us into a progressive space in 2022 so that we can be a modern Council in a modern co-op. I'm looking forward to seeing where 2023 takes us as the business adapts to new challenges and Council begins a review of its own effectiveness, to make sure we're fulfilling our roles meaningfully and supporting each other and the business in '*Co-operating for a Fairer World*'.

It's been seven years since Council was set up in its current form, and I'm proud that we're taking the time to look at how we work and be honest with ourselves about where we are and where we need to be, so that we can be at our best as representatives of our member-owners. After all, our members owning our Co-op is where our difference starts, but its power and impact lies in us all working together and using our platform and voice to make amazing things happen.

Please read Council's 2022 Annual Statement on page 129 to find out more about all the ways you can participate and how we've worked for our members over the last 12 months.

Denise Scott-McDonald
President, National Members' Council

Chief Executive's overview

> I am very glad that we were able to quickly foresee the impact of the economic upheaval and international events that were to affect our businesses. The pre-emptive actions we took at pace to address them have stabilised both our short and long-term future, giving our Co-op a solid platform for growth when market conditions allow.

This is my first annual report as Group Chief Executive for our Co-op and I am honoured to have been given the opportunity to lead our amazing organisation through a year which has been fast-paced, challenging, tough - and at times heart-breaking.

Our Co-op has origins that date back to 1844 and a mission to provide fair, affordable and ethical access to food and other goods and services, with profits being shared amongst our members for their benefit and the benefit of their communities.

We were, and remain, the original business with purpose and, in today's modern world, co-operation and those ethical Principles will continue to remain at the heart of our decision making.

We're proud to be a trusted household name and a respected brand - we touch the lives and enter the homes of millions of people every day. When our members and customers buy Co-op products and services, they create value for themselves, for others and for their local communities.

It's this value that we use to deliver our Vision of '*Co-operating for a Fairer World*' - supporting our members, colleagues, communities and the planet sustainably. That's what makes our Co-op unique now and throughout our rich history.

2022 was a truly incredible year across the globe, and one in which our organisation also saw many changes.

These included leadership changes, and the introduction of our Operating Board, a necessary change to drive our priorities as one Co-op. It brings together our most senior leaders and decision makers, working together collaboratively on the decisions and actions we need to take to run our business effectively - and at pace. They ensure that our members, colleagues and Vision are at the heart of our organisation.

Structural changes to our teams meant we said goodbye to some colleagues, welcomed new colleagues, and through careful succession planning, provided career progression for others.

In this report, we welcome Matt Hood and Gill Stewart, our new Managing Directors of our Food and Funeralcare businesses, and also Peter Batt, new Managing Director of Nisa to report on how their businesses performed last year.

While we entered 2022 hoping for a time of calm after a couple of years of significant upheaval as a result of Covid, we quickly saw that volatility and significant change instead were on the cards.

As with practically all businesses across the UK, we saw substantial challenges across our markets as increased disruption and unpredictability continued to generate pressure. Consumer habits continued to shift as unprecedented levels of inflation and the cost of living crisis impacted household budgets.

I am very glad that we were able to foresee the impacts that economic upheaval and international events would have on our businesses. We have the advantage of being a member-owned organisation and, as such, we were not only able speak publicly about these challenges very early on, but we were also able to start addressing them at pace and engaging our members. In March 2022, we set some short-term strategic priorities that would allow us to focus on what matters most to our members, colleagues, customers and communities, while protecting our Co-op from the external headwinds.

Our focus has been rigorously and unapologetically aligned to these and this is beginning to show clearly in our performance. This in turn will stabilise the long term future for our Co-op and all who rely on it, particularly as 2023 is predicted to be another year of increasing inflation, interest rates and energy costs, as well as possible recession.

These focus areas were:

1. Ensuring our businesses continue to deliver to our members' and customers' expectations in the current climate, and outperform within their respective markets

Despite the many challenges, our businesses have all traded well, led in their respective markets, made considerable progress with their individual strategies and yielded many highlights of 2022.

Our Food business: As we reported at the half year, profitability was partly affected by the rollout of our new SAP supply chain systems, as we continued to feel the effects of a global pandemic and supply chain crisis in H1 2022.

Our Technology and Food teams worked incredibly hard together to combat this. By the end of the year, availability had improved in our Food business – 94% of products were available in all our stores on average each day (against our target of 95% for the financial year) despite continued supply chain challenges.

In Q1, we opened our Biggleswade distribution centre. It's the largest, greenest depot in our network, with up to 1,000 colleagues, delivering up to two million cases a week to stores up and down the country.

I also took the decision to review our Food strategy. We needed to identify, focus and invest only in the areas that played to and capitalised upon the strength of being the UK's number one convenience retailer. And, as in all of our businesses, we needed to find ways to remove unnecessary costs and increase efficiency.

Our Pure Convenience strategy launched in Q3 with a renewed focus on convenience and value. Lower pricing on key products, more focused ranging and better targeting what our customers and members want from our Co-op, combined with our decades of experience in the convenience market, will enable us to continue to grow our business through four key routes to market: Retail, Wholesale, Franchise and Online.

Recognising the challenging retail environment and the cost headwinds we have faced, our overall retail trading performance was strong, and we have managed to mitigate the pressures that these would have otherwise placed on our business. Revenue grew (sales for the full year were £7.8bn (2021: £7.7bn)), basket size declined as customer behaviours shifted and profitability was also affected. Despite this, we continued to broadly maintain market share (2022: 6.1%, 2021: 6.2%).

Our Wholesale business Nisa saw strong growth in sales of Co-op own brand products, an increase in profitability and strong partner growth with the addition of over 475 new stores during 2022.

Funeralcare achieved an important milestone in 2022, with the creation and FCA approval of Co-op Funeral Plans Ltd, our regulated business supporting members and customers through the sales and redemption of funeral plans. Despite many changes, and disruption in the marketplace, due to regulation and competitor activity, we had a positive performance and saw an increase in revenue for the year (2022: £271m, 2021: £264m) and market share (end of 2022: 14.67%, end of 2021: 13.92%).

Contributing factors to this strong performance include marketing investment and activity; a new all-colleague code, designed by colleagues to improve their experience of working for our Co-op; and first to market initiatives such as distribution of ashes via drone.

We also said a sad goodbye to our Managing Director Sam Tyrer in October after a long-planned exit, to pursue a career in a different industry. Former Chief Operating Officer, Gill Stewart, took up the role to lead our Funeralcare business and teams with a comprehensive handover from Sam. Our colleagues continued to work tirelessly to ensure the best possible experience during such a difficult time for the families that trust us to care for their loved ones.

In 2022, we supported over 3,000 more families following the loss of a loved one, with an increase in popularity of lower cost Direct Cremation and Burial funeral options, and a slight decrease on tailored services, resulting in slight increases in both revenue and operating profitability.

Our **Legal Services** business outperformed the market and produced outstanding year on year growth with revenue up by 19%, to £46.3m (2021: £39.0m).

Our strategy to enable digital access to our products and enhancing our services led 50% of all clients to access Legal Services digitally during the year, with client satisfaction across all channels staying strong at 85%.

We made significant progress in strengthening the growth of our business through major partnerships, with renewed contracts during 2022 including Newcastle and Saffron Building Societies and Cancer Research UK, and new partnerships with The Co-operative Bank PLC and Amazon UK.

Our **Insurance** business continued to develop during 2022 and build on the foundations created during 2021. Having products which are easily accessible to our members and customers is key, and we sought innovative ways to bring them to more places where our members and customers shop. We were one of the first insurers to bring our home insurance policies to Amazon UK.

Due to the external pressures affecting the insurance market specifically including car sales at an all-time low, cost of parts and labour increasing with inflation, regulatory changes impacting policy pricing and a decrease in consumers switching policies at renewal, performance was mixed.

However, challenges in Motor and Home products were offset by positive performances in Travel and Pet policies, with our new Pet partnership with Markerstudy doubling the number of customers holding pet policies with us.

And, of course, our Funeralcare, Legal Services and Insurance businesses continued to excel as a combined '**Life Services**' portfolio, helping members and clients navigate life changing moments. In 2022, our Moving Home Hub continued to develop and support with buying, selling or moving home by bringing together products, services and information from our Legal Services and Insurance businesses. Also, our market leading funeral and legal expertise continued to offer joined up guidance and support bereaved families through their emotional moments and practical needs.

More detail on each of our businesses can be found on pages 21 - 32 where our Managing Directors share their updates and reflections on 2022.

2. Improving operational efficiency

We entered 2022 with a plan which included increasing our operational efficiency. We knew our costs to operate and serve our members, customers and communities were too high, and we needed to reduce our capital expenditure and debt.

Everyone in our Co-op has pulled together and worked co-operatively to make this happen. Our results show that hard work beginning to pay off. Mike Hazell, our Interim Chief Financial Officer will explain our year end results in more detail in his financial overview.

At times this has involved taking some very difficult decisions, especially with the restructuring of many of our teams.

This has meant, though, that we were able to mitigate new headwinds in 2022, while maintaining our margin and delivering an underlying profit in line with what we achieved in 2021 despite significant increases in operating costs that were driven by external factors.

Also, as you'll see in Mike's update, we began 2022 with £920m of net debt, reducing to £731m at the end of H1 2022, and further to £333m at the end of 2022. This is thanks to trading well, managing our cost base, driving cashflow disciplines, the successful appeal of the IBM legal claim and the sale of our petrol forecourts.

Sheer determination across our Co-op to reach our cost saving targets of £101m for the year mitigated significant increases in energy costs and salary inflation, driven by the external environment, which would otherwise have materially impacted Group profits this year.

It's a robust performance in what has been a difficult and disruptive trading year for many businesses. I'm very proud that, thanks to the efforts of everyone in our Co-op, we ended 2022 with a much improved and substantially more stable balance sheet to take us into 2023.

3. Delivering our Vision – 'Co-operating for a Fairer World'

Making things Fairer for our Members and Communities, Fairer for our Colleagues and Fairer for our Planet is always at the heart of everything our Co-op does.

There is much we can be proud of when we look back at 2022.

Through our community programmes, and in true co-operation with colleagues, members and partner organisations, our focus on providing fair access to food, fair access to mental wellbeing support and fair access to opportunities for young people continued to be relevant and needed.

We simply couldn't do this without the support of our members, who, by trading with us and buying Co-op products and services, generate the value we re-invest in our businesses, and re-distribute to communities and local causes.

In 2022, we celebrated our members generating over £117m for local communities since 2016, when the Local Community Fund launched, followed by the Communities Partnership Fund in 2020 - £24.6m was raised through the Local Community Fund, Community Partnerships Fund and Carrier Bag Levy in 2022 alone and, during the year, the Local Community Fund supported over 4,000 individual community projects.

Our charity partnership with Mind, SAMH and Inspire, after three years of fundraising, hit our target of £8m (£8.33m) bringing communities together to support mental wellbeing across the UK. This was a staggering £2.3m more than our original £6m target.

And we found new routes to support those who found they needed it in 2022. More than £1.2m was raised for the Ukraine and Pakistan appeals driven by the Disaster Emergency Committee, which brings together 15 leading UK aid charities.

Our network of Co-op academies grew to 29, providing fairer access to education for young people with the addition of two new academies in Manchester and Stoke-on-Trent. The Co-op Academies Trust was also successful in bidding to build a new free school in East Leeds – Co-op Academy Brierley will open in September 2023.

And in November, our charity, the Co-op Foundation, launched its new five-year strategy, 'Building communities of the future together', to deliver unrestricted grants in 2023 of up to £30,000 a year for five years to help organisations develop diverse young leaders of the future.

We cannot achieve our Vision alone, nor should we aim to. In 2022, our Co-op, our charitable Foundation and Co-op Academies Trust formed new partnerships which helped see young people in our schools get access to a healthier breakfast, see families in our communities gain greater access to affordable food and see the fair distribution of surplus food through our new platform Caboodle.

There's more detail on all of our community support and partnerships in our Vision update.

Despite the challenges and headwinds faced during 2022, we remained true to our Purpose of championing a better way of doing business. We were honoured that our efforts to operate our businesses sustainably and for the longevity of our planet were acknowledged with the Queen's Award for Sustainability in April 2022, followed by the Relex Responsible Retailer Award in July at the 2022 Retail Week Awards.

Our Co-op being involved in and influencing conversations that can drive external decision making benefiting our members, customers, colleagues and communities is a responsibility we take seriously and that sits within our core principles of co-operation.

During 2022, for the first time in my role as Chief Executive, I had the honour of being invited by the World Resources Institute to speak at COP27 about our pioneering water security partnerships with Water Unite and The One Foundation. Together we have raised over £20m since 2007, funding critical WASH (water, sanitation and hygiene) and water security programmes, positively impacting the lives of over 2.9 million people.

I joined the World Wildlife Foundation at their Commitment to Nature Steering Group, and the British Retail Consortium Climate Action Roadmap Steering Group, as their Chair.

Energy dominated the headlines during 2022, and as the war in Ukraine continued to push up prices and threaten supplies, with no visible end to the volatility, we joined forces with other leading retailers to request Government open discussions about the sourcing, security and investment in renewable energy sources.

Our commitment to our colleagues is to create a truly co-operative, diverse and inclusive workplace and culture, and to support their wellbeing.

2022 saw our first ever ethnicity pay gap report, the establishment of a new colleague fertility policy and refreshed menopause policy, offering greater support for colleagues. You can find more details on page 40 and within our Co-operate Report.

We were also proud to maintain our first place Silktide ranking against 11 other UK retailers for our website accessibility.

Our colleagues were not immune to the increased cost of living. Rising costs were top of the agenda in every conversation during 2022. In April, we again re-aligned our minimum hourly rates to the Real Living Wage for all colleagues, including younger colleagues and apprentices.

We also invested £12m in payments onto colleague membership cards, and we extended colleague discount to 30% on Co-op own brand products from 20 October until April 2023.

Thank you

2022 was another year of challenges for our Co-op, which our organisation met together and resiliently. Because of this, it was a year of incredible progress.

None of this would be possible without our members, colleagues and my leadership team.

Our Co-op is owned by our members. As Allan references in his introduction, I am delighted to have seen an increase in the number of active members choosing to be part of our Co-op. Every single member makes our organisation special, however I'm particularly pleased that, as Allan said, we've seen new growth in our active members, for the first time in five years.

I'm grateful to our National Members' Council - a passionate group of members, including colleagues and other co-operative societies, totalling 100 people from a variety of backgrounds. The Council continued to champion the interests of our members across everything our Co-op does in 2022, inputting into areas including our Pure Convenience strategy in Food and our Diversity and Inclusion strategy. Their advice on our cost of living support to members, colleagues and communities proved invaluable.

I thank them for their warm welcome when I took on my role, and I look forward to their continued support and involvement in 2023 as we work together to ensure co-operation and membership sit firmly alongside delivering our Vision.

My heartfelt thanks and gratitude also go to each and every member, customer and client who has placed their trust in us over these 12 months by trading with our businesses and advocating our products and services.

My thanks also go to our amazing 57,000 colleagues, without whom, our Co-op wouldn't be where it is today. Words cannot express how grateful I am to them for showing up and giving their very best each day as we faced the challenges and headwinds of 2022.

I am so proud of them for their hard work, passion and commitment to our organisation, members, customers and communities, and the care that they show for each other. I am also so grateful to them for speaking up and telling me both when we have gotten things right, and also when they think we could do better. Each and every colleague plays their part in making our Co-op the special place it is and working alongside them is a real honour.

I'm also thankful to my leadership team who have stepped up this year in the face of adversity, supporting and embracing the change, challenge and, at times, very difficult decisions that were necessary for us to affect the future course of our Co-op.

I thank them all for their bravery and commitment, and for their ability to take on new roles and responsibilities with incredible professionalism while maintaining a sense of perspective and humour.

One often hears that the CEO job is a lonely one. I can genuinely say that, with my leadership team, this is absolutely not the case. They are a strong, focused and supportive group of people that, along with our colleagues, our Board and our Council, make (almost!) every day working at our Co-op a joy.

All of us, together, truly co-operated for a fairer world during an incredible year. We should be very proud of what we've achieved. Our future is positive, and I'm looking forward to what 2023 brings.

Shirine.

Shirine Khoury-Haq
CEO, The Co-op Group

Together with this report's Vision update on page 33, our 2022 Co-operate Report includes more detail on the progressive actions we're taking to fulfil our Vision of *'Co-operating for a Fairer World.'* To read the report, visit: www.co-operative.coop/ethics/sustainability-reporting

Financial overview

Financial overview

Mike Hazell
Interim Chief Financial Officer

Our headline performance

2022 was a year of significant macro-economic and geopolitical turbulence, translating into very difficult trading conditions for most businesses, including our Co-op.

Our full year financial performance sits against a backdrop of a deep and lasting cost of living crisis, double digit food inflation, soaring energy costs and continued disruption to global supply chains from the impact of the war in Ukraine.

Despite this challenging backdrop, our Co-op has had a successful year, delivering a strong set of results, with a very solid profit performance, strong cashflows and a growing top line.

We have grown our sales, successfully maintained margin and managed our cost base to mitigate the significant cost inflation on ourselves, our members and our customers. This was also supported by some difficult decisions, including the restructuring of the team at our support centre.

There is no avoiding the impact that inflation is having on the profits of most businesses – for our Co-op, energy costs increased by £48m in 2022 compared to 2021, and salary inflation drove a further £55m of additional cost. Faced with such inflationary pressures, the renewed cost disciplines we have instilled in 2022 have served us well and we successfully delivered our targeted cost savings of £101m during the financial year, to mitigate these pressures.

Recognising the difficult time many of our customers and members were experiencing, we sought wherever possible to protect our customers and absorb inflation. Throughout the year, we continued to focus on delivering the propositions and value that our customers need at this difficult time, including £38m of direct reward for our members and their communities. Importantly, we also sought to support our colleagues through the winter cost of living crisis with additional one-off support of £12m and by increasing our colleague discount to 30% on Co-op own brand products from 20 October until April 2023.

This solid financial performance, combined with a focus on balance sheet and cash, delivered a very strong cashflow position and a step-change reduction in our net debt. Part of this action included the sale of our petrol forecourts in October (roughly 5% of our Food store estate) which generated a significant one-off profit and cash proceeds.

Furthermore, through continued focus on cost control, management of working capital and our measured approach to capital investment, we strengthened our balance sheet significantly. This means we are well set to ride out the economic storm whilst still being able to invest in our longer-term future through capital light and commercial opportunities.

Group financial metrics

Revenues: Group revenue of £11.5bn is 3% higher than last year. We saw increased inflation but also smaller baskets and more conservative spending, according to our data. This represents a strong result across our portfolio of businesses in light of the challenging economic trading conditions. Sales in our main Food business are £134m higher than 2021 even though the comparative period included two more months (or around £150m) of sales from our petrol forecourts which we sold in October 2022. Like-for-like sales in our core convenience stores were up 3.2% with downward pressure on consumer spending from the cost of living crisis being offset by significant food inflation. Sales in our Wholesale, Funeralcare, Legal Services and Federal businesses are all also up in 2022, on the prior year.

Profitability: despite the significant inflationary cost pressures we have faced (particularly on energy and salaries), our robust sales performance and tight cost control means we have maintained our 2022 profit levels, broadly in line with 2021 levels at £100m (2021: £100m) and underlying EBITDA (earnings before interest, taxes, depreciation and amortisation) of £490m (2021: £505m). This is commendable given the challenging economic backdrop and demonstrates how hard all of our Co-op colleagues worked in 2022, driving efficiency throughout our business and helping shield our members and customers from the worst of the cost increases. Delivering in this way, despite the unprecedented headwinds, is all the more impressive when considering that 2021 included two more months of profit (around £10m) in our Food business from the petrol forecourts we subsequently sold in October 2022.

Full year underlying profit within our Food business fell slightly following the forecourt disposal, but this has been offset by improvements in our Wholesale, Funeralcare and Legal Services businesses.

At £5m, our operating profit in 2022 is £59m lower than 2021. Although our underlying operating profit is comparable to last year, we've incurred £59m more of non-underlying charges in 2022 compared to 2021. These changes primarily relate to the impairments we have recorded against some of the assets that we hold to reflect the continued difficult trading conditions we anticipate going forward as well as other non-recurring items.

At £247m, profit before tax (PBT) is significantly higher than last year (2021: £57m). Although our operating profit is lower this year (as noted above) we have recorded a gain on the disposal of our petrol forecourts of £319m which increases our PBT number. This relative increase is partially offset by the one-off gain of £99m that we recognised in 2021 following the settlement of a long-term liability.

Net Debt: our net debt reduced by £587m to £333m (2021: £920m). This significant reduction was generated by the £408m net proceeds from the sale of our petrol forecourts (excluding lease disposals of £171m), £72m payment following the judgement on the IBM legal case but also a strong underlying cash performance in the Group, which generated positive cashflows from continuing operations of £383m.

Further detail on our trading performance and that of our individual businesses can be found within 'Our Financial Performance' section on page 50 with business unit updates over pages 21 - 32.

Membership update

Membership update

The cost of living crisis left our vulnerable members in even more need of the value we create across our Co-op, but also our support of local causes, safeguarding access to food and basic amenities across our communities. As economic challenges look set to continue into 2023, our Co-op took the decision to re-assess our membership offering and what more could be done for those 4.41 million members who were active over 2022. This is the first time we have seen this number grow in five years.

As always, we worked closely with our passionate National Members' Council in 2022, collaborating on how we best engage our members, who own our Co-op, and demonstrate how our Co-op Difference can offer meaningful support, especially during the cost of living crisis.

Council continued to help develop key initiatives that matter to our members, including the Warm Spaces funding boost for local community organisations, helping others to navigate energy costs during winter. It also remains an important touchstone for our Co-op's culture, championing work around diversity and inclusion.

Recruitment and rewards

592,000 new members joined us in 2022, more than 2021 (517,000) and we ended the year having achieved our target for active members, having also reactivated over 219,000 of our lapsed members.

And we're delighted to be attracting younger members – more than 45.3% of our new members are aged 35 and under. This is above the 40.4% target we set ourselves.

In 2022, we shared a bonus digital offer of £3 off a £10 shop with just under 190,000 new members to welcome them to our Co-op and encourage them to engage with our app.

Specifically, from May, we lowered the price of our lunchtime meal deal to £3.50 for all members, saving them 50p. More exclusive members deals were made available in 2022 than any other year, including a saving of £5 when members buy three Irresistible wines, Irresistible crisps at 90p and £1 off pizza.

Seven digital offers were sent to all members to mark the World Cup. Across November and December, members received a price reduction on Walkers Sensations and Ben and Jerry's ice cream. As a thank you for helping us raise £117m for local communities since 2016 (the year our Local Community Fund launched), members received an offer of 25% off a Co-op Irresistible product.

Engaging our members

Our members play a unique role in helping to power our Vision of '*Co-operating for a Fairer World*'. They've been able to learn more about their Co-op and the big issues affecting their communities, and have helped choose how our funding is used while making sure we focus on the things that matter most.

They continued to help shape how we deliver our community missions nationally and locally, as well as the products and services we provide for members. They also added their voices to many campaigns and actions that helped us make a difference together. In 2022, members contributed to our Vision through 1.9 million participations and by volunteering over 116,000 hours of their time to our community, campaigning and co-operative participation activities.

To ensure our members' voice continues to be heard, and their insight drives what we do, members help design new products and services, shape strategies and policies and support us with campaigning.

Over four dates in October, Co-op's Join In Live events were back online again and also in-person for the first time since 2019. Hosted by our National Members' Council, the events shared performance updates from our businesses and an overview of our Co-op's new community partnership with Your Local Pantry – for more information, see page 36. They also offered opportunities to put questions to Board members, leaders from our Operating Board and generate conversations around what more could be done to support members, customers and colleagues through the cost of living crisis, with some members offering to support Local Pantries.

The events build upon those monthly opportunities to develop products, share thoughts and ideas and shape plans that go live on our members' online Join In platform. Our Member Pioneer team also take our Join In Live events to a local level throughout the year, theming them on important topics and initiatives and inviting members and customers to come along to stores and community spaces. More than 300 'Live Local' events - led by Member Pioneer Co-ordinators and attended by thousands of members, customers and local causes - were focused on Fairtrade, membership and sustainability.

To read more about how our Co-op rewards members, including 2p back for every £1 spent on selected Co-op branded products and services, as well as personalised and exclusive offers, please see our Co-operate Report.

And those successful collaborations with our members shone through in 2022, as further testimony to the role they play in shaping our business.

- In September, Crumbs - the gingerbread character available in our Food stores - was given a skeleton makeover for Halloween, thanks to design winner Lorcan Smith from North Hykeham in Lincoln.
- Co-op members played an important role in designing our new Co-op Irresistible Rosé wine. Based on member feedback during online wine events and a fizz and rosé masterclass, Co-op Solo Pale Spanish Rosé was developed based on what our members told us they prefer in terms of wine colour, bottle shape and label information.

Announced in March, our first ever member-inspired ice cream hit Co-op freezers, after more than 90,000 members shared ideas on flavour combinations in 2022. Members who had been involved were invited to a special tasting event in Manchester before 900ml tubs of Raspberry Pavlova ice cream landed in our Food stores. The ice cream went on to sell more than 285,000 thousands tubs before the end of the financial year.

Business unit updates

Business unit updates

Food

Matt Hood
Managing Director,
Co-op Food

As with all retail organisations, throughout 2022, we've continued to operate in a challenging and demanding economic climate. The impact of the pandemic, Brexit and the ongoing war in Ukraine caused workforce shortages, supply chain constraints and drove a cost of living crisis, which affected our members, customers, communities, and our business, resulting in changing consumer shopping habits and much more.

Our performance

As we reported for H1 2022, profitability was partly affected by the rollout of our new SAP supply chain systems, as we continued to feel the effects of a global pandemic and supply chain crisis.

However, performance in FY2022 overall was strong for our Food business, considering the significant headwinds in play across our market, including rising energy costs and inflation. We also stood by our commitment to invest in colleague pay during the year.

Mitigating actions that we'd already taken ensured tight cost control with available funds to navigate cost challenges:

- Energy initiatives to reduce our energy consumption through dimming lighting in stores with excess brightness and reducing target temperature in stores from 19 degrees to 17 degrees. This also helps us be 'Fairer for our Planet'.
- Tight prioritisation of spending helped us improve our cashflow.
- We closed some of our poor-performing stores and took the difficult decision in July 2022 to restructure some of the teams at our support centre in Manchester, as we faced tough trading conditions down to rising inflation in H1.

Nevertheless, profitability for the full year ended 11% lower than in 2021 (2022: £139m, 2021: £156m), albeit that £10m of this reduction is due to the sale of petrol forecourts in October.

Sales for the full year were £7.8bn; representing a slight increase on the previous year (2021: £7.7bn). Based on our own data (comparing the 2022 average selling price to that of 2021), our food sales (excluding fuel) were heavily impacted by increased cost prices driven by market wide inflationary pressures, with full year inflation of 5.9%, peaking at 8.9% in December 2022. In response, to support members, customers and colleagues, £37m was invested in our prices, across a series of popular products.

Inflationary increases offset lower volumes in the year, with unit volumes down 5.5% on 2021 (2022: 3.7 billion, 2021: 3.9 billion). Corroborated by our own data, customer behaviour incited 'smaller' baskets across the market, with fewer products per transaction on average during the year, although frequency of shop did increase. Product availability in our Food stores improved in 2022 – by the end of the year, availability continued to improve from Q4 2021 and 94% of products were available in all our stores on average each day (against our target of 95% for the 2022 financial year).

In October, we completed the sale of our 129-site petrol forecourt business to Asda for an enterprise value of £611m. This represented 5% of our retail estate of 2,564 stores. Fuel performance was strong in 2022 with sales £69m higher year-on-year (2022: £571m, 2021: £502m) despite only operating for 10 months of the year. Trading profit for our petrol station stores overall was £47m which was £2m lower than 2021 (2021: £49m).

Despite a turbulent year, we ended 2022 with a market share of 6.1% by the end of 2022 (2021: 6.2%) according to data from Kantar Worldpanel.

Margin held up well overall for the year, with new customer behaviour driving significant change in three key areas:

1. Cigarettes and tobacco sales - as lower margin products - were lower overall, as confirmed by data from IRI.
2. Our own data shows that customers switching to vapes increased significantly in 2022.
3. We saw an increase in the number of food to go soft drinks sold in 2022 compared to 2021, where customers shopped more multipack purchases during the pandemic.

In our Wholesale business, Nisa has had a successful 2022, despite these same economic challenges impacting all retailers. Please see the update from Nisa's Managing Director, Peter Batt, for more detail, on page 25.

Key highlights

Refreshed strategy – Pure Convenience

Over the last few years, we've continued to invest in our estate, infrastructure and people. Our focus on convenience has, in turn, powered up our proposition, extending our reach through our four routes to market - Retail, Wholesale, Franchise and Online - to get closer to where people are.

In September 2022, we unveiled our new-look Food strategy with a renewed focus on convenience and commitment to offer greater value, led by a £37m investment to slash the price of over one hundred products.

Our refreshed strategy aims to capitalise on the experience we've gained in the market over the last decade. We've grown our business to operate more than 2,400 Co-op stores, supported by online platforms, built a nationwide franchise business and served almost 5,000 independent convenience stores through our wholesale arm.

Product range

In response to the cost of living crisis, we lowered prices on more than 120 Co-op own brand products from pizza, pasta and burgers to fruit and vegetables, by as much as 36% in 2022, and 'locked' these prices into the new year to support our members, customers and communities who face rising household bills.

Our target shoppers come to us looking for treats, food on the go, inspiration in meals for the night and to top up their bigger shops.

In the first half of 2022, we began repositioning our fresh, chilled and frozen meals, bringing them together consistently across all our stores so customers could quickly shop our meal offers and easily identify our new ones. These changes set the foundations to ensure we fully complied with the Government's new High in Fat, Sugar and Salt (HFSS) regulation, which came into force for England-based stores of over 2,000 sqft in October.

We know that creating member and customer value is our key to success, balanced with a sustainable cost to serve. This requires continued focus on range, investment in value and price and rewarding our members and customers for their loyalty.

To enable this, in 2022, we began an 18-month range review programme to revamp every category in our shops to ensure real customer value through our four levers of price, promotions, range and quality. Through this work, we began looking to balance branded versus own brand products, improve the distribution of our Honest Value range, improve packaging and our use of plastics and introduce member-only deals.

Whilst doing this, we also looked to reduce the number of products in our range, removing those we know don't matter as much to our members and customers. As well as helping us to improve overall value perception, work like this allows us to manage our overall cost to serve our members and customers.

Online

We continued to focus on growing our online presence in 2022, supporting efforts to make shopping quick, easy and convenient for our members and customers. Our aim remains to be the most convenient home delivery service in the UK, as we continue to innovate to meet the needs of consumers.

Our online business (including the expansion of our own site offering and our offering through partners) could reach 81% of the UK population before the end of the year and revenue grew to be 24% more than we achieved in FY 2021 (2022: £222m, 2021: £179m). Our online delivery services were available in more than 1,800 individual Food stores across 859 locations in 2022, with stores acting as micro-distribution hubs in communities.

By the end of H2, Deliveroo was available in 1,296 stores (1,235 if we exclude our petrol forecourt sites), and Uber Eats in 1,001 stores. Of all the orders placed through our online shop (coop.co.uk) in 2022 overall, 64% of transactions came from Co-op members.

A key part of our online strategy in 2022 continued to be the development of our ecommerce offer, using the competitive advantage of our store footprint to provide fast home deliveries, click & collect and added services.

Growing market share remains our priority, targeting 30% of the quick convenience market share (rapid delivery from store to door) within four years. We started to develop plans in 2022 to simplify the online delivery operation for our colleagues, working with our partners to move all their platforms to our hand-held terminals, meaning everything will be in one place for our store teams.

Distribution

In January, we opened our new Biggleswade depot - our largest regional distribution centre (660,000 sqft). The depot became fully operational in H1 as the most sustainable and environmentally friendly depot in our network, handling over two million cases of frozen, ambient and fresh products a week. This depot brought thousands of products closer to communities across the South and South East. In April, we also began to extend and enhance our Newhouse distribution centre as we continued to strengthen our existing logistics network, ensuring we have suitable distribution facilities to deliver improved services and access to food conveniently for our communities into the future.

A better way of doing business

We're committed to supporting British farmers - 100% of our fresh and frozen meat is British, and we only use British meat as an ingredient in our products. I'm proud that all our hard work has enabled us to continue to back British farmers when others pulled back in 2022, with our pledge to back British egg producers through a multi-million-pound support package for producers on top of the £19m we also pledged to support pig farmers during the year. By supporting British farming, we believe we can boost the economies of communities across the UK and ensure the highest animal welfare standards.

In the context of the climate crisis, we recognise that global producers and farmers in our supply chains are some of the most vulnerable to the shocks of extreme weather and disease outbreaks, but are without the resources to protect themselves and their livelihoods.

Our ambition continues to be the achievement of net zero greenhouse gas emissions by 2040, 10 years ahead of international agreements. From products and packaging to power and pension fund investments, our Climate Plan details how Co-op will reduce the impact of operations. For more information about our Climate Plan and how we're supporting international communities, see our Co-operate Report.

For more information about our new partnership with Your Local Pantry and how we worked together on a live stream at Christmas time, see our Vision update.

Wholesale

Peter Batt
Managing Director,
Nisa Retail

As with the wider Co-op Group, Nisa must remain commercially strong to continue supporting our customers' (or partners') stores, communities and shoppers. To ensure that, we took some difficult decisions in the financial year including the restructure of some of our teams, streamlining operations and making cost efficiencies to get Nisa into a position where we can reinvest in lower prices for our customers and their shoppers.

Our 2022 trading profit was £22m (2021: £9m), representing 1.5% of sales. This figure was enhanced in 2022 by £4.4 million of one-off gains.

Sales in our Wholesale business were 3.8% higher than the prior year at £1,439m (2021: £1,386m). This represents a solid performance in light of significant inflationary pressures and tough economic headwinds, impacting consumers and retailers alike. Of that total, sales in our Nisa business were £1,385m and although retail like-for-like performance was down 2.5%, new member recruitment remained strong. The performance and improving profitability of Wholesale demonstrates the underlying strength of the synergies between Co-op and Nisa. Ensuring the profitability of the business is important, so that we can continue to invest in Nisa in 2023 and beyond, and pass on associated benefits to our customers.

Nisa's sales of Co-op branded products grew by 12.5% in 2022 to £199m (2021: £176.6m) and now represents 20% of total sales, excluding tobacco. In Q4 2022, we made a significant investment in the pricing of Co-op branded products, to improve the margins our Nisa partners make but also ensuring retail selling prices remained competitive. Our data for financial year end 2022 shows just over 91% of Nisa customers were buying Co-op branded product.

Recruitment throughout 2022 remained strong, with 475 new stores added, with in-year sales of £66m (£113m annualised). Co-op disposal stores remain key for recruitment – we recruited 33 more year-on-year (2022: 88, 2021: 55) with total sales at £42m by financial year end.

Our Co-op is the major shareholder in Federal Retail and Trading Services Limited (FRTS), which is a joint buying group collectively owned by us and Independent Society Members (ISMs), which are all retail co-operatives.

The group operates for itself, but also acts as a wholesale to other independent co-operatives. Revenue for the year was £1,895m (2021: £1,756m).

FRTS continues to be run on a cost recovery basis, meaning the group doesn't make or record any profits from these sales. We continue to explore ways to maximise our impact as independent co-operative societies, in the increasingly competitive markets in which we operate.

Funeralcare

Gillian Stewart
Managing Director,
Co-op Funeralcare

2022 proved to be a very important year for our business. We achieved consistently high client satisfaction scores throughout, set up a new business - Co-op Funeral Plans Ltd - and then achieved Financial Conduct Authority (FCA) approval for that business to sell, service and redeem funeral plans.

We said goodbye to Sam Tyrer who, almost a year prior, had taken the decision to move on to her next challenge. I was then honoured to take on the Managing Director role, having previously been Chief Operating Officer, to continue the delivery of our business strategy. We also made great progress with the important work we began in 2021, to transform the culture within Funeralcare and make it a great place to work for everyone.

Business performance

A significant amount of work went into getting ready for funeral plan regulation and we were very proud to be granted authorisation when the UK's funeral plan market became regulated by the FCA on 29 July. We saw a reduction in funeral plan sales in the lead up to this date, as customers' confidence in the market overall was impacted pre-regulation and there were changes to our distribution channels due to regulation. Our plan sales for the year were 16,774, down from 44,751 in 2021, not least due to exiting some third party distribution arrangements not permitted under the new legislation.

We continue to be recognised as providing one of the best funeral plans in the market. We've been recognised for the fifth year running as Moneynet's best funeral plan provider and awarded Highly Commended in the Best Funeral Plan Provider category by readers of the Money Pages.

There has been significant change in the wider funeral plan market, with 26 out of 70 players becoming authorised to sell funeral plans (these 26 players cover 87% of the market). This is expected to bring greater confidence in the market, now that it is under FCA regulation.

However, in the short term, it has led to some of our competitors ceasing to sell plans or even falling into insolvency. We have been in active discussions with the FCA throughout 2022 to provide assistance where customers have been affected by this. We were one of the providers who offered support to those who held plans with providers that are no longer operating, through the availability of a heavily discounted funeral plan as well as discounted funerals for some families at their time of need.

The death rate was low in the first few months of 2022, but increased in Q2 and remained at higher than historical average levels through the rest of the year, with a slight reduction overall year-on-year, as confirmed by data from the Office of National Statistics. We saw growth in our share of the market throughout the year, which more than offset the lower death rate and resulted in higher funeral numbers of 93,867 for 2022, compared to 90,731 in 2021. Clients continued to mention colleague interactions as the primary driver of high satisfaction scores for their experience.

In preparation, Co-op Funeral Plans Ltd (CFPL) was set up as a new legal entity and we started to sell funeral plans under the Co-op Funeralcare brand from this entity on 1 May 2022. Our regulatory compliance advisory function was introduced and over 700 colleagues became certified to sell, service and redeem funeral plans on 29 July 2022, the day that CFPL became regulated. We also launched a new digital Halo Plans system, which is a key part of our core system transformation programme, ensuring our systems and ways of working are regulatory compliant and future proof.

Throughout 2022, our Direct Cremation and Direct Burial funeral options grew in popularity with members and clients, making up 11.7% of our funerals (an increase from 7.9% the previous year), as people continued to choose our unattended, lower cost services, as anticipated during the cost of living crisis. Our simpler Essential funeral option stayed at 11% of our funerals year-on-year. As a result, we saw clients move away from our higher cost, bespoke Tailored service, which made up 49.3% of our funerals in 2022, down from 51.7% the previous year.

These factors resulted in revenue of £271m for 2022, which is a marginal increase on the previous year's £264m in 2021.

We increased our investment in marketing activity in 2022, which had positive results. By focusing more on brand-led messaging in our advertising and the re-introduction of TV into our media mix, we saw a stronger response and improved return on investment compared to previous years. We continued to evolve our digital strategy by making our content more personal and relevant to the recipient's local community, as well as driving the conversation around grief and bereavement on a national level through our partnership activity with publisher Reach and podcast company Acast, developing podcasts which featured guests including Rev Richard Coles and Coleen Nolan.

We're passionate about giving our clients truly unique and personal ways to remember their loved ones, so in November we led the market by becoming the first funeral provider to offer a service where ashes can be scattered by drone.

Families now have the option to scatter their loved one's ashes by drone in memorable locations over land or sea. More than a third (35%) of those who have cremated a loved one in the past five years opted to scatter ashes in a location of significance.

The higher revenue performance, was partially offset by this increased marketing spend, and some inflationary headwinds with the business delivering improved operating profit in 2022 of £16m (vs £12m in 2021).

Partnerships

To enable us to support the growing demand in Direct Cremation services, we welcomed a new partnership with crematoria provider Westerleigh on 1 August. They're the leading developer and operator of crematoria and cemeteries across the UK, as well as having state-of-the-art systems and processes to give our members and customers an improved service.

In January we launched a partnership with Cruse Bereavement Services, with the aim of helping people to talk about death and grief more openly, and empower people in their local communities to provide everyday bereavement support to those who have experienced loss. Related YouGov research we carried out showed 54% of UK adults had lost a loved one in the last five years. Of those who were bereaved, 31% said it impacted their mental health and 15% were left isolated.

This work continued throughout 2022 and, in October, we re-launched our Co-operate platform, which helps connect people with events, groups and activities happening in their local communities. We also updated our online hub to include more useful tips and information about grief and bereavement.

In November, we joined with Cruse and local MPs to host an event in Parliament highlighting our 'Connecting Communities' partnership and welcoming the findings of the UK Bereavement Commission. We also launched a new podcast in partnership with Cruse called 'Let's Talk About Grief', with the aim of opening up the conversation about grief and bereavement.

In November, we welcomed a new partnership with EverWith, the UK's largest memorial jewellery company, as we expand the services and support we provide to families beyond the day of the funeral.

Vision

As part of our focus on bereavement support within the community, colleagues in our funeral homes across the country encouraged people to come together and take part in Marie Curie's National Day of Reflection on 18 March, as the nation reflected on the second anniversary of the pandemic.

We also continued to innovate in the way we co-operate for a fairer planet. We invested further in environmentally friendly and sustainable alternatives, including the use of an electric fleet, trialling both electric hearses and ambulances. We also began trialling more eco-friendly funeral options.

Colleagues

Throughout 2022, we continued the work we began last year of looking into our culture. Our Funeralcare colleagues pioneered the launch of an All Colleague Code, with the purpose of creating a workplace where everyone feels they belong and has a safe space to work together.

Both the Code and the launch approach have been positively received and we're seeing the difference it's making in how colleagues feel about working in Funeralcare.

There was significant improvement in our annual colleague survey results across engagement, enjoyment with working for Co-op, empowerment and a decline in those colleagues who have witnessed or experienced bullying, harassment or discrimination at work since 2021.

We recognise how important our caring and professional colleagues are to our business and our clients' experience. They play a unique and valuable part in their local communities, where the support they provide goes beyond the day of the funeral. It's vital that our colleagues feel a sense of belonging at work and that they receive the care and support they need. We will continue building on the progress we've made over this past year, to ensure Funeralcare is an inclusive, diverse and safe place for everyone.

Insurance

Charles Offord
Managing Director,
Co-op Insurance

2022 saw further development of our insurance business with new partners, products and distribution channels added. We successfully transferred to new partners for Pet and Travel insurance and made our Co-op products available in more places where our members and customers shop. Like Home and Motor insurance, Pet insurance is now available across all main price comparison sites and Co-op Home insurance is now available through Amazon UK. In addition to extending our reach, we are also expanding our insurer partnerships to strengthen pricing and coverage to meet more of our member needs.

We achieved revenue of £24m (2021: £34m) and profit of £8m, after an adjustment of £4m relating to the accounting treatment of deferred income following the sale of the underwriting business in 2020 (2021: £15m). This is as expected - our new distribution model continued to establish itself and – since the sale of our underwriting business and as part of the agreement – we continued to process those policies that were owned by our underwriting business before its sale to Markerstudy, and see, and have seen policies to their end.

Home and Motor insurance products

As with the whole insurance market this year, our performance has been mixed and subject to external pressures and changes caused by the pandemic, claims cost inflation and regulatory changes.

According to price comparison website commentators, overall customer demand for Motor insurance policies reduced by around 7%. This has happened for several reasons.

According to the Association of British Insurers' (ABI) Motor Insurance Premium Tracker, published in December, car insurance claims inflation went up by 16%, making them just over £3,000 each on average in the year to Q2 2022. The ABI reference a number of complex supply chain issues as responsible, as well as the increasing sophistication of vehicles (leading to more expensive repairs) and rises in the costs of raw materials and labour.

Despite this, the ABI Tracker shows that the average price paid for motor insurance rose by a marginal two percent over the year to September 2022.

We also saw new pricing regulations come into effect for Home and Motor insurance from 1 January 2022, which treated loyal customers as favourably as new customers.

During 2022, 50% of consumers were seeing either a decrease or no change at renewal, the largest proportion since mid-2015. Shopping and switching rates were at their lowest point since 2009 (when market data collection began) as a result of lower renewal pricing, based on data from ConsumerIntelligence.com.

Despite these factors, we were still able to deliver 103,388 new Home and Motor Policy sales.

Although we've experienced challenging market conditions, we've continued to focus on improving our customer experience. In 2022, we introduced a new online claims portal which is already used by just under half of our Motor insurance customers going through a claim. Throughout 2022, we improved our online Motor insurance journey meaning 9% more users who start a quote with us are completing their quote compared to 2021, and we've also improved our quote follow up communications which drove a 60% increase in users visiting our 'retrieve quote' page, year-on-year. These improvements, plus others, make it easier than ever for members and customers to engage with Co-op Insurance.

These improvements in customer experience were recognised by The Institute of Customer Service in their UK Customer Satisfaction Index survey. In the insurance sector report, Co-op Insurance rose to number four across the industry. In addition to this, Co-op Insurance was the most improved brand in the year not only within the insurance sector but across all UK sectors.

Travel, Pet and Life insurance products

These challenges in Motor insurance have been offset by a strong performance from some of our other products. Travel, Pet and Life insurance have all performed very well in 2022, with 61,232 new policy sales. By the end of 2022 we'd refreshed all our insurance products with an aim to provide better cover, more choice and better prices. We added new features to help our products meet the needs of our customers and members. This included, a discount on policies for rescue pets and providing cover for older pets who traditionally find it harder and more expensive to get protection through insurance.

Having focused on our product offering and customer experience for a number of years, in the second half of 2022 we moved our focus to extending our distribution and maximising the market leading products we have. We're now getting our products to more people, making insurance easier to buy and offering it in more places.

We also put a renewed focus on our members and communities, and responded to the cost of living crisis with help for our members and the community causes we support.

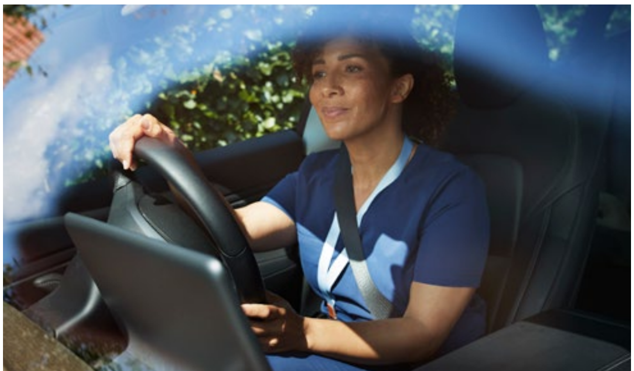
Partnerships and distribution

Our new Pet insurance partnership with Markerstudy has gone from strength to strength since the new proposition was launched at the start of the year. Customer feedback has been positive, and this has been reflected in the sales of the products, with customers holding a Co-op Pet insurance product doubling in the space of 12 months.

Our new partnership with AllClear for Travel insurance has been very well received by customers. Their ability to support our 'any age, any condition' proposition, and also enhance this with the Doctor Anywhere online support, has led to industry recognition and consumer champion Which? nominating Co-op Travel insurance as one of their recommended providers.

The increasing use of online platforms to distribute products will be a future development of our strategy to make it easy for members and customers to access our Co-op products.

At the end of the year we announced that Co-op Home insurance was to be one of only three home insurance products offered through the new Amazon UK insurance store. This will ensure our Co-op Home insurance products are in front of millions more potential members and customers, in a way that suits them.



Members and communities

In July, we launched our Motor insurance campaign, offering both new and renewing members £50 to spend on their Co-op membership card when they took out a policy directly with us. We ensured this applied to new members so more people could take advantage, while supporting the further growth of Co-op's membership base.

Given the economic climate and cost of living crisis in the UK, we wanted to make sure our communities also benefited, so for each policy sold we also gave £5 to local causes.

By the time the offer came to an end in December 2022, we had shared £1.3m with individual members and raised over £130,000 for our Local Community Fund. To read more about the performance of our Local Community Fund, please see our Vision update on page 33.

Legal Services

Caoilionn Hurley
Managing Director,
Co-op Legal Services

2022 has been a strong year for our Legal Services business - in the context of challenges and economic uncertainty, we've continued to grow our business. Revenue increased by 19% year-on-year to £46.3m (2021: £39.0m), and our underlying profit increased 60% to £8m (2021: £5m).

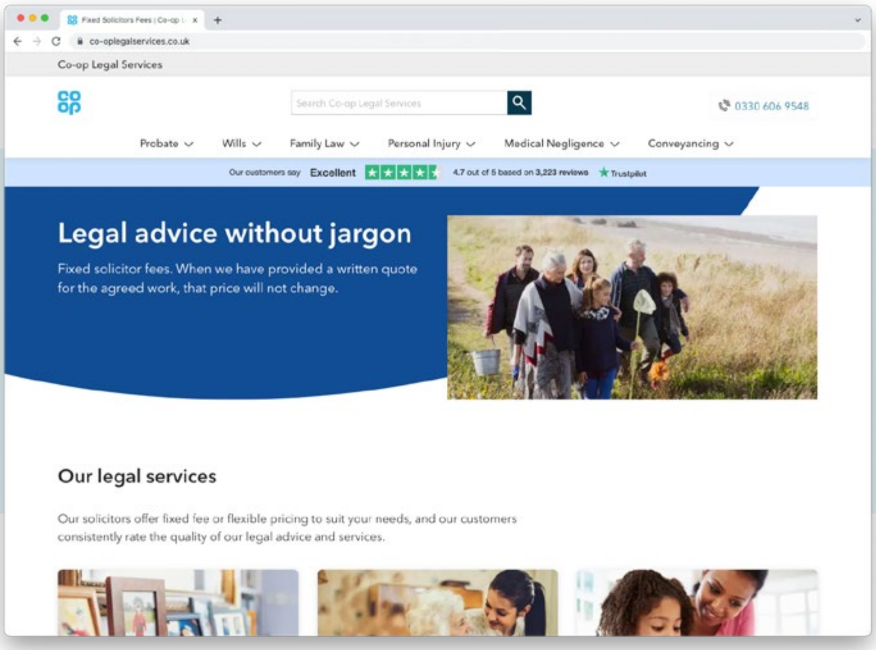
The majority of our growth came from the largest part of our business: probate. Our market leading business experienced huge growth, taking on 24% more cases than in 2021, leading to revenues increasing by 28% year-on-year.

Our Estate Planning business had a very strong second half to the year, resulting in a 9% increase in revenue in 2022.

Our strategy of increased digitalisation and accessibility, growing and maintaining strong partnerships and our unique customer journeys has supported our growth this year and led to continued high performance for our clients. Our colleagues have been key in supporting this growth and our work in the charity sector is demonstrating our difference as a legal business.

Digital and accessible services

- Our continued work in the digital space contributed to our success as 50% of our clients came to us through one of our digital channels this financial year.
- We focused on enhancing our existing digital tools in 2022, which clients can use to help them quickly and easily access our services or legal information. We launched a new and improved digital wills service, which led to improved conversion rates, leads and a better customer booking journey. We also improved some of our internal systems and processes to create efficiencies in how we manage consultant time and workload.
- As we develop digital tools, and improve the systems we use internally, it's a priority that they're accessible for everyone. Our aim is to help people use and understand the law and provide routes to our services that work for each client.
- We regularly check our website's accessibility as well as organising live user testing. We've used this information to improve our Lighthouse accessibility metrics to a market leading position, often reaching a perfect score of 100% in 2022.



Supporting our growth through recruitment and D&I

- Our colleagues are key to supporting and delivering our strategy and, as we grow as a business, our recruitment approach and colleague numbers need to grow too. We continued to give opportunities for legal careers to a wider range of candidates from diverse backgrounds.
- We've continued to hone and develop our essential criteria and assessment for recruitment in 2022 which has helped us recruit 347 colleagues (this is 45% up compared to 2021).
- In 2022, our new hires identifying as disabled went up from 5.4% between Jan – Oct 2021 to 13% in 2022. We also saw an increase in colleagues identifying as being from an ethnic minority. In 2022, a total 25% of our new colleagues identified as being from an ethnic minority background. We've seen this increasing throughout the year from 19% in Q1 of 2022.
- Inclusion training for line managers, the review of role profiles and recruitment criteria as well as improvements to the training we're able to give less experienced colleagues have all contributed to these increases.

Partnerships

- Our partnerships strategy continued to grow in 2022. We secured new long-term contracts with M&G, Newcastle Building Society, Saffron Building Society and Cancer Research UK, who will continue to refer their customers to us for estate planning services.
- We closed the year signing contracts with two new partners. We have partnered with the Co-operative Bank PLC for probate and estate planning. We have also signed an agreement with Amazon UK for our digital wills to be sold through their platform. We are the first legal firm to work with Amazon UK and this arrangement fits with our strategy of making legal services more affordable and accessible, bringing our services to new groups of customers in a way that works for them.

Client Service

No matter if clients come to us digitally, through a partner or a more traditional route, we want to give a great customer experience. We're delighted that our customer service scores stayed strong, and our customer satisfaction score for 2022 is 85% (2021: 86%). We're also really proud of our Trustpilot scores, which improved to 4.8 stars in 2022 (2021: 4.7 stars).

Charity and community

In 2022, we continued to play a strong role in the charity wills space. Our Estate planning team wrote 2,903 charity wills in 2022 (2021: 2,463), whilst pledges in wills written totalled an estimated £51m in 2022.

Vision update

Vision update: Co-operating for a Fairer World

2022 proved to be an incredibly challenging year for our business, but also those depending upon our Co-op, who remain at the very heart of our '*Co-operating for a Fairer World*' Vision. When the Vision was introduced a few years ago, we couldn't have anticipated how it would be tested in years to come - we've seen it become increasingly relevant to our members and communities, our colleagues and our planet, all of which endured so much over the 12 months.

This has included the fallout from the war in Ukraine, which has affected energy security and the UK economy, through inflation and the availability of key goods. By the end of the year, the UK was facing the biggest fall in living standards since the 1920s, with members and colleagues anticipating headwinds for the short and long term, including increases in the price of food and fuel, but also fewer affordable mortgages and pension funds stretched to their limits.

'*Co-operating for a Fairer World*' allowed our Co-op to take important strides in tackling hardships and injustices, while also taking up new opportunities to improve the wellbeing and prospects of others. This year, our focus remained steadfastly upon making things *'Fairer for our Members and Communities'*, *'Fairer for our Colleagues'* and *'Fairer for our Planet'*.

Sharing with our members and communities

Our community plan has three interconnecting missions to support programmes developed to bring about meaningful change in local communities. These are:

- Fair access to food.
- Fair access to mental wellbeing support.
- Fair access to opportunities for young people.

Raising funds

At a time where the finances of our members and their communities had been so sorely tested, in 2022 our Co-op celebrated raising £117m for local communities, since 2016.

This amount has been generated when members buy selected Co-op branded products and services, with 2p in every pound spent split between supporting:

- Our Local Community Fund, helping thousands of local community causes. 2016 marks the year that this fund launched.
- Our Community Partnerships Fund, creating targeted partnerships and resources to support vulnerable local communities across the UK.

Our Local Community Fund is at the heart of our Co-op's support for the communities that we serve, bringing to life the co-operative principle of concern for community at a genuinely local level. Co-op colleagues who live and work in communities across the UK, led by our Member Pioneers, play a key role in determining which projects will best meet the needs of their communities, while members chose to support a cause that matters to them more than one million times during 2022.

Our Local Community Fund supported over 4,000 community projects in 2022, offering a share of £12.4m, providing critical support during a challenging year.

- More than half of causes (53%) confirmed that the funding allowed them to develop new or improved partnerships with other local organisations.
- Co-op's support was seen to assist 43% of causes with mobilising volunteer support from their local communities.
- More than 47% of causes reported that their project, funded by Co-op, had helped them obtain further funding for their organisation.

We also secured a new partnership; our relationship with Crowdfunder's funding website allows those same local causes the chance to benefit from match funding and unlock additional support.

July saw the culmination of three years of fundraising across our Co-op on behalf of our charity partners Mind, SAMH (Scottish Association for Mental Health) and Inspire – three organisations well known for their work supporting mental wellbeing across the UK.

After setting an initial fundraising target of £6m, our members, colleagues and customers raised £8.3m for these three causes in total.

The money raised helped to launch more than 50 new mental wellbeing services in local communities across the UK, supporting over 22,000 people in 2022. 82% of service users said that they felt their mental wellbeing had improved as a result, and that they were better able to cope with the challenges they faced.

And as well as continuing to meet long-standing fundraising targets like these, our Co-op also found new and pragmatic routes to responding to the cost of living and its effects upon communities over 2022.

- Our Co-op pledged £19m in support of UK pig farmers, following our move to delist imported bacon from Food stores more than five years ago. Matt Hood, the new Managing Director for our Food business, encouraged other retailers to help the sector tackle high feed costs, exacerbated by the conflict in Ukraine and leading farming communities to suffer significant losses.
- Co-op became the first retailer to launch a £1m 'Warm Spaces' funding boost, to provide urgent support to local community organisations across the UK, as they help communities navigate rising energy costs during the cold winter months. Funds raised by Co-op members supported local groups in providing warm spaces for people to use over the coldest months, through its partnership with Crowdfunder. Eligible groups who were already offering a warm space, but wanting to increase opening times or extend existing services or activities during the winter, could also apply for match funding.
- Co-op was a founding member of the Disaster & Emergency Committee when it was originally established. More than £1.2m was raised between members, colleagues and customers in 2022, for their appeal in response to the devastating events in Ukraine and Pakistan. In addition, the decision was made to remove Russian-made vodka from sale in our Food stores, and introduce Chernigivske Ukrainian Lager on to shelves in April, to support a business seeking safety and security for its employees.

And in December 2022, Nisa's Making a Difference Locally charity, which enables retailers to support good causes in their local community, reached £15m. The milestone amount has been raised for communities across the UK since the registered charity's formation in 2008, with more than £1.1m raised through the sale of Co-op brand products during its last financial year (July 2021 - June 2022).

Key partnerships and our Community Missions

Over the course of this year, we continued to focus upon our three Community Missions, ensuring long term ambitions while making an immediate difference where needed, as communities still felt the effects of the pandemic and faced into a cost of living crisis. In 2022, we were able to put in place major new partnerships which greatly enhanced our efforts and impact in these three key areas.

Fair access to food

We continued to deliver on our commitment with Hubbub to help its community fridge network expand to 500 locations by the summer of 2023, meaning it could distribute millions more meals than the original 100 locations when our partnership first began. Community fridges continue to offer more than just food - they were developed to bring people together to build skills, improve their mental wellbeing and increase their resilience. By the end of 2022 we'd identified 350 fridge locations.

And in September, we announced our significant new partnership with Your Local Pantry, intended to help improve household finances, while bringing people together around food.

The partnership will see Your Local Pantry network triple within three years from 75 to 225 pantries across the UK, with the addition of 150 new pantries, expected to see almost 650,000 visits by July 2025. The partnership will focus on communities where additional food solutions will make a significant difference to the cost of living. The first 20 Your Local Pantry locations had been identified, as part of the partnership, by the end of 2022.

Each location is run by uniformed staff and volunteers who manage the pantries. Pantries are open to all and work like any other grocery store, in that Your Local Pantry members - who pay a nominal subscription each week - choose the food from the shelves.

Members save, on average, £15 per shop and around £1,000 or more a year on shopping bills. Overall, the new locations are forecast to help Your Local Pantry members up and down the UK save an estimated £5m a year when fully operational.

Instead of a traditional Christmas TV commercial, with the potential to cost millions of pounds, our Co-op chose instead to spotlight Your Local Pantry, partnering with TV chef and rapper Big Zuu on a livestream across the country, from one of its locations in Peckham. The event included demonstrations around simple and nutritious recipes for only a few pounds, as well as an opportunity to meet Your Local Pantry volunteers and its members, who are working to help their community grow and thrive.

As part of our access to food mission, at our May Annual General Meeting, we introduced Caboodle, a new digital platform built to help reduce food waste between founding partners Co-op and Microsoft, with technology consultancy BJSS and TeamITG.

The not-for-profit initiative enables supermarkets, cafés and restaurants to connect with community groups and volunteers and redistribute surplus food. Its ambition is the creation of a single place where food retailers and businesses across the hospitality sector can connect with volunteers and community groups in every city, town and village in the UK, helping to share food when and where it is needed.

Initially trialled in Co-op Food stores in Northern Ireland, Milton Keynes and London, the platform went live across 2,500 Co-op Food stores in July and supported a total 14% increase in the amount of surplus food redistributed to local community groups by our stores, year-on-year. More than 6,500 tonnes was shared in 2022, compared to under 5,800 tonnes in 2021.

News of Caboodle was publicly supported by WRAP – a climate action non-governmental organisation - which acknowledged its potential to curb food waste and redistribute to those who needed it. It has also been utilised by Co-op's partner Hubbub.

Fair access to mental wellbeing support

As well as our ongoing support for Mind, SAMH and Inspire, teams across our Co-op invested time throughout 2022 and actively participated in key mental wellbeing initiatives intended to make a real difference in communities.

On Time to Talk Day, we partnered with Mind, SAMH, Inspire and Rethink Mental Illness on the nation's biggest conversation around mental health, encouraging nearly two million conversations to take place, both inside and outside of the Co-op. Senior leaders from our Manchester support centre spent time with Paul Farmer, the CEO of Mind, and local organisations to encourage conversations around greater support and open dialogues on mental health between families, friends, others within our communities and our colleagues.

Alongside this, more than 1.5 million people have been signposted to information, activity and support for mental wellbeing since 2020. This includes through our online community centre Co-operate (developed to bring people together to make good things happen in communities - coop.co.uk/co-operate), our Member Pioneers and Funeralcare business.

To further encourage openness and support, we began the year with a new partnership with Cruse Bereavement Support, brought about to help people discuss grief more openly. The initiative sought to empower mutual support across communities, to best help those who might have experienced a bereavement. Bite-size resources were developed to help signs of grief be identified, understood and normalised, and further signposts to support were made available. Over 13,000 people accessed new bereavement resources on Co-operate in 2022.

In addition, our agriculture and fisheries team worked with the Farm Safety Foundations to undertake important training to better understand mental health, in particular the challenges felt in rural communities, and garner new ideas on how they could best support these groups.

Fair access to opportunities for young people

The impact of the pandemic and the cost of living crisis upon young people will be felt for years to come. Working with external partners has been key, enabling our Co-op to provide sustainable solutions to support those young people whose communities and prospects have been so badly affected.

The Peer Action Collective (PAC), which we launched alongside the Youth Endowment Fund and #iwill Fund, is rooted in our Vision of '*Co-operating for a Fairer World*' and co-operative Values. The PAC provides 10-25 year-olds with a voice and the opportunity to make their own communities safer and fairer places.

The £5.2m youth-led programme – £1.6m of which is funded by our members through their contribution to the Community Partnerships Fund – supported more than 6,000 young people across England and Wales in 2022, including 4,588 young people being heard as research participants, 1,310 young people taking social action as change makers and 169 people in paid employment as peer researchers.

In July, a new partnership between Co-op and UK Youth was developed in support of young people in Scotland and Northern Ireland making a difference through social action in local communities as part of the #iwill movement. The #iwill movement is a collaboration of over 1,000 organisations and 700 young #iwill ambassadors & champions from across the UK, supported by charities UK Youth and Volunteering Matters. The £250,000 investment from Co-op (again, funded by Co-op members through the Co-op Community Partnerships Fund) has been used to recruit, train and support new #iwill ambassadors across the nations. The 10-25 year-olds will work together to make a difference in their communities through social action.

Co-op Academies Trust

Our focus on young people continues with our growing network of 29 academies across the North, supporting our ambition to provide fair access to education. In 2022, Co-op Academies Trust added two new schools; it welcomed Co-op Academy New Islington in Manchester, and Co-op Academy Glebe in Stoke-on-Trent, both Ofsted rated Outstanding primary schools. The Trust was also awarded a new free school by Leeds City Council, and will be officially opening Co-op Academy Brierley in September 2023. This will be the Trust's third special school for children with additional needs, and its first through school, supporting children from the ages of 4-18

Our network of schools remain an important part of our Co-op and to all within our group, who share our '*Co-operating for a Fairer World*' Vision. In 2022, the Trust worked to ensure that every student (more than 18,500 of them) had access to a healthy nutritious breakfast before school. A newly-established and ongoing partnership between Co-op Food and Kellogg's sees cereal sales contribute towards the Trust's breakfast clubs. All Co-op Academies began to offer a breakfast club, and a free breakfast to 'Pupil Premium Students' who are students from low income households or have considerable disadvantages to their peers.

In May our LGBTQ+ Respect colleague network hosted a conference for Academy libraries, in support of greater representation of diversity across books in our schools and, over the summer, all colleagues were invited to donate their favourite non-fiction, fiction books and magazines to be enjoyed by our students.

Following its success in 2021, our Co-op relaunched its virtual work experience programme for its Year 9 Academy students, engaging over 2,500 young people, helping them to reduce barriers to the best possible work experience opportunities, while they developed key employability skills through interactive sessions.

Co-op Foundation

Also supporting young people and communities in 2022 was our charity, the Co-op Foundation, which marked the year by launching its new five-year strategy: 'Building communities of the future together'. This strategy was co-created with Foundation colleagues, funded partners and our Co-op. It is led by a vision of future, fair co-operative communities shaped by almost 100 diverse young people, including Co-op colleagues, members and Academy students. See coopfoundation.org.uk for more information.

The first round of funding from this new strategy is the £1.5m Future Communities Fund. This was launched in November, to deliver unrestricted grants of up to £30,000 a year for five years to help organisations develop diverse young leaders of the future. Grants will be awarded in 2023, led by a 'Future Communities Collective' of 10 diverse young people working alongside the Foundation.

In addition to developing its new strategy, the Foundation also built partnerships and awarded grants all over the UK in 2022.

In June, the Foundation announced a new match-funding partnership with the UK-based Astra Foundation to continue its work tackling youth loneliness. Funding included a £450,000 grant to UK Youth and Youth Focus: North East to help upskill youth workers to better identify and tackle loneliness. This is an example of how the Co-op Foundation can leverage money from other funders to increase its impact and make Co-op member donations go further.

Over the summer of 2022, the Foundation also awarded £1.4m of grants from its Carbon Innovation Fund partnership with Co-op Food to help reduce carbon emissions in food and farming; a £250k two-year grant to Refugee Action; and £1.2m of follow-on funding for 37 current #iwill Fund partners to build on their social action projects with young people.

Co-op Foundation finished the year by putting young people in charge again. It launched year four of its annual Lonely Not Alone campaign to tackle the stigma of youth loneliness and signed the Power of Youth charter, committing to give young people a chance to shape their future.

Working with others

During the first half of 2022, our Co-op worked closely with the Purpose Coalition throughout H1, to evaluate the impact of our work. This independent body, led by the Right Honourable Justine Greening, prepared a 'This is Purpose' report, focused on our Co-op, which was published and presented to the House of Commons in July. The report considered our Co-op, its missions and what more we can do for our communities, as well as the partnerships we can create that will make a difference. Along with many other ideas in many other areas, it also provided brilliant ideas to build on our flourishing programme of activity for greater social mobility, and for the greater education and employment of young people. We continued to work with Justine and her team through 2022, developing our plans to act on her recommendations.

In 2022, Cooplevyshare.co.uk - built for employers to come together, create opportunities and support apprenticeships for individuals from under-represented socio-economic groups – exceeded the initial three-year target of £15m we set when it launched in 2021.

Since its inception and before the end of the financial year, the service reached 54 donating employers and 138 receiving organisations, detailing potential apprenticeships. 1,397 matched apprentice opportunities have been confirmed over this time, to the value of £14m.

And towards the end of the year, we were named one of the UK's leading employers in the Social Mobility Index, which recognises employer-led social mobility and is developed by the Social Mobility Foundation. In 2022, we were one of just 12 businesses asked to join the Social Mobility Commission's Employer Advisory Group, put in place to drive social mobility in the workplace in the UK.

Beyond the cheque

Underpinning all of our exceptional community achievements continues to be our Member Pioneers – we simply couldn't have achieved what we have without their hard work in our communities across the UK, connecting members, colleagues and local causes, helping them during a difficult 2022.

Our 1,000 Member Pioneers and Member Pioneer Co-ordinators invested over 116,000 hours in our UK communities over the year and engaged with an average of 51,000 people a month, reaching more than seven million through their social media channels. They played a critical role in activating campaigns, initiatives and national partnerships.

During 2022, they delivered more than 300 Live Local events, reaching those in our communities and colleagues alike with important messages, ideas and opportunities to participate. Themes ranged from Fairtrade to sustainability, and highlighted activity such as the launch of our soft plastic recycling.

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

Our 2022 Co-operate Report includes detail on the progressive actions we're taking to fulfil our Vision of *Co-operating for a Fairer World,* including our support of Fairtrade and international communities. To read the report, visit: www.co-operative.coop/ethics/sustainability-reporting

Colleague policies

Our colleagues have endured those same hardships as our members and communities, and we took the opportunity during 2022 to review and reassess key colleague policies, and their suitability for those dependent upon on them.

- Our leaders worked to shift perceptions at Co-op, and fundamentally change our culture when it came to menopause, challenging the stigma that it is a 'women's issue' when it should be considered a workplace issue, requiring the support of affected colleagues' whole teams.

  After being one of the first retailers to launch a menopause policy back in 2019, we took the opportunity to refresh the policy in April, which included the introduction of a menopause support guide for all 4,500 managers across Food stores, funeral homes and our Legal Services and Insurance businesses.

  A related guide was made available to other employers for free, as part of an attempt to break the taboo of menopause in UK workplaces more widely. Developed in partnership with USDAW and Unite, as well as Co-op colleague networks, the guide is designed to help achieve a greater understanding of the menopause's impact and the supportive role our managers can play. Our Aspire colleague network - a network of Co-op volunteers that advocate and co-operate for a fairer world for all colleagues who identify as women - also continued to hold regular menopause coffee mornings throughout 2022. The sessions remain a safe space for colleagues to share their experiences and hear from related experts.

Coinciding with National Fertility Week, a new colleague fertility treatment policy was launched in October.

The policy, as part of our commitment to create a truly inclusive workplace and deliver a fairer world for colleagues, provides flexible unrestricted paid time off for colleagues to attend medical appointments while undergoing fertility treatment, including colleagues using a surrogate.

Importantly it also recognises the need for paid time off for those colleagues whose partners are undergoing fertility treatment, to enable them to provide support through treatment, regardless of how long they have worked for Co-op or the number of hours they work.

Endorsed by charities Fertility Matters at Work and Surrogacy UK, the enhanced policy provides a range of flexible support, including a section which covers embryo transfer and pregnancy rights specifically. It also outlines access to counselling and wellbeing support, through partners Lifework and YuDoctor.

Even greater inclusivity for colleagues

2022 saw some important initiatives to make working within our Co-op even more achievable and accessible, especially to those from disadvantaged or diverse backgrounds.

- In February, Co-op Legal Services announced five new apprenticeships for students wishing to pursue a career in law, meaning candidates did not need to complete a university law degree – potentially saving them each over £36,000 in tuition fees.

  The apprentice solicitor roles were open to students who had achieved three A-levels and five GCSEs, with the role undertaken over a six year period at which point candidates would qualify as solicitors, which goes beyond the outcome of a traditional law degree. Sitting within Co-op Legal Services' team of experts, roles are fully salaried and rise in line with career progression over the course of the 72-month period.

- In May, leaders were provided with new recruitment resources, to support hiring processes and considerations to aid the development of a more diverse culture at our Co-op.

Beyond recruitment and to support a more inclusive culture for those colleagues already part of our Co-op:

- 2022 saw us share our first ever ethnicity pay gap with colleagues and wider audiences, revealing the difference in pay between those who identify as being from ethnic minority backgrounds within our group, and white colleagues.

  The report, published in June, was designed to bring greater transparency and challenge our ways of working in a similar way to the Gender Pay Gap Report, but with more intersectional insight that our Co-op could use. It has been shared with parliamentary and political stakeholders as part of our social mobility campaign where we are, suggesting this reporting should be mandatory. It's available to read here: www.co-operative.coop/ethics/ethnicity-pay-gap-report

- Access to important new resources was made available to our colleagues, to support greater inclusivity across our Co-op.

  We shared an information pack ahead of International Non-Binary Day (14 July) with colleagues, explaining the event's significance and the best ways to role-model inclusive behaviours and bring our ambition for 'endless inclusion' to life.

  Packs were also available for International Women's Day in March and programmes of events, activities and resources were shared with our colleagues in support of South Asian Heritage Month, Black History Month and other dates of significance.

  In November, a new disability inclusion module was launched with the support of our Represent network for line managers and colleagues, aligned with Disability History Month. It includes insight from colleagues living with disabilities, helps line managers learn how they can better support disabled colleagues and offers signposts to those working to unlock their potential and thrive at work.

Represent also placed within The Shaw Trust's Disability Power 100 in 2022, which celebrates Britain's most influential disabled people and organisations.

Namratta Bedi, co-chair of Rise, our colleague network for ethnic minorities, hosted the network's first Vaisakhi session in April, raising awareness and discussing how the festival is celebrated for different reasons by different faiths and cultures. This day also marks the founding of the Sikhism faith by Guru Gobind Singhji in 1699. A related live cooking session with Co-op chef Ed Fraser was also made available to colleagues in our support centre and to all colleagues virtually.

Peter Batt, Managing Director for Nisa, was awarded Silver in the Page Group Diversity Champion category of the 2022 Retail Week Awards.

For an update on achievements against our diversity and inclusion commitments, see our Co-operate Report.

The wellbeing of our colleagues

As the year brought with it another raft of new and unique challenges, our priority was to protect all aspects of our colleagues' wellbeing, including their financial wellbeing.

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

In September, we took the decision to offer further support as part of the rising cost of living, the ongoing risk of energy cap increases and increased inflation. Our work during the year to increase cashflow and stabilise our business, made a one-off additional investment of £12m possible, with the most support going to those who weren't eligible to participate in our bonus plan, including many of our frontline colleagues.

A payment of £50 was loaded on to eligible colleague membership cards in November and December, with plans to do so again in January, making £150 in total. Later in the year, the decision was also made to offer the majority of colleagues another financial boost, with a further £75 added to colleague membership cards in December – this reached more than 55,000 colleagues. Payments were structured so that they would not impact any universal credit payments and we also covered the benefit in kind tax due so colleagues would receive the full benefit.

Beyond this £12m investment, colleague members saw an increase to 30% discount on Co-op own brand products, excluding alcohol, from 20 October until April 2023.

Talk Money Week in November signposted colleagues to tailored support whether they were dealing with a one-off surprise bill, building a savings buffer or handling debt. Pointers to Co-op's and partners' resources were made available – such as Grocery Aid; Keep Credit Union the Co-op Credit Union; debt charity Stepchange and lenders Salary Finance. We also increased how much colleagues could access from their basic pay in advance, through partners Wagestream.

Beyond supporting our colleagues' financial wellbeing, we continued to find routes to help ensure their physical and mental wellbeing was safeguarded. In May, following an initial pilot, we launched a brand new benefits partnership with YuLife for all colleagues, with access to a wellbeing app that rewards healthy behaviours like meditating, walking and cycling, with chances to earn vouchers to spend with well-known brands.

We also held a range of events and activities around Mental Health Awareness Week. For the theme of loneliness in 2022, a series of recorded sessions, on demand events, podcasts, videos and a quiz were all available. Signposts to further support were included as were free virtual exercise classes from partners Nuffield Health, including Yoga and Body Conditioning.

Our Co-op remained firm in 2022 that discrimination or abuse of any kind would not be tolerated in any part of our group. In March, as part of our efforts to ensure fair treatment for colleagues feeling bullied or harassed, we called out across our Co-op for those who had experienced discrimination of any kind at any time in their career, to help shape our people, processes, systems, policy, procedure and training. We launched an all-colleague code for behaviours within our Funeralcare business, including a range of associated interventions such as listening groups to ensure the code was meaningful and supported outcomes from a cultural audit of behaviours. Work to address behaviours began in Logistics during 2022, and is expected to extend into Food stores in 2023.

Building on the success of our ongoing Safer Colleagues, Safer Communities campaign, Paul Gerrard, who oversees our campaigns and public affairs, was a keynote speaker in Westminster, as part of the USDAW Freedom from Fear Summit in November. Paul made clear our continued support for USDAW's campaign, reiterating that that there was no excuse for our frontline colleagues to feel anything other than safe and respected.

We also continued to monitor very closely the implementation of the new legal protections enacted by Holyrood and Westminster to ensure the criminal justice system takes every opportunity to ensure those who would abuse or attack shopworkers face the proper sanction for doing so.

THE QUEEN'S AWARDS FOR ENTERPRISE: SUSTAINABLE DEVELOPMENT 2022

Recognising our efforts for the planet

In April, we were honoured to receive the Queen's Award for Enterprise for Sustainable Development, in recognition of our excellence in sustainability. The award, which involves a rigorous application process, recognises the reach and depth of our work reducing the impact of operations, its focus on the UN sustainable development goals and its commitment to continually drive initiatives, which affect its environmental impacts and see real change. Initiatives such as introducing Europe's most extensive soft plastic in-store recycling scheme, to make all Co-op's own brand food and drink packaging easily recyclable, were considered.

Our Co-op was also awarded the Relex Responsible Retailer Award as part of the 2022 Retail Week Awards for our commitment to greater sustainability. Again, our soft plastic recycling scheme was acknowledged – data shared in July, to mark the scheme's first anniversary, showed that around 75% of polled members regularly used the bin in their local store, with 41% saying they used it once a week, 30% a few times a month and 29% more than once a week. Fruit and vegetable bags, bread bags and crisp packets were the items most recycled by members.

And our Food stores continued to find other ways of empowering members and customers to think and act more sustainably:

- In April, we removed 'use by' dates from all of our own brand yoghurts in a bid to reduce food waste, and as part of an industry first move, favouring instead 'best before' dates.

- This same month, the Sustainable Fisheries Partnership, the Royal Society for the Protection of Birds and the Whale and Dolphin Conservation completed an independent audit of the risks to ocean wildlife in the fisheries that supply our Co-op. They deemed us 'one of the top retailers in the UK selling sustainable seafood.'
- As part of a relaunch of our food-to-go offering in May, we significantly reduced the amount of packaging in our food-to-go products and removed all single-use plastic cutlery in favour of wooden sporks.
- In a UK supermarket first, our Glastonbury festival store sold ice cubes in bags certified as 100% recyclable paper, which could be sorted at the event's onsite recycling centre in June. We also did not sell single-use plastic bottles at the store and only offered water in cans. Our soft plastic recycling units were made available at the store for customers to return their soft plastics.
- In August, we expanded our trial with tech-recirculation start-up Spring to help consumers cut e-waste and unlock the value in their old and unwanted phones and electronic devices. Self-service pods in selected Food stores allow consumers to sell their old devices quickly and conveniently, such as phones, tablets, e-readers and smartwatches, which then get repaired, refurbished, reused or recycled.
- And in November, we committed to removing all coloured milk bottle caps from shelves to move to clear caps across all our stores, which can be more easily recycled into food grade packaging. We also launched a trial in partnership with tech specialists Polytag to uncover the number of our own brand plastic bottles that are being recycled, to improve our understanding of true recycling figures and to help benchmark future rates for the industry.

Our Funeralcare business continued to invest in environmentally friendly initiatives, such as an electric fleet, including trials for both electric hearses and ambulances.

Our Co-op also continued to play a role in key conversations, using its influence to engage and inspire others to be 'Fairer for our Planet.'

Leaders encouraged all colleagues to participate in Great Big Green Week, as the UK's biggest celebration of community action to tackle climate change and protect nature. Starting in September, resources were provided to support colleagues in organising related events, such as a plastic-free picnic or a nature trail; writing to their MP or finding local events or groups they could support, including a series of Sustainability Live events hosted by our Member Pioneer network.

And beyond our colleagues, we continued to campaign for UK Government to bring about change and participate in important conversations:

- Leveraging our position as a retailer with its own brand charity water - having shared £17m over the past 15 years with clean water and sanitation projects - Shirine Khoury-Haq joined other influential leaders via video at COP27 to work through how UK businesses could come together, co-operatively, and use water more responsibly, as a precious resource.
- Shirine also represented our Co-op at the WWF Retailer's Commitment for Nature Steering Group with other retail CEOs, to make our members' voices heard on how we can come together and halve the environmental impact of UK shopping baskets by 2030.
- As chair of the British Retail Consortium's Climate Action Roadmap Steering Group, Shirine addressed other businesses at a Climate Action Showcase towards the end of October. It was a celebration of everything that has been achieved by the steering group, but also by our Co-op, in terms of reducing harmful emissions, waste and driving towards net zero.

Our Co-op joined other retailers and some of the biggest co-operatives in the UK alongside Community Energy England in December to call on the Government to prioritise incentives that encouraged investment in renewable energy. The group's signed letter pressed for an overhaul of the planning regime to fast-track new wing and solar schemes and create fairer pricing for green energy used by households and industry. For more information on our energy strategy, see the Co-operate Report 2022.

Also, in 2022, total Scope 1 and 2 greenhouse gas emissions continued to decrease by 9.58% in 2022 (location-based emissions in 2021: 320 ktCO_2e, 2021: 288 ktCO_2e). This is due to using less energy, less fuel, a decrease in emissions from fugitive refrigerant gases and the UK grid electricity mix generating lower carbon emissions. For more data and detailed updates on our Climate Plan, as well as work to reduce our carbon emissions, see our Co-operate Report.

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 – we signalled an intention to do just that in our 2021 Annual Report and Accounts and we will do by 2023.

During 2022, we evolved our plans and worked to identify the physical and transitional risks and opportunities to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we move to a lower carbon future. We made progress here but recognise that there is more to do in the next year.

As an ethically responsible business, we are committed to playing our part in addressing the climate emergency. In 2021, we set out our blueprint – a Climate Plan that sets out our pathway to achieving net zero by 2040, 10 years ahead of international agreements.

It details how Co-op will reduce the impact of operations and products across our Food, Funeralcare, Legal Services and Insurance businesses. The Plan sets out targets, endorsed by the Science Based Targets initiative (SBTi), in line with the carbon reduction that is required to cap global temperature increases and meet the goals of the Paris Agreement.

You can read more about our Climate Plan and related activities in our 2022 Co-operate Report, including:

- Focusing the missions relating to running our stores, transport and logistics network.
- Our work to improve the robustness of supply chain emissions data.
- Our work on establishing a new supplier engagement programme to accelerate. Scope 3 emissions reduction.
- How we are collaborating for system change.

Governance

All environmental and sustainability matters including climate change risks are currently managed within our Co-op's overall risk management framework and reported through the Risk & Audit Committee to the Board.

In 2023, the Board will review this governance structure in the light of TCFD requirements.

Strategy

Our Co-op has carried out an initial, high level risk and opportunity identification with the assistance of DNV – providers of risk management services across multiple industry sectors. Our technical and sustainability teams continue to have a good understanding of the climate-related risks we face in different parts of our business. However, in the second quarter of 2022, we went through a structured process to test and challenge our thinking as we prepared for our first disclosure. Supported by experts from DNV, we worked with colleagues across the business to map our risks and opportunities and explore possible responses.

Information gathered through an online survey and key stakeholder interviews was analysed and used as the basis for a facilitated workshop, during which participants integrated and built upon initial findings, moving on to identify practical responses to the material issues raised.

Risks fall in to two broad categories: Physical and Transitional.

Physical risks principally relate to:

- The impact of flooding and extreme heat on operations. Whilst it isn't practical to carry out individual assessments on each of our premises, an assessment has been carried out on principal premises, including distribution centres where, although there is overall a 15% risk of flood damage, specific vulnerabilities have flood defences.
- The global food supply chain contributes to and is impacted by climate change and many of our key sourcing communities are already experiencing its impacts. In the medium to long term, we can expect to experience disrupted supply chains, shortages and increased food prices if steps aren't taken to adapt food supply chains to climate change. We are working with our suppliers to better understand these risks and work with them to create climate adaptation plans to help address the challenges.

Transitional risks are made up of several components:

- Carbon pricing relating to greenhouse gas emissions - our Co-op is in the process of developing a long-term sustainability strategy and transition plan which will address all aspects of our energy use. In the meantime, we are focusing on applying energy saving projects around refrigeration, doors, windows and lighting to our estate on a rolling programme as well as re-fitting existing stores and fitting out new ones with the most efficient products available. The cost of this is already built into our current budget and Four-Year Plan. Some 1,200 Energy Saving Opportunities Scheme audits have been conducted.
- Market risks – there is a reduced opportunity to shift customer behaviour away from animal products because of the convenience business model and heavy reliance on carbon-intense milk, eggs and mince.
- Policy & Legal risks – resources and investment required for the volume of incoming regulation and legislation may exceed our Co-op's current capacity in transport and logistics in particular.
- Technology risks – investing in new energy friendly technology in agriculture.

During 2023, we will validate and finalise this initial analysis then will carry out a detailed impact assessment to determine the timescale, likelihood and financial effect of each risk, as well as available mitigations.

We will carry out scenario analysis, both qualitative and quantitative, to determine our resilience to the effects of varying climate change scenarios.

Risk management

Climate change is recognised as a principal risk to our Co-op, which is further disclosed on page 67. The way we identify, assess, manage and monitor risk is explained on page 60 - 63.

Metrics and targets

Our plan sets out targets, endorsed by the Science-Based Targets initiative (SBTi) across all scopes. Our current targets reach to 2025 – however, recognising the need to decarbonise further and faster, we are now resetting these across all scopes, in the near and long term. This will ensure that they are in line with keeping the global temperature increase to no more than 1.5 degrees Celsius above pre-industrial temperatures.

We are expecting these updated targets to be released and validated by the SBTi in late 2023. Our long-term goal is to reach net zero greenhouse gas emissions from both operations and products by 2040 at the latest. We have also set a target that suppliers that collectively contribute to 50% of our emissions will have set science-based net zero targets aligned to 1.5°C by 2025.

In 2021, we reported that we had met our target to reduce our operational (Scope 1 and 2) emissions by 50% compared to 2016 reduction, three years early. You can read about how we have reduced our Scope 1 and 2 emissions during 2022 on page 123. We measure and report our indirect greenhouse gas emissions (Scope 3) every two years. The most recent report was in 2021 (for emissions over the period 2020/21), where we quantified an 8% reduction in Scope 3 emissions since 2016. In the 2023 Co-operate Report, we will publish an updated Scope 3 inventory, covering the period 2021/22. We align to the Greenhouse Gas Protocol Corporate Standard and the Science Based Targets Initiative Criteria. Our Basis of Reporting is published online here: www.co-operative.coop/sustainability-reporting-our-reporting

In addition, Co-op is taking action on other climate related metrics including water, food waste reduction, healthy and sustainable diets and responsible sourcing. For more information, see our Co-operate Report.

Looking Ahead

Shirine Khoury-Haq
CEO,
The Co-op Group

We look ahead to 2023 with confidence and optimism for a co-operative and stable trading year resulting in delivery of our Vision, '*Co-operating for a Fairer World*'.

We will continue to strengthen and evolve our organisation, placing our members, colleagues, co-operation and our Co-op Difference at the heart of everything we do, whilst at the same time carefully investing and continuing our ambition to create a more modern and agile Co-op that is strategically positioned to grow sustainably when the economy and market conditions allow.

Our organisation is now in a much stronger place due to the focused actions we took in 2022 to significantly strengthen our balance sheet, reduce our net debt position, strengthen our cash position, decrease our operating costs and prioritise improvements to inefficient processes and systems.

We'll be mindful of the world around us, and we will continue to support members, colleagues and customers through the cost of living crisis. We have the capability to adapt our businesses at pace, as economic and consumer behaviour demands.

We, along with many others, fully expect the challenging external conditions to continue throughout 2023.

High levels of inflation are predicted to continue until at least mid-year, before beginning to fall, and a recession, both here in the UK and globally, remains a significant possibility. We are committed to doing all we can to shield members, colleagues and customers from this, and other rising costs, as much as we possibly can.

We, along with other organisations and indeed many households, are facing energy costs that will be as much as double what they have been in previous years.

Energy was a core focus point for us in 2022. While the future of energy still looks uncertain, we've been working hard to reduce our energy consumption through capital light quick wins, simplifying processes and implementing energy efficiency changes across our businesses, sharing the details with partners across our Nisa business. You can read more information on our energy efficiency and other activities in our Co-operate Report.

Despite this we have every reason to expect great things from our Co-op, during 2023 and into the future.

We have confidence in all of our businesses. They are market leaders with strong strategies to take them forward, as well as the leadership and plans in place to deliver them.

Our 2022 strategic priorities have evolved for 2023 and we will continue to focus tightly on a smaller number of priorities that support the growth of our Co-op and protect our ability to deliver our Vision:

Delivering on our financial plan

We will continue to build on the progress made during 2022 in enhancing our financial controls and processes, adding rigour and governance to ensure that our financial targets are met, that our Co-op is operating as efficiently as it possibly can and that we're generating the value we need to invest in our growth plans for our businesses, and re-distribute through delivery of our Vision.

Accelerating growth

We'll seek to grow our Co-op cautiously, and in a way that supports the creation of a more modern Co-op for a modern world.

Where we choose to invest, we will do it in a capital light and cash generative way, leveraging partnerships and modern routes to market, making the most of the assets and strengths that we have.

Our Food business will remain true to convenience. We'll maximise the four established routes to market that we have (Retail, Wholesale, Franchise and Online) and also re-open our new store and refits programme in 2023. This will all be while cautiously remaining within the financial and capital parameters we've set for ourselves.

Our Funeralcare business will continue to focus on a personal service, further building our propositions and continuing its digital transformation to allow clients access to us in the most convenient way for them.

Legal Services will continue its incredible journey with digital products and services in partnership with some of the UK's largest financial services providers.

And in Insurance, we'll continue to innovate and make the new products and services we introduced in 2022 work hard, alongside making our products easier to buy through partnerships, such the one we have with Amazon UK.

We'll do all this with membership, co-operation and our Co-op Difference firmly in our sights. We'll be reviewing our membership strategy to attract, reward and retain our members, alongside how we better engage them in our modern Co-op, not only in what we do, but also how they can support and influence what we do.

And the time is now right for us to review our Co-op Group strategy and our Vision, to ensure that we're truly a successful, co-operative business. A business that is adding the most value possible where our members, colleagues and customers need us the most.

Supporting members, colleagues and customers through the cost of living crisis

We are committed to doing all we can to shield members, colleagues and customers from this, and rising costs, as much as we possibly can.

We will continue, as in previous years, to align frontline colleague pay to the real living wage.

We'll do all we can to not pass increased prices due to inflation onto our members and customers.

Operating our business efficiently

We will continue to operate our business as effectively and efficiently as possible, ensuring cost is ever present in our decision making processes, embedding a culture of cost consciousness that will empower everyone in our Co-op to be more efficient and effective.

We will deliver 2023 savings already identified during our work over the last 12 months, stopping any activity that isn't included in our growth plans, or that doesn't support our strategic priorities.

Our focus on energy efficiency will continue with investments into technology and equipment to help us reduce our energy consumption in our Food business. And we'll explore even more energy saving opportunities across Logistics and Funeralcare.

And by listening to our colleagues we'll identify those areas in our businesses that not only cause us, and them, issues operationally, but that also cause us to be less efficient. During 2023, we'll be investing £11m, one of the largest amounts invested in our store technology for over 11 years, to address some of the legacy and obsolete systems, and technology platforms that our colleagues tell us stop them serving our members and customers effectively.

This includes printers, wi-fi, payment and bakery terminals, back office PC's and, in 50% of our stores, replacing self-service checkouts.

2023 will also begin an investment phase for our Funeralcare business as we start the journey to remediate our legacy property estate and refresh our fleet of vehicles over the coming years.

And, of course, we'll achieve all of these aims co-operatively, with a future-focused, cost-conscious growth mindset, in the way that only we can.

In summary

2023 will be another challenging year for our Co-op. However, the actions taken during 2022 see us well placed to weather the ongoing headwinds of inflation, rising energy and payroll costs and forecasted recession. Nevertheless, it is for these reasons that we realistically plan a lower level of profit this year.

However, the underlying strength of our business, passion and determination of our members and colleagues and the compelling nature of our Vision gives us every confidence and optimism for the future.

Our Co-op was created to address social and economic unfairness and we are still ideally placed to make things fairer for our members, communities, colleagues and the planet in the future.

Together, we'll win as a modern, decisive Co-op, and deliver our Vision of '*Co-operating for a Fairer World*.'

Our financial performance

Our financial performance

Economic backdrop

As noted in our CFO's Financial Overview on page 15, 2022 has proven to be a particularly challenging year for most businesses, but our Co-op has successfully navigated the turbulent markets and ended the year in a significantly stronger financial position.

Our members and customers have been facing into a sharp and prolonged cost of living crisis, with soaring inflation and spiralling household bills squeezing family budgets to near breaking point.

Throughout 2022, there has been downward pressure on consumer spending compounded by significant cost inflation for businesses. This has hit profits, stifled growth and ultimately seen the UK economy bordering on recession.

Our headline performance

Despite the challenging backdrop, our Co-op has delivered a creditable set of results with a solid profit performance, strong cashflows and a growing top line.

We have grown our sales, successfully maintained margin and managed our cost base to mitigate the significant cost inflation on ourselves, our members and our customers. This was supported by some difficult decisions, including the restructuring of the team at our support centre.

There is, however, no avoiding the impact that inflation is having on the profits of most businesses – for our Co-op, energy costs increased by £48m in 2022, compared to 2021, and salary inflation drove a further £55m of additional cost. Faced with such inflationary pressures, the renewed cost disciplines we have instilled in 2022 have served us well and we successfully delivered our targeted cost savings of £101m during the financial year.

Recognising the difficult time many of our customers and members were experiencing, we sought wherever possible to protect our customers and absorb inflation. Throughout the year, we continued to focus on delivering the proposition and value that our customers need, including £38m of direct reward for our members and their communities. Importantly, we sought to support our colleagues through the winter cost of living crisis with additional one-off support of £12m, and by increasing our colleague discount to 30% on Co-op own brand products from 20 October until April 2023.

This solid financial performance, combined with a focus on balance sheet and cash, delivered a very strong cashflow position and a step-change reduction in our net debt. Part of this action included the sale of our petrol forecourts in October (roughly 5% of our Food store estate) which generated a significant one-off profit and cash proceeds.

Furthermore, through continued focus on cost control, management of working capital and our measured approach to capital investment, we strengthened our balance sheet significantly. This means we are well set to ride out the economic storm whilst still being able to invest in our longer-term future through capital light and commercial opportunities.

Summary of financial performance

(£m)	2022	2021
Revenue	**11,480**	11,151
Operating profit	**5**	64
Profit before tax (PBT)	**247**	57
Underlying operating profit	**100**	100
Underlying PBT	**(31)**	(32)
Underlying EBITDA	**490**	505
Net debt	**(333)**	(920)
Member reward	**38**	40

Our Group financial metrics

- **Underlying operating profit**: our main measure of trading performance at £100m (2021: £100m) is in line with the prior year. This is a strong result despite the impact of material inflationary cost increases – rising energy costs and salary inflation, for example, added an additional £103m of costs compared to 2021, which we had to absorb in 2022.

  Despite the inflationary pressures, underlying profit within our Food business only fell slightly and includes the impact of the disposal of our forecourt estate at the end of October – thereby reducing our 2022 profits by two months of fuel profits, or around £10m, in comparison to 2021. The slight fall in profits in Food has largely been offset by improvements in our Wholesale, Funeralcare and Legal Services businesses and overall we have traded well, held our trading margins and managed our cost base across our portfolio of businesses.

- **Revenue:** total Group sales of £11.5bn are 3% higher than last year. This represents a strong result across our portfolio of businesses in light of the challenging economic trading conditions.

  Sales in our food business are £134m higher than last year even though the comparative period includes two more months (or around £150m) of sales from our petrol forecourts which we sold in October 2022. Like-for-like sales in our core convenience stores were up 3.2%. Sales in our Wholesale, Funeralcare, Legal Services and Federal businesses are all also up on the prior year.

- **Operating profit:** at £5m, our operating profit in 2022 is £59m lower than 2021. Although our underlying operating profit is comparable to last year, we've incurred £59m more of non-underlying charges in 2022 compared to 2021. These charges primarily relate to the impairments we have recorded against some of the assets that we hold to reflect the continued difficult trading conditions we anticipate going forward as well as other non-recurring items.

- **PBT:** at £247m, profit before tax (PBT) is significantly higher than last year (2021: £57m). Although our Operating profit is lower this year (as noted above) we have recorded a gain on the disposal of our petrol forecourts of £319m which increases our PBT number. This relative increase is partially offset by the one-off gain of £99m that we recognised following the settlement of a long-term liability and the corresponding release of provision.

- **Underlying PBT:** at a loss of £31m underlying PBT is comparable to last year and consistent with our underlying operating profit performance. Underlying PBT includes underlying interest charges on our bank borrowings and leases, which has remained consistent year-on-year at £131m (2021: £132m).

- **Underlying EBITDA:** again, this is broadly in-line with the prior year at £490m (2021:£505m) and consistent with our comparable underlying trading performance. Underlying EBITDA excludes interest, depreciation and amortisation charges.

- **Net debt:** our net debt improved significantly to £333m (2021: £920m) - a decrease of £587m (2021: net debt increased by £370m). Net debt saw significant reduction in H1, and was anticipated to do the same in H2, before net proceeds of £408m from the sale of our petrol forecourt estate and an additional £72m following the judgement on the IBM legal case. We also generated cash from continuing operations of £383m (2021: £165m) driven by a solid trading performance and careful working capital management. Furthermore, we also transferred lease liabilities of £171m as part of the forecourt disposal.

- **Member reward:** our profits are reported after deducting the amount our members have earned through the 2% community and member rewards, which totalled £38m in the year (2021: £40m). Co-op colleague members also received £12m of one-off winter cost of living support, as well as seeing colleague discount on own brand products increased to 30% between 20 October and April.

How our businesses have performed

Sales (£m)	2022	2021
Food	**7,805**	7,671
Wholesale	**1,439**	1,386
Funeralcare	**271**	264
Insurance	**24**	34
Legal Services	**46**	39
Other	**-**	1
Federal	**1,895**	1,756
Total Group	**11,480**	11,151

Underlying profit (£m)	2022	2021
Food	**139**	156
Wholesale	**22**	7
Funeralcare	**16**	12
Insurance	**8**	15
Legal Services	**8**	5
Other	**-**	(1)
Federal	**(92)**	(94)
Total Group	**100**	100

Food

We took the strategic decision to sell our entire petrol forecourt estate to Asda at the end of October, so our results for 2022 don't include the results from those 129 sites (around 5% of our estate) for the last two months of the year. The deal completed on 30 October 2022 and the sale is therefore not impacted by the ongoing CMA review.

Total Food sales of £7,805m are 1.7% higher than the prior year (2021: £7,671m) representing an increase of £134m. This is a solid performance in light of the challenging trading environment and the loss of two months of sales from the forecourt sites (around £150m sales impact). The comparative period also includes the impact of the third national lockdown at the start of 2021, which buoyed our sales.

Throughout 2022, the squeeze on household budgets impacted customer choices, dampening volumes and transaction frequency, although this was offset by food price inflation. Like-for-like sales in our core convenience estate were up 3.2% and we maintained our market share.

This demonstrates the resilience of our core convenience business and how our customer offer continues to resonate with our members.

At £139m (2021: £156m), underlying profit is down slightly on the prior year, driven by the higher energy and salary costs the business had to absorb. The comparator also includes two months of extra profit from the forecourt sites (around £15m profit impact).

Excluding the impacts of the forecourt sale and resulting two month profit reduction versus the prior year, our underlying profitability is broadly flat in 2022 compared to 2021, which is a commendable performance given the difficult trading environment and the level of cost inflation we have had to absorb. In line with many businesses, we have seen sharp rises in the costs we incur to serve our customers - with energy costs and salary inflation adding an additional £103m of cost which we had to absorb in 2022, in comparison to 2021.

Where possible, we've tried to shield our customers from the impact of this cost inflation, and we've also worked hard to manage our own cost base. This has allowed us to maintain our trading margin and return a credible top-line sales and underlying profit result.

Wholesale

Sales in our Wholesale business are 3.8% higher than last year at £1,439m (2021: £1,386m) with growth both through our Nisa partners and our franchise stores. This represents a solid performance in light of significant inflationary pressures and the tough economic headwinds impacting consumers and retailers alike. Although our retail like-for-like performance in Nisa was down 2.5%, new member recruitment remained strong.

Profitability has continued its year-on-year improvement with our Nisa business registering an increase of £14m to £22m (2021: £8m) as we continued to see the benefits and efficiencies of the collaboration between Co-op and Nisa, as well as the savings from an overhead cost review and restructure carried out during the year. Our results also reflect £4m of benefit from non-recurring items. This was part of the work in 2022 to support Nisa being in a position where it can reinvest in lower prices for our customers and their shoppers.

Funeralcare

Funeral volumes were up 3.5% to around 94,000 with volumes increasing in the second half in-line with the wider death rate, after a dip in death rate in the first quarter of 2022. This - together with a growth in our market share (end of 2022: 14.67%, end of 2021: 13.92%) offset by a continuation of clients choosing our simpler and unattended funeral options, which affects our average sales price - contributed to an increase in sales of 2.7% to £271m.

Profitability is up year-on-year due to the revenue increase as well as greater efficiency in our operations, offset by inflationary pressures as well as additional costs as a result of the regulation.

Volumes of funeral plans sold were lower than prior years at just below 17,000 (representing a fall of 63%) as a result of our decision to exit some third-party distribution channels (due to regulation) and client uncertainty in the run-up to industry regulation with the FCA.

Insurance

Our Insurance business recorded sales of £24m (2021: £34m) and profit of £8m (2021: £15m). This reduction is in-line with our expectations as we establish our new distribution model and work through the continued run-off of the historic backbook of policies, following the sale of our insurance business and Home and Motor insurance distribution agreement that we entered into with Markerstudy. All the insurance markets in which we operate remained highly competitive with inflationary cost rises for claims squeezing our margins. Customer behaviour was also impacted by the regulatory pricing changes implemented at the start of 2022, with fewer customers shopping around and switching suppliers.

We continue to see good traction outside of our core policies of Home and Motor (such as Pet and Life insurance) and we'll continue to develop our product and customer offering and extend our reach as illustrated by our newly launched partnership with Amazon UK.

Legal Services

The strong growth we have seen in recent years has continued with sales up £7m to £46m (2021: £39m) and profits up to £8m (2021: £5m). This further validates our strategy of developing our digital services offering and blending it with expert advice - driving consumer access in what remains a fragmented market where we can lead.

Central Support Centre costs

Costs from our central support functions are broadly in-line with last year at £92m (2021: £94m) as we've worked really hard to manage inflationary cost pressures through disciplined cost control management. We'll continue to strive to drive down our cost base and improve the efficiency of our support functions and operations while reaping the benefit of the re-organisational changes we've implemented to our structures and ways of working.

Property and Business Disposals, Impairments and Investment Properties

(£m)	2022	2021
Impairments of assets	**(105)**	(30)
Other disposals and closures	**64**	-
Investment properties	**(15)**	9
Total	**(56)**	(21)

- Impairments: every year we review our portfolio of trading sites for potential impairment of assets (where the value of the asset is no longer supported by future forecasts of cashflows and profitability, and so we reduce the value of the assets we hold through a charge to our profits).

  The impairment charge of £105m (2021: £30m) comprises £60m against right-of-use assets (leases), £30m of fixtures and fittings and £15m of intangibles, where forecasts of future cashflows do not support the value of those assets.

The charge is predominantly in our Food business and often relates to loss-making sites. It is larger in 2022 due to the prudent approach we have taken when assessing future profitability, in light of the challenging cost environment we expect to see in the near term.

As noted at the half-year, we have also partially impaired the value of the leased asset for our central support centre by £20m reflecting the change in utilisation we've seen as we transition to a more flexible and hybrid working model.

Furthermore, we have reduced the carrying value of certain ancillary elements of the intangible asset we hold against our logistics and supply chain infrastructure by £15m following some minor changes to the way that we intend to use the assets going forward.

Other disposals and closures – the £64m reflects the net gain we have made on other individual and non-core properties that we have sold during the year.

- **Investment properties:** we revalue these properties each year to reflect their latest fair value. The loss in 2022 of £15m (2021: £9m gain) reflects a downward market valuation on the properties we hold (or on those which we sold during the year).

One-off items

(£m)	2022	2021
Organisational changes / redundancies (central)	**(26)**	-
Colleague support	**(12)**	-
Other one-off items (net)	**(1)**	2
Fit for future (Food)	**-**	(17)
Total	**(39)**	(15)

- **Organisational changes:** we've recorded a significant one-off charge of £26m, reflecting redundancy costs we've incurred. These follow some changes we have made to colleague structures in our support centre, to ensure that we are set up in the best way to efficiently support our customer facing colleagues.
- **Colleague support:** due to the unprecedented pressures our colleagues are facing from the cost of living crisis, we have also directly helped those member colleagues who need it the most with one-off support totalling £12m added to their membership cards.
- **Prior year (2021):** one-off items included a £17m charge reflecting the costs of organisational changes we made to colleague structures in our Food stores as part of the Fit for Future programme.

Sales of Petrol forecourts

- We sold our entire petrol forecourt estate to Asda at the end of October for net cash proceeds of £408m (and transferred £171m of lease liabilities) which generated an accounting profit of £319m. Further details of the sale are given in Note 35 to the financial statements (see page 209).

Financing costs/income

(£m)	2022	2021
Net underlying bank/loan interest	**(55)**	(56)
Net underlying lease interest	**(76)**	(76)
Total net underlying interest	**(131)**	(132)
Net pension finance income	**43**	30
Net finance cost (funerals)	**(25)**	(4)
Movement on FX contacts	**20**	5
Movement on quoted debt/ swaps	**17**	-
Non-underlying finance interest	**(1)**	(5)
Group Relief Creditor gain	**-**	99
Total net non-underlying interest	**54**	125

- **Underlying interest:** our underlying financing costs from our borrowings and lease commitments are consistent with the prior period. The value of our principal loan balances and the leases that we held during the year did not change significantly, so the interest charges are similar to those of 2021.

- **Pensions interest:** net finance income is based on the pension scheme surplus on an accounting basis at the start of each year. The £13m increase reflects the increase in the accounting surplus at the start of 2022.
- **Funeral plans net finance cost:** the valuation gains on funeral plan investments of £29m in 2022 were outweighed by the interest we accrued on our plan liabilities of £54m - so we show net finance costs of £25m in our income statement. The charge is higher as returns on plan assets are lower than in 2021 due to market conditions.
- **FX contracts:** we saw favourable market valuation movements of £20m (2021: £5m) on the forward contracts we have in place for commodities (mainly diesel), which we use to hedge our exposure to future prices rises.
- **Quoted debt / swaps:** the net market valuation of some of the Group's debt instruments and interest rate swaps moved in our favour generating a net gain of £17m (2021: £nil).
- **Group Relief Creditor:** the £99m gain in the prior year relates to the settlement of the Group Relief Creditor owed to The Co-operative Bank PLC, which generated a one-off gain in 2021.

Net debt and cash

(£m)	2022	2021
Bank debt	**(780)**	(976)
Lease debt	**(1,306)**	(1,516)
Total debt	**(2,086)**	(2,492)
Group cash (net)	**447**	56
Net debt (excluding leases)	**(333)**	(920)
Net debt (including leases)	**(1,639)**	(2,436)

Excluding lease liabilities, net debt reduced by £587m from the start of the FY 2022 to £333m at year end (2021: £920m). This is a significant achievement and is a consequence of the positive action we had taken to reduce our indebtedness and to strengthen our balance sheet.

Our cash position improved year-on-year with net cash from continuing operations of £383m in 2022 (2021: £165m), generated by our robust trading performance, careful working capital management and disciplined cost control as we strived to mitigate the impact of cost inflation. Our measured approach to capital investment, for example, saw us invest less than in 2021 at £147m (2021: £325m) and tighter management of stock balances improved stock levels by £55m.

Our cash and net debt position was further improved following the sale of our petrol forecourt estate to Asda at the end of October, which generated cash proceeds of £408m and by the receipt of £72m in the first half of 2022, following the appeal judgement on the IBM claim.

Our strengthened balance sheet position will allow us to continue to invest in our business in line with our strategic priorities and to capitalise on commercial growth opportunities as they arise.

Tax

As has been the case in recent years, we won't be paying corporation tax in respect of 2022 because we have brought forward tax losses and capital allowances which can be used to offset any liability.

In 2022, we paid £206m (2021: £170m) to the Government in respect of VAT, business rates, stamp duty land taxes and employers' national insurance. The year-on-year increase mainly reflecting reduced business rates in the prior year as the Government sought to support businesses through the later stages of the pandemic.

The total tax charge reported in the income statement for continuing operations of £4m is made up of a £13m current tax charge and a £17m deferred tax credit. The current year deferred tax credit mainly relates to movements on our pension assets. There is also a £44m deferred tax credit impact to reserves arising from the change in tax rate at 19% to 25%.

See Notes 8 and 15 for more detail on Tax.

We retained the Fair Tax Mark accreditation in 2022 showing that we put our Purpose, Co-operative Values and Principles into action in the way we do business. Our tax policy can be found here: www.co-operative.coop/ethics/tax-policy

Our balance sheet

The overall net assets of the Group have decreased by £0.2bn from the start of 2022. The main movements include a decrease in the net pension surplus of £0.7bn offset by an improvement in our cash position of £0.4bn. Our lease liabilities have reduced by £0.3bn following the sale of our petrol forecourts and our right-of-use assets and property plant and equipment reduced by a combined £0.5bn following the disposal.

Furthermore, as outlined above, our net deferred tax liability has also decreased significantly, falling by £158m from £314m (2021) to £156m primarily due to the decrease in our pension net surplus and the change to the tax rate.

The actuarial surplus on our largest pensions scheme, PACE, decreased by £0.6bn with asset values falling by £3.5bn whilst liabilities decreased by £2.9bn. Against a backdrop of market uncertainty, rising inflation and interest rates - investment returns and asset values fell significantly in 2022. However, scheme liabilities also reduced markedly following a significant increase in the discount rate, which is used to calculate the present value of the scheme obligations. This is due to rising AA corporate bond yields, as the market reflected ongoing economic uncertainty, and demonstrates that the pension schemes are well hedged and able to withstand material changes in market conditions. Despite the surplus reducing, the accounting funding level has increased from 125% to 129%. The fall in asset values in absolute terms is higher than the fall in liabilities as PACE started the year with a net asset surplus of £2.1bn which has reduced to £1.5bn at the end of the year (the relative percentage fall in both assets and liabilities is comparable).

Property, plant and equipment has decreased by £281m which mainly reflects the net impact of £104m of additions, net disposals of £111m, depreciation of £244m and impairment of £30m.

The value of the funeral plan investments that the Group held in 2022 is consistent with the prior year at £1,369m (2021: £1,372m). This reflects net movements from an increase of £76m for new plans, a reduction of £108m from redeemed or cancelled plans and favourable market returns in relation to the value of those investments held of £29m.

Contract liabilities relating to funeral plans have decreased by £55m in the year, with amounts recognised as revenue during the year (which reduces the liability) outweighing new plans and the deferred revenue (which increases the liability) from the interest we accrue on plan liabilities.

Going forward

The tough trading environment we are facing is unlikely to change in the short term. The squeeze on household budgets and ongoing high levels of inflation will continue to influence customer behaviour and maintain pressure on sales, margins and profitability. Indeed the cost pressures in 2023 are likely to be greater than those felt in 2022, as the full year impact of 2022 events take effect.

As we have done this year, we will have to continue to work hard to mitigate those inflationary cost rises wherever possible and navigate our businesses through another year of challenging trading conditions. We have proven in 2022 that by taking early and decisive action, we can deliver a strong performance in difficult markets. This approach, together with the significantly stronger financial position we ended 2022 in, puts us in a strong position to deliver a successful 2023 for our customers and members.

As noted above, our net debt reduced considerably in 2022 and we significantly deleveraged our balance sheet. Subsequently, in early 2023, we have taken steps to reduce the level of principal debt that we hold and the Group has bought back £100m of the £300m Sustainability Bond from bond holders. Furthermore, the Group has also amended and extended its existing rolling credit facility until March 2026, to further secure our medium-term funding position and available facilities. Further details are given in the financial statements – see Note 34 (Events after the reporting period).

Key Performance Indicators

Key Performance Indicators

Financial KPIs

Why are these measures important?

Being a profitable business with financial stability is essential in helping our Co-op meet its strategic objectives. It's important to get the right balance between the returns to members and reinvesting in our Co-op for future growth. Further detail on why we think these metrics are useful and how they relate to the statutory measures in our financial statements is noted in the Jargon Buster (see page 242).

More information on our financial performance can be found on page 50.

	2022	2021
Underlying (loss) / profit before tax	(£31m)	(£32m)
Underlying operating (loss) / profit (see below) less underlying interest, which does not include net interest on our funeral plans as it is not considered by management in the day-to-day running of the business		
Underlying operating profit	£100m	£100m
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	£490m	£505m
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	£1,649m	£2,436m
Bank loans and borrowings (including lease liabilities) less the cash we hold		
Net debt (excluding leases)	£343m	£920m
Bank loans and borrowings (excluding lease liabilities) less the cash we hold		
Total revenue	£11.5bn	£11.2bn
Revenue as shown in the consolidated income statement (page 146)		
Operating profit	£5m	£64m
Operating profit if shown in the consolidated income statement (page 146). 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)*	£247m	£57m
Total profit from continuing operations before taxation		

* PBT in the current year includes the profit on disposal of our petrol forecourts of £319m. In the prior year PBT is stated after a one-off gain of £99m relating to the early settlement of the Group Relief Creditor owed to The Co-operative Bank PLC.

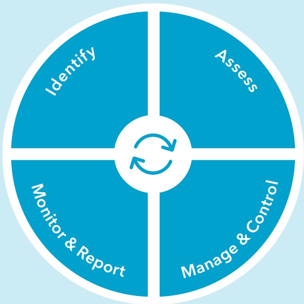
Risk management

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 value for our members and the communities that we serve. 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 our risk appetite. 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, policies and standards and by considering the external changing environment.

Assess

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

Manage and Control

- Our Board, Executive 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 by risk category.
- Senior leaders take decisions in line with our risk appetite.

Policies and control standards

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

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 64 - 67.

Our risk governance structure

Our Board reviews our position against risk appetite, the principal risks to our business and monitors management's action plans. In 2022, the Risk and Audit Committee (RAC), our Operating Board 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 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 and target risk position.
- Monitoring corrective action when things go wrong.

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 leaders from the Operating Board and senior leaders drawn from each business unit and key support function 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

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

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

Our risk appetite statements are used as the basis for reporting on both qualitative and quantitative criteria, which help us assess our position against our risk appetite.

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 categories of risk:

Strategic and business

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

Read more about

Our principal risks and uncertainties on pages 64 - 67.

Financial and treasury

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

Operational and customer

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

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.

Principal Risks

Our principal risks are approved by our Board and detail the risk exposures that pose the greatest potential threat to our Co op. Our principal risks are set out in the table below. 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.

How our principal risks developed in 2022

↑ Increased → Stable ↓ Decreased

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

Over the course of 2022 and into 2023, changes in the macro-economic environment that we operate in has created uncertainty and has worsened due to the war in Ukraine. The impacts of this span several of our principal risks. The principal risks most impacted are:

Competitiveness and External Environment: Increases in the cost of living have impacted the finances of our members and customers, as they seek out value and adapt their shopping habits.

People: Continued buoyancy in the jobs market makes it increasingly important to provide an attractive proposition to attract and retain talent. We remain committed to ensuring a fairer workplace for all our colleagues and continue to champion diversity, inclusion and equity across our Co-op.

Supply Chain and Operational Resilience: Challenges remain within the supply chain in terms of supplier capacity and with some of the still unresolved issues following our exit from the single market and customs union.

Environment and Sustainability: The urgency to address climate change and sustainability remains. The current geo-political 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.

Changes to the Principal Risks

In light of the ongoing economic uncertainties, we have broadened our risk relating to Pension Obligations to cover more general risks on Liquidity and Funding. In our viability statement on page 122, our directors have concluded that the business will have sufficient funds for the period to 31 December 2025.

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 Department for Business, Energy and Industrial Strategy (BEIS) has published the Government's response to the white paper: 'Restoring trust in audit and corporate governance'.

The proposals will affect how we assess our controls and the basis for that assessment. We have a programme of work in place to prepare for the expected changes and their subsequent implementation, which will ensure we comply with the requirements that are set out.

In our accounting and reporting, we've adopted IFRS17 – Insurance Contracts from January 2023, which will apply to all pre-paid funeral plans.

In our Food business we are continuing our work to respond to changing regulations such as the deposit return scheme in Scotland, which will come into force from August 2023.

Co-op Funeral Plans Limited was approved to sell pre-paid funeral plans by the Financial Conduct Authority on 29 July 2022. Prior to this, we reviewed our structures, processes and culture to comply with the newly introduced regulatory requirements for the industry.

Looking ahead, the Financial Conduct Authority intends to set out new rules on consumer duty, which will also apply to the financial products and services we sell through our business and come into effect from the end of July 2023. They are anticipated to have the greatest impact on the areas of consumer understanding and consumer support.

Principal risks and uncertainties

V – Considered in our viability assessment, see pages 122 - 123 for further details.

Change V

Risk Category: **Strategic and Business**

2022 Risk trend: **Stable →**

Risk description: We will make changes to the way we operate through our Three-Year Plan. If our plans are not delivered in an effective way, we will not be able to see the benefits of our change programmes.

Reason for the risk	How we manage it	What has changed	What we plan to do
• Number and complexity of change programmes • Available resources and capacity for change • Complex dependencies between change programmes • Cost of change	• Ensure oversight for transformation activity has appropriate governance and controls • Approach to change ensures colleague impact is considered and effectively managed, and that changes are fully embedded without disruption. Long-term year planning assesses and prioritises transformation choices and investment decisions against delivery of our strategic objectives	• Improved management and strengthening of governance around our Co-op's change agenda, including capacity to deliver change • Effective prioritisation of investment in change activity is pivotal to ensuring we focus on what has the most material impact and benefit in delivering our Vision and strategy	• 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 • Continue to improve alignment between our governance structures with our risk management approach • Continue to realise the benefits from our investment in new SAP software solutions - improved ranging, stockholding, demand forecasting and availability in our stores

Competitiveness and External Environment V

Risk Category: **Strategic and Business**

2022 Risk trend: **Increased ↑**

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
• New entrants and market competition • Innovation and market disruption • Ongoing pandemic implications • Cost pressures • Market factors, such as the rising cost of living and inflation • Inefficiencies in our operations • Macro-economic and supply chain issues relating to the war in Ukraine and ongoing market challenges • Changes to regulation and Government policy • Structural changes to the economy post-exit from the single market and customs union transition • Social and political uncertainty	• 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	• 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, with signs that, whilst these are softening, strong preferences will remain • Established scenario planning in place, looking at external factors to support our strategic planning	• We continue to focus on delivering compelling propositions across all our businesses: • Develop our strategies to meet evolving consumer and market trends, such as the recent development and launch of our Food 'Pure Convenience' strategy in H2 2022 • Deliver our transformation agenda and realise our digital capability potential • Evolve our strategic planning process – investing in the right strategic initiatives in the most commercially sustainable way • Evolve our strategies in light of changing regulatory or Government policy

Brand and Reputation

Risk Category: **Brand and Reputation**

2022 Risk trend: **Stable →**

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

Reason for the risk	What we do	What has changed	What we plan to do
• Delivering our Vision of '*Co-operating for a Fairer World*' • Expectations of our members, 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	• 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 Vision in our Interim and Annual reports • Apply our Ethical Decision Making Tool to inform our key business activities and help make better decisions on behalf of our members • Campaign in line with our Vision of '*Co-operating for a Fairer World*' on the issues which matter most to our members and the communities in which they live	• Continued to fully support our members and their communities through the after-effects of the pandemic and also into the cost of living crisis • Progressed our Vision of '*Co-operating for a Fairer World*' with financial wellbeing forming a key part, for our members, colleagues and our communities • Invested £12m in payments on to colleague membership cards and made a 30% discount available on Co-op branded products • Continued to promote new, relevant partnerships e.g. Your Local Pantry; and initiatives such as Warm Spaces funding boost • Launched a new colleague fertility treatment policy and relaunched our menopause policy	• Continue to progress our Vision of '*Co-operating for a Fairer World*' and continue to support members, colleagues and customers through the cost of living crisis • Establish a new charity partnership and continue to deliver on commitments with other charity partners • Focus on the security and commercial viability of our business so that we can continue to offer valuable support into the future

Funding and Liquidity V

Risk Category: **Finance and Treasury**

2022 Risk trend: **Stable →**

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
• Changes in economic environment and outlook • Movements in market prices • Changes to regulatory tax and tariff regimes	• 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	• Significant reduction in net debt during 2022 and thus material increase in resulting group liquidity • Ongoing focus on reducing unnecessary expenditure	• Refinance 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 V

Risk Category: **Operational**

2022 Risk trend: **Stable →**

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

Reason for the risk	What we do	What has changed	What we plan to do
• Custody of valuable data • Reliance on technology • Sophisticated and diverse cyber threat landscape • Data privacy and data protection regulations • Colleague, member and customer confidence • Processing data through third parties • Protect information owned or managed by our Co-op • Protection of services that our Co-op delivers to our members and customers	• Provide 24/7 security operations capability with embedded information security controls • 24-hour threat and security event monitoring and response capability • Patch management and penetration testing • Supplier security due diligence and assurance, and regular testing for security weaknesses • Share best practice and foster a strong information security culture • Improved remote working experience with Windows 10 and Office 365 • Improved system security controls through Microsoft security toolsets	• Improved protection from external cyber threats • Enhanced end user computer protection capabilities • Matured our Security Scorecard technology to monitor third party security posture • Increased boundary controls to reduce external threats • Increased our Public Key Infrastructure (PKI) capability • Further matured our Identity solutions • External maturity assessment performed to quantity our risk appetite position	• Extend cloud security further with additional controls over cloud application security • Improve our data loss prevention controls through a better Information Protection & Governance programme of work • Continue to mature our Identity & Access Management controls • Refresh our intruder prevention capability • Improve our boundary through enhanced firewall strategy

People

Risk Category: **Operational**

2022 Risk trend: **Increased ↑**

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
• Ineffective selection and assessment processes • Talent attraction • Need for greater diversity • Increased demand for talent and reduced supply	• Pre-employment screening, culture fit assessment and induction for new hires • Ongoing training for all leaders and managers, including diversity and inclusion leadership behavioural training • Colleague performance review, engagement and recognition • Talent management review • Pay and reward packages are reviewed regularly to ensure they remain competitive and fair • Operate a hybrid working policy which gives more choice over how, when and where our colleagues work best to balance the business' and colleagues' needs	• Launch of a wellbeing hub with access to tools and resources to support and encourage a healthy and happy work life balance • Advancing Diverse Talent Programme • Revised salary management and benchmarking • External context remains challenging with labour shortages compounded by high inflation and a cost of living crisis	• Embed our leadership and capabilities framework • Review our future talent strategy and invest in our frontline colleagues • Maintain an inclusive culture and continue to develop robust indicators to measure inclusion, as we increase awareness and insight among leaders • Inclusive hiring training for all hiring managers • Focus on improvements to colleague experience to reduce colleague turnover

Misuse and/or Loss of Personal Data

Risk Category: **Operational**

2022 Risk trend: **Stable →**

Risk description: We hold personal information of our members, 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
• Member, colleague and customer confidence • Data privacy and data protection regulations • Information processed on our behalf by third parties	• 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	• Increased accountability through enriched records of data processing activity • Further improvements to our data governance, reporting, monitoring and oversight • Co-op-wide repeatable assurance plan in place • Embedded third party supplier data protection risk management • Responded to Government consultation on proposed UK data reforms	• Further embed assurance activity over key data protection controls • Evaluate materiality and practical implications to our Co-op of key proposed changes to data protection related regulation and standards • Enhance suite of reporting to include trend analysis, risk metrics and emerging risks • Drive increased ownership and accountability for personal data to ensure an appropriate level of data protection risk and compliance

Health & Safety and Security

Risk Category: **Operational**

2022 Risk trend: **Stable →**

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

Reason for the risk	What we do	What has changed	What we plan to do
• Keeping colleagues, members, customers and visitors to our sites safe • UK health & safety legislation • Complexity of our business	• Co-op Health and Safety Governance Framework and Financial Crime & Security Frameworks in place • Co-op Minimum Safety Standards • Oversight by second line safety and security teams • Assurance of safety and security data and compliance with standards across Co-op	• Embedded Co-op Minimum Safety Standards and Pan Co-op Assurance Activity on key areas including Covid-19 controls • Wider focus on occupational health and wellbeing • System and relationship enhancements to provide better intelligence sharing with police forces and other stakeholders • Working with partners to enhance security of our premises and people • Established ways of working with communities to better identify prolific offenders and respond	• Ongoing review to ensure we meet our safety standards • Further safety and crime data enhancements to develop current system intelligence • Work with colleagues on wellbeing initiatives across Co-op • Build on external crime and safety partnerships • Continue the 'Safer Colleagues, Safer Communities' campaign • Ensure that security initiatives are in place across our Co-op

Supply Chain and Operational Resilience

Risk Category: **Operational**

2022 Risk trend: **Increased ↑**

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

Reason for the risk	What we do	What has changed	What we plan to do
• Unpredictable external events like severe weather, pandemics and significant geo-political events • 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	• Established business disruption planning and testing, including incident management processes • Regular disaster recovery testing and review of IT service levels to ensure resilience to external sources of disruption • 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 • Maintain post-exit from the single market and customs union governance and oversight during the standstill of the Northern Ireland protocol, ready to respond to changes	• We expanded our network capacity to support our Food business with a new depot in Biggleswade • Worked closely with our suppliers and partners following the Russian invasion of Ukraine, mitigating impacts with shortages of certain raw materials and disrupted energy supplies • Building on successful delivery of our multi-year Retail Business Transformation programme, with rollout of SAP to our franchise operations • 'Best Ways' programme has delivered consistent standards across our Funeralcare business	• Delivery of next waves of Funeralcare's core system transformation programme to support greater resilience • Ongoing strategic review of our network to meet future demands • Focus on retention and attraction in our supply chain and logistics operations

Regulatory Compliance

Risk Category: **Regulatory Compliance**

2022 Risk trend: **Stable →**

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

Reason for the risk	What we do	What has changed	What we plan to do
• New and updated laws and regulations • Our businesses provide financial and legal products and services regulated by the Financial Conduct Authority and the Solicitors Regulation Authority • Codes and regulations that apply to our Food business including the Groceries Supply Code of Practice (GSCOP), product safety regulations etc.	• Continued horizon scanning for emerging changes on the regulatory landscape, feeding into consultations where applicable • Colleagues with expertise in financial services (including FCA approved senior managers) • Regulatory compliant controls and procedures for financial and legal product and services businesses • Processes and charter in place to engage with suppliers and remain compliant with GSCOP • Established risk and compliance teams in our regulated businesses • Mandatory regulatory/legislative training for relevant colleagues • Regular compliance monitoring and review undertaken at senior governance committees	• Implemented operational processes and controls to deliver against new High Fat Sugar & Salt regulations for England across applicable Food stores • Competition and Markets Authority introduced new legal obligations for funeral directors following its market investigation into the sector • FCA regulation of funeral plans commenced on 29 July 2022 • Imports from the EU and exports to Northern Ireland, remain subject to current standstill arrangements	• Enhance cross functional review and monitoring of regulatory landscape to track compliance to these and delivery plans • Ensure readiness for the Scottish deposit return scheme legislation and preparedness for other key regulatory changes • Strengthen compliance framework in response to increasing regulatory requirements for our businesses • Maintain compliance with the new funeral plan regulatory regime • Comply with the new rules planned by the Financial Conduct Authority on consumer duty

Pre-need Funeral Plan Obligations [V]

Risk Category: **Finance and Treasury**

2022 Risk trend: **Stable →**

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 may result in individual contracts becoming onerous.

Reason for the risk	What we do	What has changed	What we plan to do
• Changes in the cost of providing a funeral or expected inflation on funeral costs • Under-performance of assets held to meet funeral requirements • Changes in long-term interest rates	• Most funds are invested in whole of life insurance policies with guaranteed minimum returns • Regular stress testing, actuarial modelling and monitoring of risk positions versus risk appetite • Annual assessment of key assumptions and annual actuarial valuation by external actuaries • Monitoring and oversight by a senior committee of specialists, business leaders and advisers • Monitoring of Financial Conduct Authority (FCA) reporting requirements (Core Capital, Liquidity and General Solvency/ Capital Adequacy)	• Over the short term, inflationary pressures may cause the future cost of fulfilling a funeral to grow at a rate that is higher than the assets we hold. Covering this cost will weaken our actuarial funding position. We do not expect high levels of inflation to last beyond the short term and we anticipate the funding position to improve thereafter • Throughout 2022, the return expected on Government bonds and therefore our wider asset portfolio increased as a result of political and market changes, which results in higher asset return expectations in the future vs our 2021 view • Our funeral plans business was authorised by the Financial Conduct Authority in July 2022 • The introduction of a new accounting standard (IFRS17) will affect the Core Capital metric and will be monitored closely	• 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 Category: **Strategic and Business**

2022 Risk trend: **Increased ↑**

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

Reason for the risk	What we do	What has changed	What we plan to do
• Changing regulations and UK Government targets / policies • UK commitment to the 2015 Paris Agreement and to be net zero by 2050 • Increasingly competitive environment on sustainability as organisations move from aspiration to implementation to meet agreed targets • Climate change and sustainability impacts on food sources; materials we use in our business; livelihoods and economic growth • Government plans for a transition to a greener and fairer economy • Living up to Co-operative Values and Principles • Increased awareness and changing attitudes of members, customers, suppliers and partners	• Signatory to: - The WWF Retailer Commitment to Nature (the Basket) to halve the environmental impact of UK shopping baskets by 2030 - Courtauld Commitment 2030 to reduce food waste and cut carbon - British Retail Consortium Climate Roadmap - Science-based targets to reduce direct and indirect greenhouse gas (GHG) emissions • Meet our commitments and targets across a broad range of material issues: plastics and packaging; biodiversity and responsible sourcing; human rights; Fairtrade and ethical trade • Produce our annual Co-operate report • Have a clear plan to reach net zero by 2040, ahead of the Government's target, supported by sustainability strategies for our core businesses	• Changes in the broader economic and geo-political environment, along with increasing environmental regulation and associated costs, mean that the resources and investment required to meet our commitment to being net zero by 2040 (ahead of the Government's target of 2050) are more challenging than originally anticipated • Launched our Water Security for People & Planet report • Alongside other members of the WWF Retailer Commitment for Nature, we asked suppliers to take action to set ambitious science based GHG reduction targets and report on progress • As members of the IGD workstream working on the development of a harmonised environment label, we supported a virtual reality trial of the label over the summer • We also see increased public scrutiny by NGOs of business action on sustainability and calls to support joint advocacy asks of Government	• Continue to strengthen our pan-Co-op governance and future reporting to drive our sustainability plan, while leveraging synergies across businesses and ensuring we have sufficient resource within our Co-op to deliver on our public commitments • Continue implementing carbon reduction strategies to deliver GHG reductions and set new science-based GHG reduction targets aligned to 1.5 degrees to 2030, in line with industry best practice • Establish a new supplier engagement programme to set clear direction on the actions needed to support our sustainability objectives; progress against these and challenges that we need to work on. Embed resulting actions in joint business plans with key suppliers • Changing policy and legislative landscapes will be factored into our sustainability strategy and plans

Governance reports

Board biographies

Allan Leighton

Chair

Appointed as Independent Chair in February 2015.

Committee membership

- Nominations Committee (Chair).

Skills and experience

Allan has held many high-profile roles, including Chief Executive of Asda from 1996 to 2000, Non-Executive Chairman of Royal Mail from 2002 to 2009 and Chair of Canal and River Trust from 2014 to 2022. Allan is currently the Chairman of Northern Bloc Ice Cream, C&A AG, Simba Sleep Limited, Em TopCo Limited, The AllBright Group Limited, PizzaExpress and BrewDog PLC. Allan is also a Non-Executive Director of Going Plural Limited and BrewDog Employee Benefit Trust Limited.

Shirine Khoury-Haq

Chief Executive Officer

Appointed as CEO in August 2022 (Interim CEO from March 2022).

Skills and experience

Shirine joined the Co-op Executive and Board in August 2019, originally as our Chief Financial Officer and Chief Executive Officer of Life Services. Shirine is a Non-Executive Director of Persimmon Public Limited Company.

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

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

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

Kate Allum

Member Nominated Director

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 Anpario PLC. She also sits on the Board of Eurocell PLC, Ballater (RD) Limited, Thrive Ballater Limited and of the Universities and Colleges Employers' Association (UCEA).

Prior to Kate's election to our Co-op, she was Chief Executive of Cedo Limited and First Milk Limited.

Lord Victor Adebowale, CBE

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; 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.

Board biographies

Simon Burke

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director in November 2014.

Committee membership

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

Skills and experience

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

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

Simon will step down from the Board on 30 April 2023.

Margaret Casely-Hayford, CBE

Member Nominated Director

Elected as a Member Nominated Director in May 2016. Last re-elected in 2020.

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. During her term on the Board of NHS England, she was one of the directors who promoted and championed 'NHS Citizen': a new listening structure for the NHS that enabled proper consultation and collaboration.

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

Paul Chandler

Member Nominated Director

Elected as a Member Nominated Director in May 2015. Last re-elected in 2022.

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, Chair of the Durham Cathedral Council and a Director of North East Ambulance Service. He is also the Vice Chair, Treasurer and a Fellow of St Chad's College in Durham University, a Trustee of the Bible Society and a director of the Fairtrade Advocacy Office in Brussels.

Sir Christopher Kelly

Senior Independent Non-Executive Director

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

Committee membership

- Remuneration Committee.
- Nominations Committee.

Skills and experience

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

Board biographies

Sarah McCarthy-Fry

Member Nominated Director

Elected as a Member Nominated Director in May 2019. Last re-elected in 2022.

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 Powar

Independent Non-Executive Director

Appointed as Independent Non-Executive Director in July 2018.

Committee membership

- Remuneration Committee.

Skills and experience

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

Stevie Spring, CBE

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director in June 2015.

Committee membership

- Chairman of the Remuneration Committee.

Skills and experience

Stevie has broad executive and non-executive experience across the private, public and not-for-profit sector. She was previously CEO of Clear Channel, the world's largest out of home company; 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 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.

Executive biographies

Shirine Khoury-Haq

Chief Executive Officer

See Board biographies

Mike Hazell

Interim Chief Financial Officer

Mike was appointed Interim CFO in June 2022.

Mike is a chartered accountant and an established CFO with over 25 years' experience across a number of industries including retail and consumer services. Mike held a number of leadership roles at Debenhams over a period of 12 years, starting as Group Treasurer, moving on to CFO and then, ultimately, CEO of the business. He trained at Pfizer before spending time in the global dairy sector with Fonterra, and media telco sector with Sky.

Mike is due to depart in June 2023 and will be replaced by Rachel Izzard, Chief Financial Officer. Rachel has held a number of senior leadership and CFO positions, including IFA Cargo, Aer Lingus, and most recently CFO at Manchester-based retailer N Brown.

Dominic Kendal-Ward

Group Secretary and General Counsel

Dominic became Group Secretary and General Counsel in May 2022. He originally joined our Co-op in 2017 as General Counsel of our insurance business. Over time, he took on a wider role supporting our Life Services businesses and becoming Deputy Group Secretary. Dominic qualified as a solicitor in 2006. Prior to joining our Co-op, Dominic spent 12 years at the international law firm Linklaters, working for a wide variety of organisations on corporate advice and transactions.

Biographical details for former members of our Executive can be found in our 2021 Annual Report and Accounts, available here: co-operative.coop/investors/reports

Governance review

Chair's overview

As I note in my Chair's introduction, the events of the last year have been testing for us all. As the UK's largest consumer co-op, we have and will continue to support our members, colleagues, customers and communities through this challenging period. We recognise the opportunity our Co-op has to make a meaningful difference.

Our members

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

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

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

It was great to see many of our members at our 2022 AGM. We were pleased to welcome those of our members who joined us in person and also those that took the opportunity to join us online.

Plans for our 2023 AGM are already well underway and we will keep members updated via our website at co-operative.coop/agm. The AGM notice, which includes more detail, will also be displayed on the website. If you are an eligible member, keep an eye out for an email or letter with more information.

Our Board and Executive

Let me firstly take this opportunity to thank Simon Burke who will be stepping down from our Board at the end of April 2023. Simon has made an outstanding contribution and commitment to our Co-op during the past nine years, in his roles as a valued member of the Board, Chair of our Risk and Audit Committee and previously in his role as a Director of our principal subsidiary, Co-operative Food Holdings Limited.

As successor to Simon, we are delighted that Adrian Marsh will be joining our Board as our new Risk and Audit Committee Chair. Adrian brings a wealth of knowledge and experience, most recently from his role as Group Finance Director at DS Smith. Adrian is also a Non-Executive Director and Chair of the Audit Committee of John Wood Group and previously held senior finance positions at Tesco and AstraZeneca. We look forward to the experience, contributions and value Adrian will bring to our Board.

We were also very pleased that both Paul Chandler and Sarah McCarthy-Fry were re-elected as Member Nominated Directors (MNDs).

During the year our Board was pleased to appoint Shirine as permanent CEO. Shirine's proven leadership qualities, transformation experience and deep understanding of, and passion for, our Co-op values will be key in steering us towards a commercially successful and sustainable Co-op that continues to drive value for our members.

Under the leadership of Shirine we have seen a reset of our internal governance framework to better support the successful delivery of our strategy, protect our Co-op and ensure we remain resilient even through challenging times. This has included setting up of an Operating Board made up of our most senior leaders. The Operating Board includes the members of our Executive and is responsible for the day-to-day running of the organisation, the realisation of our Vision and the implementation of our strategy.

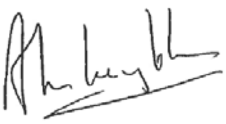
Sustainability

Sustainability is a critical part of our future and is critical to our commitment to be 'Fairer to the Planet' – one of the three pillars of our Vision of '*Co-operating for a Fairer World*'. We have helped shape the debate and activities on environment, sustainability and climate change for many years.

This will remain an overarching theme for us in 2023. We will continue to strengthen our existing governance structures and processes, and are committed to identifying and reporting on our climate related risks in line with the guidance published by The Department for Business, Energy & Industrial Strategy. We will report on the recommendations of the Task Force on Climate-Related Financial Disclosures in our Annual Report next year when we look forward to further evidencing our long-standing commitments in this area.

Looking ahead

As we continue to navigate through the challenges we face, including energy costs, supply chain cost inflation and the cost of living crisis, our Board will continue to focus on key issues, challenge the Executive and collectively seek to make good decisions in line with our Values and Principles and with the best interests of our members, colleagues, customers and communities at the forefront.



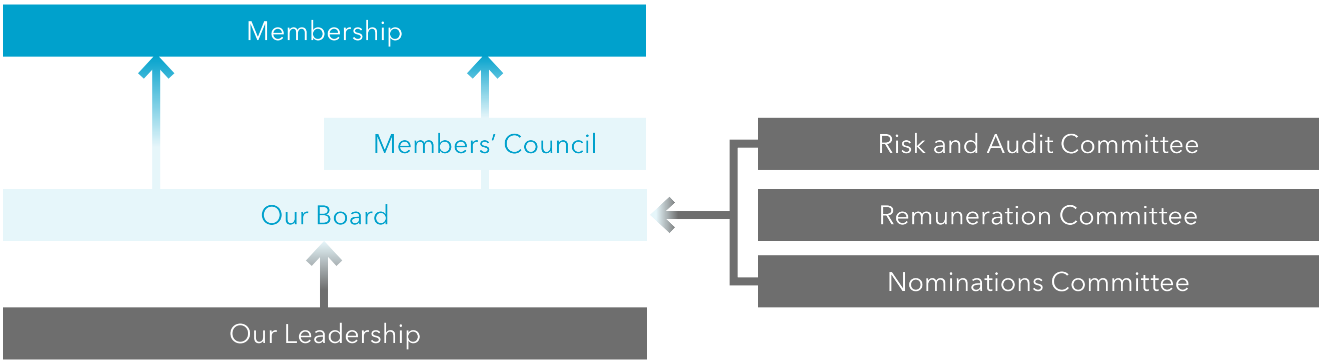
Allan Leighton
Chair, The Co-op Group

About us

- Our Purpose is championing a better way of doing business for you and your communities.
- Co-operative Values and Principles are the cornerstone of everything we do. These Co-operative Values and Principles are shared by many co-operatives around the world and are included in the International Co-operative Alliance's Statement on Co-operative Identity.

Our governance structure

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



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

Our Board is supported by three committees. They have specific tasks which they 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 pages 87 - 97.
- Our Remuneration Committee ensures our senior leaders are fairly and appropriately rewarded, taking into account wider pay policy across the Group. The report of our Remuneration Committee can be found on pages 98 - 114.
- 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 also plans for our future Board, leads on INED and Executive Director appointments and submits proposals to the Non-Executive Directors' Fees Committee in respect of the remuneration of our Co-op Chair, INEDs and Member Nominated Directors (MNDs). The report of our Nominations Committee can be found on pages 115 - 120.

Our National Members' Council, a democratically elected body of 100 of our members, acts as our members' representative, holding our Board to account for how the business performs. It also acts as a guardian of our Purpose and Co-operative Values and Principles. Council highlights from 2022 can be found in your Council's Annual Statement on pages 129 - 134.

Our Directors, alongside Council members, also participate in a number of informal working groups, such as the Stakeholder Working Group. Such forums, whilst not part of our formal Board governance, allow for open discussion between our Board and Council. They help make sure members' views and needs are considered when making decisions. Further detail can be found in our section on Stakeholder Engagement on page 137 - 144.

Our Board

At the date of this report, there are 11 directors on our Board. We have three categories of directors: Executive Directors, INEDs and MNDs.

- Allan Leighton is our **Chair.**
- Sir Christopher Kelly is our Senior Independent Director **(SID).**
- There are four other **INEDs** on our Board – Lord Victor Adebowale, Simon Burke, Rahul Powar and Stevie Spring.
- There are four **MNDs** on our Board – Kate Allum, Margaret Casely-Hayford, Paul Chandler and Sarah McCarthy-Fry.
- Shirine Khoury-Haq (Chief Executive) is an **Executive Director.**

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

Director biographies can be found on pages 69 - 71. Members are able to see copies of the Directors' appointment letters by contacting the Group Secretary.

Role of our Directors

Allan Leighton, our **Chair**, is responsible for:

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

Shirine Khoury-Haq, our **Chief Executive**:

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

Sir Christopher Kelly, our **SID**:

- Uses his experience to advise, guide and provide feedback to the Chair.
- Deals with any governance issues relating to the Board or the Chair's performance, and any matters which 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 National Members' Council and sits on our Stakeholder Working Group.
- Will lead the process for recruiting a new Chair to succeed Allan.

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 National Members' 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 National Members' 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 – INEDs

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

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

- Preparing a candidate brief – 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 (BCC) and makes the importance of Co-operative Values and Principles clear.
- Starting the recruitment process – assisted by an independent search firm, who are given the brief, screen potential candidates and conduct initial interviews.
- Conducting interviews - if a preferred candidate is identified, making a recommendation to the Board.

Following INED and MND appointments, the Council Scrutiny Committee considers a report from the Nominations Committee and checks the right process has been followed for appointing an INED (or the Chair). The report of the Scrutiny Committee can be found on pages 135 - 136.

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

In 2022, no new INEDs were appointed to the Board. Adrian Marsh will join our Board as an INED in May 2023. More details on the recruitment process can be found in the Nominations Committee Report on pages 115 - 119.

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

Appointments of our Board - Executive Directors

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

Executive Directors are subject to election/re-election by our members. Shirine Khoury-Haq is due to stand for re-election at the 2023 AGM.

In 2022, there were no new Executive Director appointments recommended to the Board. Rachel Izzard will become an Executive Director when she joins our Co-op in June 2023 as Chief Financial Officer.

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 2022, Paul Chandler and Sarah McCarthy-Fry were re-elected as MNDs following a contested election.
- The MNDJC led on the MND election process supported by Warren Partners, an executive search firm.

Margaret Casely-Hayford is due to stand for re-election as an MND in 2023.

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 69 - 71 summarise their key skills and experience.

Board succession plans

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

More detail can be found in the Nominations Committee's report on page 115 - 119.

The Board is satisfied that the Board Succession 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. This has been delegated to the Remuneration Committee to review in the first instance.

Board effectiveness and evaluation

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

The last externally facilitated review was undertaken by Clare Chalmers in 2020. The Nominations Committee and Board Chair decided that there would be no significant merit in holding an external review in 2022 and that external reviews should be undertaken every three years, in line with corporate governance best practice and on consideration of the cost involved. Therefore, an internal review process was undertaken in 2022, facilitated by our SID.

Further details of the 2022 review can be found in the Nominations Committee report on page 117.

An external evaluation is scheduled for 2023, which will be undertaken again by Claire Chalmers.

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 the INEDs, CEO and Group Secretary and the INEDs alone – this is in line with good governance.

Members of the Operating Board and various colleagues regularly attend Board meetings and give presentations and updates to the Board. The INEDs and MNDs take time at each Board meeting to have discussions both with and without Executive Directors.

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

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

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

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.

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
Allan Leighton (Chair)	8(8)		3(3)	
Sir Christopher Kelly	8(8)		3(3)	5(5)
Kate Allum	7(8)		3(3)	
Margaret Casely-Hayford	8(8)		3(3)	5(5)
Paul Chandler	8(8)	6(6)		
Rahul Power	8(8)			5(5)
Sarah McCarthy-Fry	8(8)	6(6)		
Shirine Khoury-Haq	8(8)			
Simon Burke	7(8)	6(6)	2(3)	
Stevie Spring	8(8)			5(5)
Lord Victor Adebowale	8(8)	3(6)		
Denise Scott-McDonald*			3(3)	

*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, excluding the Chair, to be Non-Executive Directors (NEDs), whom the Board consider to be independent.

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

The Board considers all our INEDs (excluding the Chair) and MNDs to be independent in character and judgement as per the criteria set out in the UK Code.

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

Diversity and inclusion

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

We're very clear that our Co-op is anti-racist and the commitments we have made to racial equality and inclusion underpin this. Our Director, Lord Victor Adebowale, sat on our Equality and Inclusion Think Tank throughout 2022, along with six other leading experts. Its purpose was to provide expert advice, challenge and insight by sharing examples of best practice and identifying opportunities to progress as we seek to meet our commitments. They supported the refinement of our approach and the development of our diversity and inclusion strategy, which elevates our ambitions to deliver a broader set of diversity and inclusion ambitions.

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 page 118.

Our Board is currently made up of five women (45%) and six men (55%). Four of our Directors are from ethnic minorities (36%). It is pleasing that our Board diversity exceeds the findings of the 2019 Hampton-Alexander Review, which indicated 32.4% of FTSE 100 board positions were held by women, and the target set in the 2017 Parker Review (and the subsequent 2020 update) for FTSE 100 boards to have at least one ethnic minority director on the board by 2021.

Decisions of our Board

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

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

Our Board looks at the interests, views and needs of our wider stakeholders when making decisions of substance and our contact with them (as detailed on page 75 and pages 137 - 144) 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 60 - 67.

Our commitments to the environment and tackling climate change are long-standing. We are committed to identifying and reporting on our climate-related risks in line with the guidance published by The Department for Business, Energy & Industrial Strategy (BEIS) and we will continue to strengthen our governance processes in line with Taskforce on Climate-Related Financial Disclosures (TCFD) climate disclose requirements. More detail is provided on pages 44 - 45.

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' document, approved by the Board.

Communicating with our stakeholders

For information on how our Board acted with regard to our key stakeholder groups, please see full details within our Section 172 Statement at pages 137 - 144.

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

Our subsidiaries

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

There are three subsidiaries which are treated slightly differently - Co-operative 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 latest version of the UK Corporate Governance Code (UK Code) was published in July 2018 and applies to large companies with traded shares. As a Co-op, we are not required to comply with the UK Code.

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

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

Board leadership and purpose

A successful business is led by an effective and entrepreneurial Board who should promote long-term sustainable success, general value for members and contribute to the wider society. See pages 76 - 79.

The Board should establish purpose, values and strategy and make sure these align with culture. See page 82.

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 60 - 62.

The Board should ensure effective engagement with all stakeholders. See pages 137 - 144.

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 83.

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 73 - 76.

There should be an appropriate mix of Executive Directors and Independent Non-Executive Directors (INEDs) and a clear division between the roles of the Executive team and Board. See page 76.

INEDs should give sufficient time to their role and hold the Executive team to account. See pages 73 - 76 and 80.

The Board should have sufficient policies, processes, information, time and resource to function effectively and efficiently. See pages 78 - 80.

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 115 - 119.

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 77 - 79, 81 and 115 - 119.

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 79 and 117.

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 87 - 96.

The Board needs to satisfy itself that our Co-op's position and prospects are presented in a fair, balanced and understandable way. See page 89, 90 and 127 - 128.

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 87 - 96.

Remuneration

Our pay policies should link to and support our stated purpose and promote long-term sustainable success. See page 102.

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 114.

Directors should apply independent judgement by looking at our Co-op's business performance, Directors' performance and any other relevant circumstances when authorising Executive pay. See page 102.

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

It has been a busy year for the Risk and Audit Committee ('RAC'), with a wide variety of topics needing our attention.

As in recent years, IT-related issues dominated our agenda. Last year, I indicated that the Retail Business Transformation (RBT), our SAP programme in Retail, was moving from project status to business as usual. This did not proceed smoothly, however, and issues with both the design and implementation of the system caused operational problems for the business, especially in the early months of the year. The Committee received regular briefings on remediation of the system and was pleased that, by the end of 2022, many of the most significant issues had been cured.

It was most reassuring to see the SAP for Franchise project completed on budget in 2022 and without major disruption. Our Co-op needs to carry out several other major IT upgrades in the coming years, and we would all hope to see them implemented with this kind of outcome and financial profile, thus using the learnings from RBT profitably.

A priority system upgrade for the Society is in Funeralcare, where legacy IT is a key factor holding back the improvement of the controls framework. This is the most urgent of several controls improvements and upgrades that the RAC is keen to see across the organisation in the next two years. Apart from the desire to enable our annual audit to be based primarily on our IT controls, set out in last year's RAC review, we are also mindful of the Government's proposals for strengthened controls reporting and assurance from Boards (often referred to as the BEIS proposals). Compliance with them will require much progress from where we are today, and this will be an important area of focus for the RAC and the Board in the next two years.

Funeralcare has also been in focus for the RAC - in 2022, we had to establish a separate entity, regulated by the FCA, to handle the sale of our funeral plans. This business, called Co-op Funeral Plans Limited (CFPL), now has its own independent board (and Audit Committee), and we have established a good initial working relationship with our counterparts there. IFRS 15, which brought a radical change in the presentation of the results of our Funeralcare business, is to be superseded after just three years by IFRS 17, heralding yet another approach to accounting for our funeral plans. We will continue to work to achieve the best possible level of understandability for the results.

Our Co-op carried out a significant restructuring of its core support functions in 2022 and, as part of this, the Internal Audit & Risk functions were merged. The RAC is supportive of this initiative and we have every confidence that Saleem Chowdhery, the Director of Risk & Internal Audit, will deliver a well-integrated strategy and team for the management of these functions. In this context, I am delighted to report that, at the end of 2022, after a long period of steady improvement, we had no overdue actions arising from internal audit reports. For me, this statistic reflects the quality of the audit work, the regard in which it is held by the business, and the respect overall for the importance of developing and maintaining a robust framework of good controls and management practice. I congratulate the teams involved and thank our Co-op's senior management for their steadfast support on this subject.

These were some of our headlines for the year. As always, we also gave time and attention to key topics such as cyber security, climate accounting, sustainability (led very capably, as always, by Paul Chandler and Sarah McCarthy-Fry), data governance and the oversight of accounting policies. We also continued our constructive and open working relationship with the Groceries Code Adjudicator and have had positive feedback on our reporting and practices. Our rating in the annual survey dipped a bit in 2022, mainly because of the SAP issues I have referred to, but we are working to regain our leading reputation amongst the large grocers.

This is my last report to you as Chair of the RAC, as I will be stepping down from the Board in April, after more than nine years with Co-op. My time here has, on occasion, been most challenging, but it has also been immensely satisfying and rewarding. I hope (and believe) that I am leaving Co-op with a more robust financial structure and practices than we had in 2014, but this is not to say that there is not still much for my successor to do!

One more time, I would like to acknowledge the immense support I have received from my RAC colleagues – currently, Lord Victor Adebowale, Paul Chandler and Sarah McCarthy-Fry - but also those who served with me in the past. A constant throughout has been Saleem Chowdhery, our Director of Risk & Internal Audit, who has been my key executive support and has guided us all so well over the years. Thank you to one and all, and I wish Co-op every success in the coming years.

Simon Burke
Chair, Risk and Audit Committee

Risk and Audit Committee membership and attendance

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

The UK Corporate Governance Code ('the UK Code') recommends that there are at least three independent directors on the Risk and Audit Committee, and we met this recommendation during 2022. All Committee members are considered by our Board to be independent under the UK Code, providing objectivity and independent scrutiny. Paul Chandler and Sarah McCarthy-Fry are Member Nominated Directors, and our two Independent Non-Executive Directors are Lord Victor Adebowale and Simon Burke. Our Board is satisfied that Simon Burke's relevant and recent financial experience means he is qualified to be Chair of the Committee.

Details of attendance by Committee members at meetings held during 2022 are on page 80.

During 2022, several colleagues regularly attended meetings including the Chief Executive Officer, Interim Chief Financial Officer, Group Secretary and General Counsel, Assistant Secretary, Director of Risk & Internal Audit and the Head 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 & Internal Audit and the external auditors privately, so they could talk without management being there.

What the Risk and Audit Committee does

The main areas the Committee looks after include the following:

Financial and regulatory reporting

The Committee checks that our Co-op's Annual Report and Accounts, along with other information on its financial performance, is prepared honestly 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 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 controls and internal controls system, and monitors any weaknesses identified and how management is remediating these.

Risk & Internal Audit

The Committee monitors how well our Risk and Internal Audit functions are performing, approves the appointment of, and helps to set the objectives of, the Director of Risk & Internal Audit. It monitors the performance of our Risk function and checks how effective our Co-op is at managing and controlling risks, 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 reviewing and approving Internal Audit's assurance priorities and monitoring management's response to findings from Internal Audit reports.

External audit

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

Sustainability reporting

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

Other

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

The Committee's terms of reference give more detail on what it does and can be found on our website: 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.

2022 key activities

In 2022, the Committee's main activities included reviewing:

- That the financial information we provide to our members is prepared honestly; especially that the Annual and Interim Reports are fair, balanced and understandable and the key judgements and assumptions are reasonable.
- How well the risk and control systems are designed and working to spot risks, control them and the steps being taken by each of the businesses for sharing and monitoring key risk information.
- During the year it was decided a new, single role of Director of Risk & Internal Audit would replace the separate roles of Chief Risk Officer and Director of Internal Audit. The Committee was involved in the selection process for the new role and for overseeing the impact on Internal Audit's work, plans and reports, including the completion of actions by managers on a timely basis.
- The approach we take to key judgements and significant matters when producing our financial information.
- How our Co-op uses and protects personal information, including how we continue to comply with the General Data Protection Regulation and updates on cyber and information security risk.
- Risk updates including changes to risks to our Co-op; performance against risk appetite, including breaches updates on emerging and priority risks and an update on our enterprise risk management framework.
- Financial control across our Co-op, including monitoring progress against Funeralcare's financial control improvement plan, how we manage cash and our net debt position.
- The stabilisation of the SAP platform in Food following the closure of the Retail Business Transformation (RBT) programme and updates on the future SAP Roadmap across our Co-op.
- Progress made to establish a regulated entity in our Funeralcare business, Co-op Funeral Plans Limited (CFPL), and governance arrangements post-regulation, which include the establishment of its own Risk and Audit Committee.
- Sustainability at our Co-op, including an update on performance against our Climate Plan, Task Force on Climate-Related Financial Disclosures (TCFD) reporting and the approach for our Co-operate Report 2022.
- How we work with suppliers, so we comply with GSCOP and continue to have an open dialogue with the Groceries Code Adjudicator (GCA).
- The implications for Co-op of the Department for Business, Energy & Industrial Strategy (BEIS) response to the consultation on Restoring Trust in Audit and Corporate Governance.
- Updates on the transaction, as we sold our petrol forecourts.
- How we continue to comply with the UK Code.
- Our external auditors' non-audit fees.
- Reports on our whistleblowing arrangements and activity.
- The annual review of our Co-op's pension schemes and Tax Strategy.

Significant issues relating to the financial statements

When the Committee looked at the 2022 financial statements, it considered all the key areas of judgement. In all cases, it discussed them with management and the external auditor. There was specific focus in year on the following:

Areas of focus	What was done
Going concern Management continue to monitor our borrowings, facilities and banking covenants to ensure that we have enough financial headroom to continue to run our business as a going concern.	Our committee reviewed management's assumptions in financial projections and considered the current trading conditions. It was agreed that going concern disclosures in the year end statement would be extended to 31 December 2024. Our committee agreed that our Co-op is a going concern.
Goodwill and fixed asset impairment Our Co-op's balance sheet includes significant goodwill, intangible assets and property, plant and equipment balances. The most significant of these are in the Food business, the Funeralcare business and at a group corporate level. Accounting standards require us to perform an impairment review of our non-current assets at least annually or more frequently if there is an impairment trigger. We have impaired £15m of intangible assets (mainly SAP licences) that we no longer intend to use.	The Committee reviewed the outcome of management's impairment review, satisfied itself that the assumptions used were appropriate, and reviewed the impact of this on our financial statements.
Property and other provisions Our Co-op makes provisions for likely future liabilities. Management must apply judgement to determine whether, and how much, we should account for a provision, notably in relation to onerous contracts associated with leases which require significant judgement. This year we have impaired the right-of-use asset associated with the rental tenancy that we have on One Angel Square by £20m.	The Committee reviewed the increase or decrease in provisions and management's judgement on onerous contracts, self-insurance and litigation, satisfying itself that assumptions used, including around future cashflows and discount rates, were appropriate.
IFRS 17 & other amendments IFRS 17 is a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts. The standard is effective from 1 January 2023 and will fundamentally change how the Group accounts for funeral plans and waiver insurance policies. We continue to assess the likely impact of the new standard on our financial statements, which is expected to be material.	The Committee was updated on how the standard may impact our financial statements and monitored progress against this assessment, including review of the proposed disclosures within the financial statements.
Funeral Plans During the year, management performed a review of the initial accounting that was undertaken on transition to IFRS 15 for funeral plans as part of the work required following the transfer of plans from Funeral Services Limited to Co-op Funeral Plans Limited for regulatory purposes. As a result of this work, a net £23m adjustment was identified to decrease plan liabilities. Furthermore, and as part of this work the line-item categorisation of the movements in plan liabilities as disclosed in Note 23 (Contract Liabilities) of the 2021 Annual Report have also been reviewed and certain items have been represented to more appropriately reflect their nature.	The Committee was updated on the reasons for the adjustment and reclassifications and how management had determined and agreed this with our external auditors. The Committee agreed with the approach taken and reviewed the proposed disclosures within the financial statements.
Discontinued operations – CISGIL The sale of our insurance underwriting business (CISGIL) completed in December 2020 and consequently the assets and liabilities of that business are no longer shown on our balance sheet. However, we've recorded a one-off gain of £78m within discontinued operations following the judgement on the legal claim with IBM.	The Committee was updated on this approach to reporting and reviewed the proposed disclosures within the financial statements.
Disposal of petrol forecourt estate We disposed of our entire petrol forecourt estate in October 2022 which generated a material profit on disposal and cash proceeds. The results of those sites up to the point of disposal have been included in our income statement within 'Continuing Operations' (rather than as Discontinued Operations) as it is our judgement that the sites sold do not constitute a major separate line of business. We have also assessed at what point we lost control of the forecourt estate with reference to IFRS 10 and whether we continue to act as principle or now agent in regard to sales post completion, with reference to IFRS 15.	The Committee was updated on the disposal and agreed that management's approach to reporting was in line with our Co-op's accounting policy.
One-off Items We have recognised two material one-off charges in our 2022 results which are excluding from our underlying profit metrics. These are £26m of redundancy costs in relation to the recent restructure of our central support teams and £12m of member reward provided to colleagues to support them through the winter cost of living crisis.	The Committee agreed with management's interpretation of the accounting standard and the treatment of these items and reviewed the proposed disclosure within the financial statements.
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 themselves that they were appropriate.

Review of the Committee's effectiveness

The Committee has undertaken a self-assessment of its effectiveness. A different approach to this was adopted in 2022 with a verbal discussion taking place to cover the main areas such as the composition, management and operation of the Committee.

External audit activities

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

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

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

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

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

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 doing the audit.

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

Effectiveness of auditors

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

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.

In 2022, the Director of Internal Audit and the Chief Risk Officer roles were replaced by a new Director of Risk & Internal Audit role. The Committee approved this new role and the plans to ensure the role could maintain the necessary independence.

Internal audit continued to adopt a flexible, dynamic approach to planning in 2022 and regularly re-assessed Co-op's assurance priorities. The Committee reviewed these priorities at each session and had the opportunity to input and shape the upcoming assurance reviews.

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.
- Whether management did what it said it would do to fix the issues.

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 supplier payments; responsible sourcing; HFSS regulation; energy procurement by Co-op Power; technology disaster recovery, and Funeralcare's response to new regulation (both CMA and FCA). We also received assurance on the SAP implementation 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 work effectively. The effectiveness of our controls are assessed using the globally recognised COSO model.

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

Each 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.

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

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

Culture

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

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

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

Planning

Our Board and 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 Co-op's priority risks, which in 2022 included external changes and events such as cost of living increases, geo-political instability, and supply chain disruption in Food.
- 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, our colleagues and the Code of Business Conduct.

Informing

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

BEIS proposals

The Department for Business, Energy and Industrial Strategy (BEIS) has published the Government's response to the white paper: 'Restoring trust in audit and corporate governance'. The response sets out proposals which impact company directors, auditors and professional bodies. The reforms will be delivered by a variety of mechanisms over a period of time.

The reforms will impact our Co-op. It is proposed that the UK Code will be strengthened to provide for an explicit directors' statement about the effectiveness of the company's internal controls and the basis for that assessment. Our Co-op Operating Board has been assessing how best to prepare for the expected changes with a view to developing a programme of work to ensure future compliance. This will be a continued area of interest to the Committee.

Other activities

Audit actions

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

Groceries Supply Code of Practice (GSCOP)

During 2022, 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 2022 showed a dip in suppliers' rating of our overall compliance, but they continued to rank our Co-op in the top three retailers for conducting relationships fairly and in good faith, without duress. We value the supplier feedback given in the survey and use the outputs to shape our Supplier Engagement action plan.

The Committee has kept compliance under review through regular updates from the Code Compliance Officer and senior leaders in our Food business. 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 126.

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 Climate Plan and updates on identifying climate-related financial risks and opportunities in accordance with TCFD.

GDPR and Information & Cyber Security

The Committee receives regular updates to ensure that our Co-op continues to meet its obligations to be trusted with data in line with the General Data Protection Regulation (GDPR) and to use it as a valuable asset to deliver benefits to our members and customers. Through management updates and Internal Audit reports, the Committee has also considered information 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 eighth remuneration report as Chairman of the Remuneration Committee ('the Committee').

It covers another exceptionally challenging year for our Co-op. So again, we've tried to balance an outcome that rewards our colleagues fairly for the contribution they make every day while recognising the general market backdrop that we are all facing, not least double digit inflation, directly fuelled by the devastating and tragic war in Ukraine; and a cost of living crisis affecting all our members and customers, as well as our colleagues.

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 leaders competitively and appropriately, while we do our very best to increase rewards for our lower paid colleagues.

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

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

i. **Part I – Executive Pay Policy.** We've included a summary of the pay policy which 83% of members approved at our 2022 AGM.

ii. **Part II – Annual Report on Remuneration.** Then we've shown how the policy has been applied in 2022.

We've also included a 'Pay at a glance' section on page 102, so you can see all the key information on our Executive team in a simple format.

Our approach

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

Our performance

Against a challenging and bleak external backdrop, we are pleased that our Co-op enters 2023 in a much stronger financial footing than a year ago, especially when we consider the events of the past 12 months, which continue this year. In the face of levels of inflation many of us have never seen, we have taken the tough but necessary decisions to significantly cut operating costs in mitigation.

And we've re-prioritised our capital expenditure and investments. We've streamlined our business processes, and clarified strategies for each of our Food, Funeralcare, Insurance and Legal Services businesses. We also successfully sold our petrol forecourts business, which would require unaffordable investment, enabling us to strengthen our balance sheet and allowing us to focus on our core convenience business. The net result is a Co-op Group which has generated more cash, with net debt greatly reduced and with the foundations in place for us to return to sustainable growth in the years ahead.

The full details of how our Co-op performed are given in the 'Our financial performance' section on page 50.

Our colleagues

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

In April 2022, 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 2023. For Customer Team Members (CTMs) in our Food stores, this resulted in a 4.2% pay rise. We also increased the pay rate differential between CTM and Team Leader roles. Unlike many organisations, our hourly pay rates apply to all colleagues, including younger colleagues and apprentices.

We also wanted to help colleagues as much as we could through what we knew would be a challenging winter (with rises in energy prices), so we put in place two winter support packages for our frontline colleagues at a total cost of £12m.

Their wellbeing – indeed the wellbeing of all colleagues – continues to be a key priority and we've made progress again on how we support both their health and financial wellbeing.

We've continued our regular communication with colleagues talking to them about the wellbeing issues that matter most to them, focusing heavily on cost of living. In the year we have:

- Increased colleague discount on own brand food and household goods to 30% from 20 October to April 2023, helping to keep the cost of living low.
- Offered all colleagues not eligible for our bonus schemes three winter support payments of £50.
- Provided all colleagues for whom pay is collectively bargained with a £75 winter support payment. The majority of colleagues will have received both the £75 and the three £50 payments.
- Ensured colleague needs remain at the heart of our wellbeing support by surveying colleagues' financial wellbeing.
- By the end of 2022, more than 14,000 colleagues signed up to our Wagestream app and just under 4,000 have chosen to build a rainy-day fund with Wagestream.
- 15,000 colleagues have downloaded the YuLife app and the average number of daily steps recorded by participating Co-op colleagues far exceeds the YuLife average.
- Over 36,000 colleagues accessed mental health training.
- We also sent all of our frontline colleagues a booklet to show all of the benefits and support available to them, and how to access them.

At the end of 2022, more than 40,000 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 real progress we've made by focusing here.

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 2022, that net debt / EBITDA gateway was met.

Our Co-op performed with resilience in 2022, against an extremely challenging market backdrop, and whilst some progress was made across our 2022 success indicators, the targets proved challenging to achieve in such uncharted times.

In determining the final outturn, the Committee reviewed each of the measures as set very robustly, but tried to balance the ambition to recognise an exemplary job in an another extremely challenging year.

Based solely on performance against the balanced scorecard measures covering profit, colleagues, community and membership, the bonus outturn was just below 'threshold'. The Committee did not retrospectively change those targets, even though the market had changed so dramatically since they were set. But the Committee did decide to use discretion against the proportion of bonus allocated to individual performance ratings to increase the outturn on the personal element of the scorecard. This went some way to recognise the significant extra effort of our colleagues to improve our position, particularly in the second half of our year.

As a result, awards under the 2022 BP for our Executive were between 36.2% and 41.20% 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 108.

Deferred bonus payments

The second half of the 2020 BP award is now due to colleagues still employed by our Co-op and not under notice at the time of payment.

It will be paid in May 2023 to senior leaders in line with the scheme rules.

Further details of the amounts paid and deferred can be found on page 107.

Changes to the Executive

There were significant changes to our Executive team in 2022.

Our Group CEO Steve Murrells stepped down at the 2022 AGM after 10 years of service. Helen Webb stepped down in June 2022, Helen Grantham retired in July 2022 and, following her career break, Jo Whitfield stepped down in September 2022.

There were some contractual termination payments made to leavers. Further details can be found on page 111.

We are truly grateful for the contribution that these colleagues have made to our Co-op and thank them for their service. As a result of these changes, we reshaped our Executive. It currently consists of only our Group CEO, Shirine Khoury-Haq; Co-op Secretary & General Counsel, Dominic Kendal-Ward; and our (Interim) Chief Financial Officer, Mike Hazell.

But that Exec team are part of a wider senior 'Operating Board' which has been established to focus on our cross-Co-op strategic priorities. That Operating Board brings together up to 20 of our most senior leaders and decision makers, working together collaboratively on the decisions and actions we need to take to run our business effectively - and at pace. We haven't reported on this enlarged group as part of this Annual Report. Members have been specifically selected to focus on short and mid-term outcomes and, as a result, membership will vary in line with priorities, but this will be kept under review.

Gender pay gap reporting

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

The Committee

The Committee has worked hard this year. We've had to have a lot of extra meetings and discussions beyond the formal calendar, and every member has made a valuable contribution. My heartfelt thanks to all of them, and also to the members of the Council Remuneration Working Group under Lesley Reznicek's leadership. Their insight and challenge throughout the year made sure our members' voice was always 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 2023 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 balance right is never easy and this year we have had to make some particularly difficult choices. I hope you will be able to understand and endorse the choices and decisions, 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 2023. Further details are set out on page 104 - 105.

Executive Pay Policy

The key elements of pay for our Executive are:

Total Pay	• Salary and benefits are fixed • Bonus Plan is variable and depends on performance
Salary	• 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	• 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	• Opportunity to participate in our Co-op's pension plan or receive a cash allowance instead, in line with the wider workforce
Bonus Plan	• 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	2022 £'000	2023 £'000	Maximum BP opportunity as a % of bonusable pay
Shirine Khoury-Haq[1]	650	750	250%
Dominic Kendal-Ward[2]	275	310	150%
Mike Hazell[3]	-	575	90%[3]

Notes to table

1. On appointment as our Interim Chief Executive, Shirine Khoury-Haq's salary was increased to £750k, and her maximum bonus opportunity increased to 250%.
2. 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.
3. Due to Mike Hazell joining us on a fixed term contract basis, a separate bonus arrangement has been put in place linked to specific deliverables during his contract.

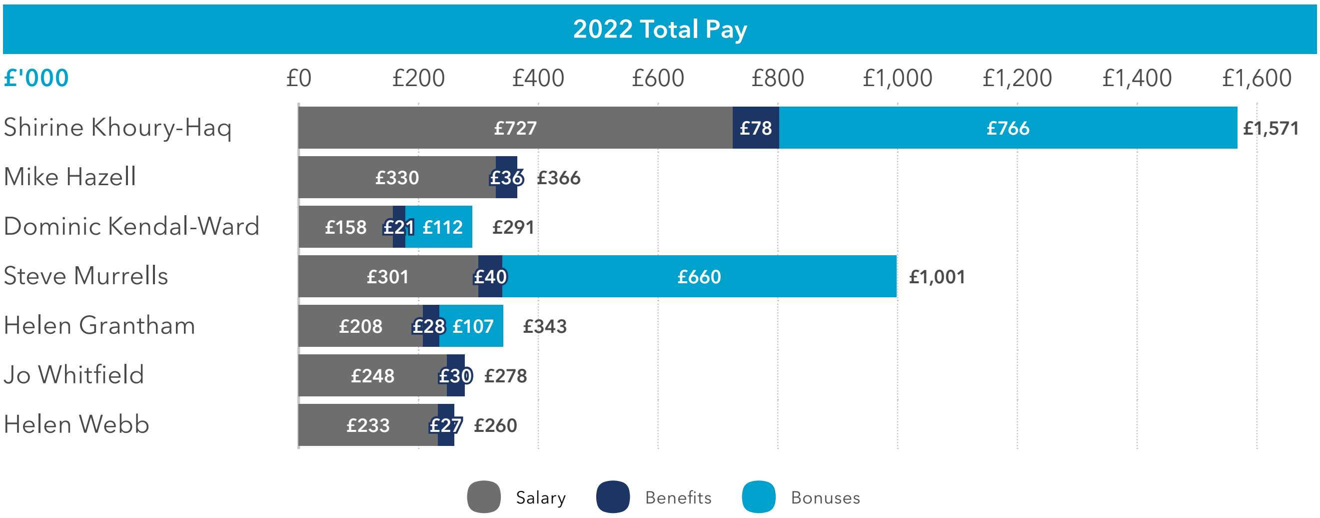
How our approach links to our strategy

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 members and the communities in which we trade.
Community	Supporting local communities where our members live, and where we trade, creates much of the shared value that makes our Co-op a better way of doing business.
Colleagues	Colleagues play a significant role in ensuring we continue to deliver to our members, communities and customers.

2022 pay outcomes

The chart below shows the pay which our executives received in 2022 and full details can be found in the Annual Report on Remuneration which starts on page 107.



Notes to chart

1. Steve Murrells stepped down from the Executive on 21 May 2022, Jo Whitfield stepped down from the Executive on 30 September 2022, Helen Grantham retired from the Executive on 31 July 2022 and Helen Webb stepped down from the Executive on 30 June 2022.
2. The bonus paid is the second half of the 2020 BP award and 50% of the 2022 BP award, which is payable May 2023. The other 50% of the 2022 BP award 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.
3. Due to Mike Hazell joining us on a fixed term contract basis, a separate bonus arrangement has been put in place linked to specific deliverables during his contract.
4. The salary and benefits information shown for Dominic Kendal-Ward relates to the period since he joined our Executive, whereas the bonuses element reflects the full year as eligibility is based on position at the end of the year.
5. Salary information in the chart for Mike Hazell also includes other £5k payments paid as a commuting/travel allowance.

Executive Pay Policy

How we look at Executive pay

We are committed to the following approach to pay:

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

Summary of Executive Pay Policy

Our current Executive Pay Policy is summarised below.

Base salary	
Purpose and link to strategy	To set a level of pay for performing the core role that allows us to attract and retain talented leaders.
Summary and operation	We want to pay our Executive at a level that reflects the job they do, but do not want to overpay. We look at what other similar organisations pay and take this into account when setting our Executive's pay.
Maximum opportunity	There is no maximum salary. Typically, salaries are reviewed annually. When reviewing salaries, the Committee will take account of: • 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	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. 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.
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: • 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	Our Executive will be eligible for a payment under a Bonus Plan (BP) agreed by the Committee. 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. 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. Payments made under the BP are subject to malus and clawback provisions.
Maximum opportunity	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. 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 the maximum.

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 112.

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 2022 financial year.

Table 1a – 2022 pay for our executives in post at 1 January 2023

		Fixed Pay			Performance Related Pay			
Name of executive	Period	Basic salary £'000	Taxable benefits (Note 1) £'000	Pension benefits (Note 2) £'000	Bonus Plan (Note 3) £'000	Deferred Bonus Plan (Note 4) £'000	Other (Note 5) £'000	Total £'000
Shirine Khoury-Haq	**2022**	**727**	**5**	**73**	**372**	**394**	**0**	**1,571**
	2021	650	4	65	0	117	0	836
Dominic Kendal-Ward	**2022**	**158**	**8**	**13**	**65**	**47**	**0**	**291**
	2021	-	-	-	-	-	-	0
Mike Hazell	**2022**	**325**	**7**	**29**	**0**	**0**	**5**	**366**
	2021	-	-	-	-	-	-	0

Notes to Table 1a

1. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
2. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
3. Bonus Plan amounts shown represent 50% of the 2022 BP earned award which is payable May 2023. 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. Due to Mike Hazell joining us on a fixed term contract basis, a separate bonus arrangement has been put in place linked to specific deliverables during his contract.
4. Deferred bonus awards relate to the 2020 BP. Half of the award was paid in May 2021 and the other half will be paid in May 2023 subject to still being employed and not under notice.
5. Other payments include a commuting/travel allowance.
6. The fixed pay information shown for Dominic Kendal-Ward relates to the period since he joined our Executive, whereas the performance-related pay element reflects the full year as eligibility is based on position at the end of the year.

Table 1b – 2022 pay for executives who left our Executive during the 2022 financial year

		Fixed Pay			Performance Related Pay			
Name of executive	Period	Basic salary (Note 1) £'000	Taxable benefits (Note 2) £'000	Pension benefits (Note 3) £'000	Bonus Plan (Note 4) £'000	Deferred Bonus Plan (Note 5) £'000	Other (Note 6) £'000	Total £'000
Steve Murrells	**2022**	**301**	**11**	**29**	**0**	**660**	**0**	**1,001**
	2021	750	29	75	0	615	0	1,469
Jo Whitfield	**2022**	**248**	**5**	**25**	**0**	**0**	**0**	**278**
	2021	650	14	65	0	283	0	1,012
Helen Webb	**2022**	**233**	**5**	**22**	**0**	**0**	**0**	**260**
	2021	450	10	45	0	181	0	686
Helen Grantham	**2022**	**208**	**8**	**20**	**0**	**107**	**0**	**343**
	2021	350	13	35	0	152	0	550

Notes to Table 1b

1. Basic salary includes a payment on leaving for unused holiday entitlement.
2. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
3. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
4. No 2022 Bonus Plan payments have been made to Steve Murrells, Jo Whitfield, Helen Webb and Helen Grantham.
5. No deferred 2020 Bonus Plan payment has been made to Jo Whitfield and Helen Webb. Steve Murrells will be treated as a qualifying leaver and receive his 2020 deferred award in May 2023. Helen Grantham will be treated as a qualifying leaver and receive a partial award for her 2020 deferred award in May 2023.
6. Steve Murrells stepped down from the Executive on 21 May 2022, Jo Whitfield stepped down from the Executive on 30 September 2022, Helen Grantham retired on 31 July 2022 and Helen Webb stepped down from the Executive on 30 June 2022.

2022 BP outturn

The following table shows our performance for each section of the 2022 balanced scorecard

2022 Balanced scorecard measures	Weighting	Performance	
Win as Co-op	**% of maximum weighting**	**Outturn**	**Summary**
Co-op Operating Profit	50%	Miss	• Our Co-op performed with resilience in 2022, against an extremely challenging market backdrop • Achieving operating profit growth was a challenging target given the market headwinds, including significant underbudgeted in-year energy and salary inflation. Based on performance against the 2022 budget the result for the financial element of the 2022 BP scorecard is below threshold
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 +	• During 2022, we delivered incremental activity across a number of key areas • Member participation continued to grow and reflects our growing understanding of what motivates members to participate, especially in our community • We also saw strong growth in members redeeming digital personalised offers with over one million members redeeming a digital offer. Based on performance against the 2022 targets, an outturn of Target + was achieved
Fairer for our Colleagues			
Colleague – measures focused on building and maintaining colleague engagement	10%	Miss	• We went ahead with our annual Talkback survey during original timescales despite the timing coinciding with significant restructuring. We chose to do this in order to give colleagues a voice during a difficult time despite knowing that the activity we were undertaking would have a significant impact on our colleague engagement • There are some key strengths in our experience metrics. Colleagues are also increasingly positive about our inclusivity, with 81% feeling Co-op is a place where people from diverse backgrounds can succeed • Our drop in our engagement score in 2022 meant performance against this measure is below threshold
Personal performance			
Assessment of how each member of the Executive performs across the year	20%		• 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 but tried to balance the ambition to recognise an exemplary job in an another extremely challenging year.

Based solely on performance against the balanced scorecard measures covering profit, colleagues, community and membership, the bonus outturn was just below 'threshold'. The Committee did not retrospectively change those targets, even though the market had changed so dramatically since they were set. But the Committee did decide to use discretion against the proportion of bonus allocated to individual performance ratings to increase the outturn on the personal element of the scorecard. This went some way to recognise the significant extra effort of our colleagues to improve our position, particularly in the second half of our year. This upward discretion meant that outturn of the 2022 BP was around threshold.

What deferred BP awards do our executives hold?

Awards are made annually under the BP and any payments due are made in cash, with 50% of all awards paid in two years' time. The table below shows the value of the deferred award held by executives in post at 1 January 2023.

Table 2a – deferred BP awards held by our executives in post at 1 January 2023

Name of executive	BP award year	Value of BP award deferred £'000	BP deferred award due in year (Note 1) £'000
Shirine Khoury-Haq	**2022**	**372**	**-**
	2021	0	-
	2020	-	394
Dominic Kendal-Ward	**2022**	**65**	**-**
	2021	10	-
	2020	-	47
Mike Hazell	**2022**	**-**	**-**
	2021	-	-
	2020	-	-

Notes to Table 2a

1. The Bonus Plan rules apply in respect of payments being made.
2. Due to Mike Hazell joining us on a fixed term contract basis, a separate bonus arrangement has been put in place linked to specific deliverables during his contract.

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
Steve Murrells[1]	2021	**0**
	2020	660
Jo Whitfield[2]	2021	**0**
	2020	343
Helen Webb[2]	2021	**0**
	2020	238
Helen Grantham[3]	2021	**0**
	2020	107

Notes to Table 2b

1. Steve Murrells will be treated as a qualifying leaver and will receive his 2020 deferred award in full in May 2023.
2. The deferred BP awards were forfeited when Jo Whitfield and Helen Webb stepped down.
3. Helen Grantham will be treated as a qualifying leaver and will receive a partial award for her 2020 deferred award in May 2023.

What pension benefits are our executives entitled to?

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

Table 3a – Pension entitlements for executives in post at 1 January 2023

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	3	**2022** 2021	**2** 2	**71** 63	**73** 65
Dominic Kendal-Ward	13 Jun 2022	5	**2022** 2021	**13** -	**0** -	**13** -
Mike Hazell	9 Jun 2022	0	**2022** 2021	**1** -	**28** -	**29** -

Notes to Table 3a

1. All pension scheme members have the option of paying additional voluntary contributions to their respective pension scheme. Neither any contributions paid nor any benefits arising from them are shown in the above table.
2. Defined benefit accrual ceased in October 2015 for all colleagues.
3. Pension figures for Dominic Kendal-Ward are based on the period from when he joined our Executive to the end of the financial year.

Table 3b – Pension entitlements for executives who left our Executive during the 2022 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
Steve Murrells	21 May 2022	9	**2022** 2021	**-** -	**29** 75	**29** 75
Helen Grantham	31 Jul 2022	6	**2022** 2021	**-** -	**20** 35	**20** 35
Jo Whitfield	30 Sep 2022	6	**2022** 2021	**2** 3	**23** 62	**25** 65
Helen Webb	30 Jun 2022	8	**2022** 2021	**-** -	**22** 45	**22** 45

What arrangements have been agreed for former executives?

Jo Whitfield stepped down from our Executive on 30 September 2022. Her earnings whilst she was a member of our Executive team up to 30 September 2022 are shown in Table 1b. The terms of her settlement agreement included an amount of £364,000 for contractual pay in lieu of notice and termination payments totalling £344,000.

Helen Webb stepped down from our Executive on 30 June 2022. Her earnings whilst she was a member of our Executive team up to 30 June 2022 are shown in Table 1b. The terms of her settlement agreement included an amount of £225,000 for contractual pay in lieu of notice and a termination payment of £253,000.

Steve Murrells stepped down from our Executive on 22 May 2022. His earnings whilst he was an Executive up to 22 May 2022 are shown in Table 1b. The terms of his settlement agreement included an amount of £375,000 for contractual pay in lieu of notice. His deferred 2019 bonus payment was paid in full in May 2022 and he will be treated as a qualifying leaver for the 2020 deferred bonus payment due in May 2023.

Helen Grantham retired from our Executive on 31 July 2022. Her earnings whilst she was a member of our Executive team up to 31 July 2022 are shown in Table 1b. In line with the bonus plan rules, Helen will be treated as a qualifying leaver for the 2020 deferred bonus payment due in May 2023 and will receive a prorated award.

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
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 2023 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 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 increased to £750k, and her maximum bonus opportunity increased to 250%, which is the same remuneration package as our previous CEO Steve Murrells. 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 2023.

Non-Executive Directors' remuneration

This section of the report includes details of the payments made to the Non-Executive Directors (NEDs) in office during 2022.

What are the fees for the NEDs for 2023?

NED Role	Fees
Chair	• The basic fee for the Chair role is £250,000 per annum. There has been no change in annual fee between 2015 and 2022. No additional fees are paid
Independent Non-Executive Directors (INEDs)	• The basic fee for an INED is £60,000 per annum • The following additional fees apply: - 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)	• 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

Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2022, it was paid to The Co-operative Community Investment Foundation. No other benefits will be provided for the Chair or any other NED member of our Board.

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

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

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

How long are directors appointed to our Board for?

Appointments to our Board are for the following periods:

- The INEDs (including the Chair) were initially appointed for two-year terms subject to election and re-election in accordance with the Rules. We amended our Rules in 2018 so that all INEDs and Executive Directors have to retire from office at each third AGM following their election/re-election. Our Board and the Council have the right to agree otherwise in order to avoid a situation where more than half of the other Directors (excluding the Member Nominated Directors) would be retiring from office at the same AGM.
- On this basis, any new appointments or re-appointments for INEDs are generally for three-year terms, subject to INEDs being able to serve a maximum of nine years. Executive Directors do not have a maximum term of office.
- MNDs were initially appointed for two-year terms and could serve a maximum of three terms, subject to the Member-Nominated Director Election Regulations. Following the 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 2022 financial year.

Table 4a – Non-executive members of our Board at 1 January 2023

	Notes	Board £'000	Risk and Audit Committee Chair £'000	Remuneration Committee Chair £'000	Senior Independent Director £'000	2022 total £'000	2021 total £'000
Allan Leighton (Chair)	1	See Note 1	-	-	-	See Note 1	See Note 1
Sir Christopher Kelly	2, 3	**60**			**15**	**75**	75
Stevie Spring	2	**60**		**15**		**75**	75
Simon Burke	2	**60**	**15**			**75**	75
Lord Victor Adebowale		**60**				**60**	60
Kate Allum		**60**				**60**	39
Margaret Casely-Hayford		**60**				**60**	60
Paul Chandler		**60**				**60**	60
Sarah McCarthy-Fry		**60**				**60**	60
Rahul Powar		**60**				**60**	60

Notes to Table 4a

1. Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2022, it was paid to The Co-operative Community Investment Foundation.
2. The Risk and Audit Committee Chair, the Remuneration Committee Chair and the Senior Independent Director each receive an additional fee of £15,000 per annum.
3. Sir Christopher Kelly receives an additional £60,000 fee as the Chair of the Board of Co-op Insurance Services Limited.
4. No additional fee is paid to the Chair of the Nominations Committee.
5. Kate Allum was appointed on 15 May 2021.

Table 4b – Former Non-Executive members of our Board who left during the 2022 financial year

During the year, there were no changes to our Non-Executive members of the Board.

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 2022 are provided on page 80.

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 2022, the Committee retained Deloitte as its independent remuneration adviser. The fees paid to Deloitte during this period totalled £44,450 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 the report from the Nominations Committee for what marks my eighth year as Co-op Chair and Chair of the Nominations Committee. The Committee has continued to play a key role in supporting the Board and has continued to assess the composition, succession plan and skills and experience of the Board and its committees to ensure it is operating effectively.

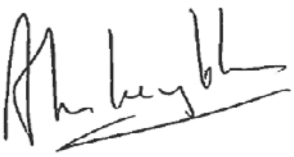
Key areas of activity for the Committee have included:

- Leading on the process to appoint a new Independent Non-Executive Director (INED) to replace Simon Burke as Risk and Audit Committee Chair.
- Leading further development of Board succession planning.
- Undertaking an internal Board evaluation.
- Reviewing the Board Diversity and Inclusion Policy.
- Appointing a new CEO.

The Committee also 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 reviewing the Committee Terms of Reference.

As noted in my introduction to the Governance Review, we are delighted that Adrian Marsh will be joining us as our new INED and Risk and Audit Committee Chair following a robust recruitment process led by the Committee.

Sir Christopher Kelly, Stevie Spring, Paul Chandler and I will all achieve nine years of Board tenure during 2023/24 and in accordance with our Rules, we will be required step down from the Board. The Committee and our Board as a whole have been particularly mindful of the various changes taking place to our composition in a relatively short period and have been carefully planning ahead to ensure orderly succession. Leading on the recruitment activity and ensuring the Board maintains an appropriate balance of skills, experience and diversity will remain a key priority for us during 2023.



Allan Leighton
Chair, the Nominations Committee

What does our Nominations Committee do?

Our Nominations Committee:

- Leads the appointment process for Executive Directors and Independent Non-Executive Directors (INEDs) having regard to (amongst other things): our Rules, our Board Composition Charter, our Board Diversity Policy, our Membership Regulations, our Board Election Regulations and Co-operative Values and Principles.
- Leads on other non-Board appointments if asked.
- Checks and approves the qualification and commercial experience requirements of INEDs and Executive Directors.
- Under the direction of the Chair, keeps the diversity and effectiveness of our Board under review and ensures it has the appropriate balance of skills and experience to provide effective leadership and oversight.
- Evaluates Director performance individually and collectively.
- Reviews and recommends succession plans for our Board.
- Submits proposals to the Non-Executive Directors' Fees Committee in respect of the remuneration of our Co-op Chair, INEDs and 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 membership of the Committee comprises a combination of INEDS, MNDs and the Council President. Where appropriate, the CEO is invited to attend meetings. Biographical details of the Committee members can be found on pages 69 - 71. The Committee met formally three times during the year with meeting attendance available on page 80.

2022 focus areas – Board recruitment

During the year, the Committee, under the leadership of the Chair and Senior Independent Director (SID), led a formal, rigorous and transparent process to select Adrian Marsh as our new INED as successor to Simon Burke, Chair of the Risk and Audit Committee.

The Committee engaged external executive search consultants Odgers Berndtson to conduct the search. Odgers' only connection with our Co-op is as recruitment consultants and there are no relevant connections with individual Directors.

The Committee agreed the scope and candidate profile for the role 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 various members of the Nominations Committee and Board. Following these meetings, the Committee was unanimous in recommending to the Board the appointment of Adrian Marsh.

Adrian will be joining us in May 2023, following which he will undertake a comprehensive induction programme. Also, Rachel Izzard will join our Co-op in June 2023 as Chief Financial Officer and Executive Director, replacing our Interim CFO Mike Hazell. The Committee has supported our CEO and Chief People and Inclusion Officer who led the CFO recruitment process. This included Committee members meeting with potential candidates and considering factors including skills and experience and commitment to our Values and Principles. Rachel's appointment as an Executive Director has been approved by our Board, following a recommendation from the Committee.

As Adrian and Rachel will both join our Board after the date of convening the AGM, in accordance with our Rules, both Adrian and Rachel will be due to stand for election for the first time at our 2024 AGM.

2022 focus areas – Board evaluation

Our Board evaluation provides the Board with an opportunity to reflect on effectiveness and performance.

2022 saw an internal Board effectiveness review process, facilitated by Sir Christopher Kelly. Whilst our Rules indicate that an external review should be undertaken at least every two years (unless there is good reason for not doing so), the Committee and Board Chair decided that there would be no significant merit in holding an external review in 2022. The Committee further agreed that the external review should be undertaken every three years, in line with the recommendations of the UK Corporate Governance Code and on consideration of the cost involved. An external evaluation is scheduled for 2023.

For the 2022 review, Board members completed an online questionnaire, rating their degree of satisfaction with different aspects of Board performance. Areas of focus included Board meetings, boardroom culture and focus, decision making, Board papers and presentations, the relationship with the Council and Board committees.

The results were discussed by the Directors, in the absence of the Chair and Chief Executive and separately with the Chair and Chief Executive. The Council President and the Group Secretary were also consulted and Sir Christopher shared the outputs with the Council's Governance Committee.

Based on the results of the review, an action plan has been developed and agreed with the Board.
Areas of focus include:

- Deepening Board members' understanding and experience of culture across the organisation to assist the Board in taking accountability for culture and holding leadership to account.
- Enhancement of the Board's relationships with functions across the Co-op, in recognition of the benefits this can bring.
- Further consideration of the approach to discussions on Strategy and Purpose.
- Considering the ideal mix and balance of skills and personalities on the Board, in particular in the light of upcoming Board changes.

- Further enhancements to improve the effectiveness of online and hybrid meetings (noting the intention that Board meetings will be in person wherever practical).

2022 focus areas - Board succession planning

During the year, the Committee reviewed the Board Skills Matrix (used to help assess the current skills, knowledge and experience of the Board and any potential gaps that could be addressed in future appointments). This continues to be maintained and has been used to inform discussions on the skills and experience we are looking for in our new Board members.

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

Directors are subject to re-election every three years. Lord Victor Adebowale, Shirine Khoury-Haq and Stevie Spring will be offering themselves for re-election by members at the 2023 AGM.

Also, one of current MNDs, Margaret Casely-Hayford is due to stand for re-election in 2023.

In accordance with our Rules, Shirine Khoury-Haq as Chief Executive Officer (with the support of our Chief People and Inclusion Officer) leads on succession planning for the leadership, in consultation with the Board. This has been delegated to the Remuneration Committee to review in the first instance.

2022 focus areas – Re-appointment of Directors

During the year, the Committee considered and recommended to the Board the re-appointments of Allan Leighton (Group Chair), Stevie Spring (INED) and Simon Burke (INED).

Following the completion of their latest terms, Allan Leighton and Stevie Spring will reach the end of their nine-year terms and will be required to step down from the Board in 2024.

The Member Nominated Director Joint Selection and Approvals Committee (MNDJC) was responsible for the MND election process, which saw Paul Chandler and Sarah McCarthy-Fry being re-elected for additional terms during 2022.

2022 focus areas – Diversity and Inclusion

A diverse and inclusive workplace 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 is currently comprised of:

- Men: (6) (55%).
- Women: (5) (45%).
- Ethnic Minority: (4) (35%).

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

For more information on Our Commitments to Racial Equality and Inclusion, and how we measured against these targets during 2022, please see our Co-operate Report.

2022 focus areas – Board Committee composition

The Committee reviewed the composition and balance of skills on our Board Committees. As part of this review, the Committee considered the membership of each committee, the tenure of each Director, the Board Skills Matrix, diversity and input from the Committee Chairs.

In January 2023, the Committee recommended that Kate Allum be appointed to the Remuneration Committee. This would help affect orderly succession and continuity in light of the pending changes to the Board.

2022 focus areas – Review of INEDs' and Executive Directors' qualification and commercial experience

Having reviewed the qualifying and commercial experience for INEDs and Executive Directors throughout the year (including the Membership Criteria and Eligibility Criteria) the Committee can confirm that the INEDs and our Executive Directors have all met the relevant requirements and shown continued commitment to Co-operative Values and Principles.

Focus areas for 2023

For 2023, the focus areas for the Committee will include:

- Leading and concluding processes to appoint a new Board Chair and SID.
- Commencing and leading the process to appoint an INED as successor to Stevie Spring, the Chair of our Remuneration Committee.
- Progressing actions arising from the 2022 Internal Board evaluation.
- Overseeing an externally facilitated Board evaluation.

Directors' report

The Directors present their report, together with the audited financial statements for the period ended 31 December 2022.

Results and distributions

The profit before taxation (from continuing operations) was £247m (2021: £57m). No interim dividend has been paid for 2022 and the members are not being asked to approve any distribution of profits for the year.

Going concern

The financial statements are prepared on a going concern basis as the directors have a reasonable expectation that the Group has 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 2024. Although our Co-op has a robust planning process, the current economic uncertainty (driven by factors including ongoing inflation and rising energy costs) means that additional sensitivities and analysis have been applied to test the going concern basis under a range of downside 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 £1,079m of facilities available to us, we were £780m drawn-down. Note 28 to the Financial Statements sets out more information on the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit and liquidity risk.

2. Board review and challenge the base case forecast

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

The key assumptions in the plan are:

a. Sales growth continues to be supported by market wide inflation, primarily due to the impact of cost headwinds (energy and wage inflation) increasing the cost of goods. This growth is tempered with volume reduction from cost of living pressures.

b. Cost headwinds continue due to energy and wage inflation.

c. Capital investment remains tightly controlled, supported by a capital light store growth programme.

d. The bond due for maturity in 2024, and those maturing thereafter, are repaid in full out of existing cash balances.

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 2% reduction to sales volume in FY23 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 across each year of the plan of £20m in each year, reflecting a reversion to the peak energy costs of 2022.
- Assuming a slower salary inflation reversion to normal levels in FY25, representing £40m cost each year (the base plan assumes that salary inflation normalises over the life of the plan).

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 £20m, 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 £569m 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.

Based on all of 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 (page 221).

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 64 - 67. We believe that a three-year period to 31 December 2025 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 Eurobond is refinanced on maturity. Post year end, we have extended our Rolling Credit Facility (RCF) maturity date from September 2024 to March 2026. The RCF will increase in size to £442.5m until September 2024, then fall to £360m if one of the Bank's choose not to extend (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 Board has challenged and approved. The nature of the key assumptions are consistent with those in FY23 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 2% in FY23 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 2025.

Following their review, the directors have therefore concluded that they have a reasonable expectation that the Group will have enough money and convenant headroom to continue in business over the period to 31 December 2025.

Post balance sheet events

Bond liability management exercise – on 1 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. This was announced to the market on 27 February 2023. The bonds were bought back at 99% of par value.

Rolling Credit Facility (RCF) refinancing – on 20 March 2023 we concluded an amendment and extension exercise for our Revolving Credit Facility. As a result our £400m sustainable RCF will increase in size to £442.5m until September 2024 when it will fall to £360m. The £360m facility will mature in March 2026. New sustainability metrics will be added into the facility during 2023, firmly linking Co-op's commitment to sustainability with its financial facilities.

Greenhouse gas emissions

Since 2016, our total Scope 1 and 2 greenhouse gas (GHG) emissions have reduced by 55.68%. In 2021, we reported that we reached our science-based target for Scope 1 and 2 greenhouse gas emissions three years early. Total Scope 1 and 2 GHG emissions have continued to decrease by 9.58% in 2022. This is due to using less energy, less fuel, a decrease in emissions from fugitive refrigerant gases and the UK grid electricity mix generating lower carbon emissions.

Scope 1 and 2 company reporting

In line with GHG Protocol guidance, we present our Scope 1 and 2 GHG emissions figures in two ways, showing GHG emissions if our electricity was counted at UK grid average (known as location-based reporting), and also accounting for our purchase and generation of renewable electricity (known as market-based reporting). Our GHG emissions reduction target is in line with the reductions needed to keep global warming to 1.5°C above pre-industrial temperatures: a threshold for the most dangerous impacts of climate change.

Our targets have been reviewed and approved by the Science-Based Targets initiative (SBTi), a coalition of leading environmental NGOs. In 2023, we will be resetting our climate targets across all scopes, for the near and long term, to ensure that they are in line with keeping global temperature rise to no more than 1.5°C above pre-industrial temperatures. We are expecting these updated targets to be released and validated by the SBTi later in 2023.

Scope 1 and 2 GHG emissions since 2016 – location-based

2016 $ktCO_2e$	2017 $ktCO_2e$	2018 $ktCO_2e$	2019 $ktCO_2e$	2020 $ktCO_2e$	2021 $ktCO_2e$	**2022 $ktCO_2e$**
653	542	436	397	349	320	**288**

Scope 1 and 2 GHG emissions since 2016 – market-based

2016 $ktCO_2e$	2017 $ktCO_2e$	2018 $ktCO_2e$	2019 $ktCO_2e$	2020 $ktCO_2e$	2021 $ktCO_2e$	**2022 $ktCO_2e$**
342	297	247	232	206	198	**181**

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

Source	**2022 $ktCO_2e$**
Scope 1 - Refrigeration	66
Scope 1 - Fuel	95
Scope 1 - Gas	19
Scope 2 - Electricity	107
Scope 1 and 2 – Total (location-based)	**288**

Numbers in $ktCO_2e$ have been rounded to the nearest whole number

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

Source	**2022 $ktCO_2e$**
Scope 1 - Refrigeration	66
Scope 1 - Transport	95
Scope 1 - Heating / Generation	19
Scope 2 - Electricity	1
Scope 1 and 2 – Total (market-based)	**181**

Numbers in $ktCO_2e$ have been rounded to the nearest whole number

Annual energy consumption (GWh)

Source	**2022 GWh**
Electricity (location based)	555
Gas	105
Fuel	370

Carbon intensity

	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Tonnes CO_2-equivalent (location-based) GHG emissions per £m revenue	63.5	52.8	42.7	36.4	30.5	28.6	**25.3**

Energy efficiency

Reducing our operational greenhouse gas emissions to meet our science-based target has centred around energy efficiency improvements, refrigeration technology and UK electricity grid decarbonisation. We've improved our property maintenance plans, standards and specifications, targeted investments in energy use and refrigeration, and enhanced asset monitoring/management controls. We've also achieved a reduction in greenhouse gas emissions from our logistics operations by improvements in transport planning and focusing on refrigeration plug-in compliance at depots, meaning vehicles are using less diesel to run their fridges.

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 (2021: £598,000) to The Co-operative Party, which is our financial subscription to the Party for 2022, in line with our members' approval at the Annual General Meeting in 2021. 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 2022 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 2023.

Groceries Supply Code of Practice (GSCOP)

During 2022, 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 2022 showed a dip in suppliers' rating of our overall compliance, but they continued to rank our Co-op in the top three retailers for conducting relationships fairly and in good faith, without duress. We value the supplier feedback given in the survey and use the outputs to shape our supplier engagement action plan.

The Committee has kept compliance under review through regular updates from the Code Compliance Officer and senior leaders in our Food business. 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.

Compliance with the Groceries Supply Code of Practice (GSCOP)

Governance

We have maintained our whole business approach to monitoring compliance with the Code, with regular reporting at various governance forums. The Code Compliance Officer (CCO) and Commercial leaders report regularly to the Risk and Audit Committee on how compliance is achieved. The Committee also approved the Annual Compliance Report for submission to the Competition and Markets Authority, as required by the Groceries (Supply Chain Practices) Market Investigation Order 2009.

Actions taken during the year to help ensure Code compliance and to further support our suppliers

The impact of the cost of living crisis and the increase in energy costs and other costs is felt by our customers and our suppliers. Balancing our desire to keep prices low for customers and the need of suppliers to pass on higher cost prices has the potential to increase the risk of non-compliance with the Code, in how we deal with suppliers. We have increased the level of support for buying teams throughout 2022 to ensure our buyers are clear on their responsibilities when assessing a supplier cost price increase request. This has helped us maintain our levels of compliance throughout these turbulent times.

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 2022, we trained 1,033 colleagues.

For our suppliers, we also provided new, quick 'how to' guides to help them keep their data accurate and minimise errors.

Code Compliance Reporting

During 2022, we had no formal disputes under the Code. We recorded 129 potential supplier issues - of these, 53 were raised directly with the CCO and 76 were raised internally by Co-op colleagues.

The increase in the number of supplier issues is largely linked to the challenges faced by suppliers and colleagues on the implementation of the new SAP Retail Business Transformation. By the end of 2022, many of the most significant issues had been fixed, but further improvements will be necessary in 2023. Only three issues remained unresolved at the end of the reporting period.

Throughout 2022, we have continued to engage with Mark White, the Groceries Code Adjudicator, and we value his collaborative approach. Our CCO has committed to treat any discussion held with a supplier in the strictest of confidence and that it will be for the supplier, and the supplier alone, to determine whether the CCO may disclose any details about the subject matter of their Code-related discussion within their designated retailer. This encourages suppliers to share their experiences of dealing with our Co-op openly and to report any Code-related concerns in the strictest of confidence with him at CCO@coop.co.uk.

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 52 week period ended 31 December 2022 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, is fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy.

Each of the Directors listed on pages 69 - 71 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 2022 Annual General Meeting and approved.

By Order of the Board

Dominic Kendal-Ward
Group Secretary and General Counsel
4 April 2023

Co-op's National Members' Council: annual statement for 2022

Our Co-op is owned by its members. Your National Members' Council is elected to represent and champion members' interests and to ensure our Co-op delivers its Vision of '*Co-operating for a Fairer World.*' We make your voice heard, influence plans and strategies, and ensure Co-operative Values & Principles are at the forefront of how Co-op does business.

Being a co-op makes us different and sets us apart from other retailers, adding a unique layer to the decisions we make and the work we do. That means we have to clearly explain what it means to be a co-op and what our difference is as, together, we strive to '*Co-operate for a Fairer World*'.

In 2022 we have:

- Influenced how our Co-op is supporting members, customers, communities and colleagues through the cost of living crisis, harnessing our ethical and sustainable commitments. Key recommendations from Council members included investing in our prices and availability in store, and suggestions made by Council members included how we could support communities through our Warm Spaces funding boost.
- Emphasised the importance of clearly explaining how our Co-op is different so that everyone knows that we are owned by you - not investors, our members - and that we exist to create value for our members, our communities and our planet.
- Supported work to review how we reward our members for trading with us, and how we attract and involve members in what we do and how we do it.
- Considered and reviewed how our Co-op is run, including how we deliver value for members and reduce our costs and debt.
- Campaigned for the issues important to you like social mobility and climate justice, including working with other co-ops and retailers to lobby the Government for greener energy, whilst working with suppliers and our businesses to find sustainable solutions.
- Started to evolve Co-op's Member Participation Strategy as part of deepening member engagement.

And to evidence our efforts:

- 30,861 members learnt more about playing their full part through Co-operative Member Education, Training & Information Opportunities.
- 397 attendees at four Council-led Join In Live events, delivered both online and in-person.
- 49 questions raised on behalf of members.
- 23 Council committee meetings on issues that matter to you.
- Five Directors' Forums to hold Board members to account.

Working for you

Council is made up of 100 Co-op members from all walks of life, including colleagues and people from other co-op societies. We regularly meet with, and provide support and constructive challenge to, our Board, Shirine's Operating Board and our leadership team, to put your needs at the heart of the decisions we make and ensure our Co-op is successful.

We also meet in committees and joint working groups throughout the year, where we hear from colleagues on plans and performance in more detail and help develop business activities by working collaboratively. We use a framework called our Co-op Compass, which helps us monitor areas of our Co-op Difference and how we are performing.

Your Council has been focusing on the issues that are important to you, our members, and will continue to prioritise them 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

Big issues in 2022:

- **Better communication of our ethical commitments**, like our popular soft plastics recycling scheme, working with partners on global issues, like climate justice and water security, and continuing to maintain strong and fair supplier relationships.
- Considering and reviewing our new diversity and inclusion strategy, which sets out **how we ensure our Co-op changes its culture** for and with colleagues, brand, products, suppliers and communities.
- **Finding renewable energy solutions.** We strongly backed our Co-op's call for Government action that would enable retailers to deliver on carbon commitments. Our Ethical & Sustainable Leadership Committee met with our Property Sustainability team for the second time in 2022 and was pleased to hear that suggestions, like trialling lower carbon materials in store designs, had been implemented since 2021.
- **Helping our members and customers to reduce their carbon footprint.** Following a Council motion at Co-op's 2022 AGM calling for accelerated action against climate change, we were proud to hear that Co-op had signed WWF's Retailer Commitment for Nature, to support customers and members with halving the impact of their baskets by 2030.
- **Representing our Co-op and collaborating with the wider co-operative movement** at Co-op Congress, Co-op Retail Conference and Co-op Party Conference and through our roles as Board members for Co-operatives UK, Co-op Press, the Co-operative Party and Co-op Foundation.

The cost of living crisis and how we support our members, customers, communities and colleagues has been at the forefront of our work for the last few months.

As co-operators, we believe that by working together, we can create a world which is fairer for our members and communities, fairer for our colleagues and fairer for our planet. This year has been challenging for our Co-op and many other retailers, but we're really proud of how Co-op has helped people during the cost of living crisis through its different way of doing business. We wouldn't be where we are today without the communities we serve and the colleagues who serve them, so it's been a priority for Council to make sure that we do what we can to alleviate some of the pressures they're facing.

In autumn, Council members suggested to the Board, Shirine and our Operating Board that funding for eligible local causes would be vital, so that they could open longer and support people with energy costs. This idea was developed by our Communities team, and we are proud that our Co-op was the first retailer to launch a £1m Warm Spaces funding boost, with Crowdfunder.

We are proud of our ethical standards and commitment to sustainability and our Ethical and Sustainable Leadership (ESL) Committee helps to oversee, develop and monitor our business practices, policies and performance. It works with the Board and the business to demonstrate leadership in ethical and sustainable areas.

Diversity and inclusion is at the core of making the world a fairer place. Backed by our members' votes at our 2022 AGM, we called on Co-op to publish progress on its ethnicity pay gap, which led to one of the first standalone reports of its kind. In September, we met with Zahoor Ahmed, Co-op's Head of Social Mobility, Inclusion and Belonging for the first time, to hear more about our diversity & inclusion strategy and ambition to create a socially just Co-op. Our Council Diversity & Inclusion Working Group will be helping to shape the strategy as work evolves, as well as championing ways for Council to improve its own diversity as we strive to be more representative of our communities.

Working with the co-operative movement is crucial if we want to succeed, thrive and secure a future for co-operation, making it a priority for Council as we support Co-op with delivering its Vision.

This year, we were pleased to:

- Host the General Secretary of the Co-op Party and the CEO of Co-ops UK at our Council meetings to discuss how co-operative solutions can enable us to deliver a better world.
- Welcome the co-founder of Carbon Co-op to learn more about how co-ops are part of the solution for delivering equality and fairness during the cost of living crisis.
- Influence legislation when the Government agreed to progress the Co-ops Bill, which will secure stronger protection for co-operative assets and has its roots in conversations at Council meetings a few years ago.

We're incredibly grateful to colleagues throughout our businesses and on the frontline for everything they've done to help people through the challenges we've all faced over these 12 months. We'd like to say a big thank you to our members for your continued support - you're helping us shape the future of our Co-op. We'd also like to recognise our Board, senior leadership and Council Secretariat for working with us as we look to achieve our shared belief that co-operation is a better way of doing business.

Member value, business performance and effective governance

Big issues in 2022:

- Membership and member-ownership is at the heart of who we are and what we do. We have had a renewed focus on how our Co-op **supports and reminds members to use their membership cards** after the pandemic and engaging with those who have joined us to demonstrate what the benefits are of being a member of our Co-op.
- **Partnerships** and quick commerce - we will continue to work with the Board and senior leaders to explore how members can accrue points when they use partners like Deliveroo, Just Eat and Amazon UK.
- Reducing our net debt has been a key topic of conversation and concern over the last few years and our Member Value & Business Performance Committee was pleased to hear that it would become significantly lower following the sale of **Co-op's petrol forecourts**.

Our Co-op exists for you, our members, and providing value for you is especially important during challenging times, so the cost of living crisis brought this into even sharper focus in 2022.

Membership is at the heart of our success as a co-operative business and we've been part of shaping thinking about how we can invest in how we reward our members for trading with us, connecting our co-operative Vision and demonstrating our difference in the way members access their offers. We are looking forward to seeing how this is brought to life in 2023/24.

Council is proud of our fantastic Co-op own brand range and the service we provide in our stores. In July, we met with the Board and Co-op leaders about our new Food strategy. This included how we will give our members, customers and colleagues choice and focus on value. These discussions led to us replacing some of the multi-buy deals and lowering the cost of individual products, as well as providing colleagues with additional discounts. We know our members value access to our fantastic Food and Life Services products in a way that is convenient to them. Our commercial partnerships and quick commerce offer provide this route and, as your representatives, we want to continue to work with our Board to ensure our members can accrue membership benefits through as many channels as possible. We also welcome the Board's commitments and assurance that our Ethical Decision Making Tool will continue to guide our decisions and ensure that we maintain and promote high standards through all of our partnerships, including with quick commerce and our suppliers.

In October, Council held an online briefing session with Co-op's Interim Chief Financial Officer, Food's Managing Director and Chief Commercial Officer for Funeralcare to discuss Co-op's 2022 interim results. On behalf of members, we reviewed and scrutinised our performance and asked questions about our future strategy and performance, as well as how we are going to protect our assets and members' financial interests.

Our Member Value & Business Performance Committee reviews our Co-op's financial performance and 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.

At committee meetings, we sought to understand the business rationale for the sale of Co-op's petrol forecourts and what this would mean for those members, customers and colleagues affected, as well as how we will invest the proceeds generated to stabilise our Co-op and put us in a stronger position. As part of this, we discussed future plans for store refits and openings, emphasising the need to do this with a focus on our existing estate and a capital light approach.

We are also continuing to review and support how our National Members' Council works most effectively and efficiently to represent your interests in 2023 and beyond, as we continue to look ahead to the future. In 2022, we've improved our relationships with Board members through stronger reporting from Board to Council and back again on activity and focus, helping us to hold to account and understand members' needs. As our Co-op continues to change, we will ensure that we adapt how we oversee and monitor our performance and the value our Co-op delivers for you, including the information and reports we receive, so that we can provide assurance and hold the Board to account on your behalf.

Member participation and community

Achievements in 2022:

- Supporting over **30,000 members to participate** in Council-sponsored opportunities on things like campaigns and all the different ways members can get involved, giving them everything they need to play their full part in the business they own.
- Influencing and shaping our **approach to member participation** and seeking to deepen engagement.
- Championing our fantastic **local and national Join In Live events on the cost of living, Fairtrade Fortnight and Big Green Week** with thousands of members getting involved throughout the year.
- Considering and making recommendations about how the great insight from our **Co-op Collective** – made up of members and customers from across the UK – is embedded in our decisions.
- Considering proposals for our **Community Partnerships Fund**.

Being a member of our Co-op is unique and special - 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.

In 2022, we focused on how we can offer opportunities for you to participate in and influence our decisions, from how we work with our network of 1,000 Co-op Member Pioneers on the ground to how we support our members to vote in our AGM and Elections.

Our Member Voice Committee and Governance Committee were disappointed to see that there was a reduction in the number of members voting in our AGM and elections. These provide members with opportunities to participate in our democracy and influence how we do business, which are core parts of our Co-op Difference and ownership model. We have made recommendations for improving how we engage members in our democracy to the Board, and we hope that, through wider promotion of the AGM opportunity across all Co-op channels and a renewed focus on digital engagement, participation levels will begin to increase again.

To embed our democracy and member-ownership into other areas of Co-op, our Community & Member Participation Joint Working Group has been meeting with Communities and Membership colleagues to input into our Member Participation Strategy and proposals for our Community Partnerships Fund.

In October, we led a series of online and in-person Join In Live events, welcoming hundreds of members and colleagues from around the UK. The events focused on an update from our businesses on their half-year performance and gave members the chance to put their questions on all things Co-op to Board members. This prompted some important discussions on topics like our commitments to racial equality & inclusion and how we connect with members, to communicate our Purpose and what we do as a co-op. We also spotlighted our new partnership with Your Local Pantry, which creates spaces for communities to come together around food, and we asked attendees to help shape how we can support people through the cost of living crisis.

To stay connected to our members throughout the year, we worked with our Member Pioneer and Communities teams to take our Join In Live events to a local level. In 2022, hundreds of events were delivered in stores and community spaces, focusing on themes like Fairtrade Fortnight, sustainability and the meaning of Co-op membership. Council members are buddied up with Member Pioneer Co-ordinators and attend as many events as possible, which has played a vital role in raising awareness of Council and how we gain members' views.

Council has championed the role of Member Pioneers and was instrumental in developing the way our Member Pioneers work today. As part of our Co-operative Member Education, Training & Information Opportunities on Join In, we helped members understand how Member Pioneers work in their communities and why we have them.

Working for you in 2023

We will continue to champion the issues most important to you in 2023, including:

- How we **support our members, customers, colleagues and communities through the cost of living crisis**.
- Having a renewed focus on **how we deliver our Vision of '*Co-operating for a Fairer World*'** particularly around **how we better communicate the fantastic work we do on sustainability and ethical commitments**.
- **Ensuring members and potential members fully benefit from the value created by our Co-op** and demonstrating how we exist to deliver value for our members.
- Continuing to find ways members can get involved in their Co-op, including **piloting different and innovative ways for you to participate**.

How you can get involved

In 2023, we'll be looking for even more ways for our members to shape your Co-op.

We represent you and we want to hear from you and work with you, so we're really looking forward to identifying further opportunities in local areas to enable Council members, Member Pioneers and Co-op members to connect on a regular basis.

If you prefer to get involved online, sign up to 'Join In' (joinin.coop.co.uk/opportunities) and see where Co-op membership can take you as we focus on what makes us different, ask you to shape what we do as a Council and showcase all the ways you've helped us create a fairer world. You can also get in touch with a local Council Member anytime, using: www.co-operative.coop/members-council-your-representatives.

We revamped our Council newsletter in 2022 so that it captures how Co-op is making a difference in one place, as well as update you on what Council has been up to. Keep an eye on our website (www.co-operative.coop/get-involved/members-council-news) for the latest editions.

The report of the Scrutiny Committee

Our review of Board appointments and elections in 2022

After our Directors are appointed or elected, our Co-op has an extra level of checking so members can be sure we've done everything fairly and openly in line with our Values and Principles.

This checking is done by the Scrutiny Committee of the National Members' Council and we're pleased to present our report to members for 2022.

Trading requirement

It was confirmed that all Directors met our Co-op's trading requirement of 1,000 membership points. Also, we've received assurances from Board Secretariat that all Independent Non-Executive Directors and Member Nominated Directors are 'independent' for the purposes of our Rules.

How Directors are appointed

All our Directors need to show their commitment to Co-op Values and Principles.

There are two types of directors who don't work day-to-day as executives for our Co-op: Independent Non-Executive Directors (INEDs) and Member Nominated Directors (MNDs).

Independent Non-Executive Directors

INEDS are those chosen specifically for their skills and experience, and to add diversity and balance to the Board. At the 2022 AGM, Allan Leighton, Sir Christopher Kelly and Rahul Powar were re-elected by members.

The Committee is aware there are several INEDS whose term of office expires over the next two years and the Board has begun the process to recruit their replacements. We look forward to reviewing this process when it is completed.

Member Nominated Directors

Our Co-op also has Directors elected by members. As well as being able to show very clearly their commitment to bringing the voice of members to the boardroom, before being put to a ballot of eligible members, these individuals also need to evidence that they have the necessary skills and experience of a substantial organisation, and an awareness of the strategic and operational challenges of a business of the size and complexity of our Co-op.

The Scrutiny Committee checks:

- That the selection process for the ballot is fair, transparent and objective.
- The background information gathered on the candidates is satisfactory.

Our findings

The Member Nominated Director Joint Selection and Approval Committee has the primary responsibility for the selection process of MND candidates and is made up of both members of the Members' Council and Board.

As well as receiving a detailed report from our Co-op's search partner on the search and selection process, we interviewed the Chair of this committee and posed questions on themes, including the search methodology across the co-operative sector and how the Committee had satisfied itself that candidates would have the time commitment required to interact fully with Council and members.

As a result, the Committee can confirm that the selection process leading to the shortlisting of Paul Chandler, Sarah McCarthy-Fry, Christine Tacon and Tim Nolan to a ballot of members was fair, transparent and objective and that all proper background checks were made.

We hope in future to see a greater number of candidates from the co-operative sector with the relevant skills and experience applying for, and being shortlisted, for this role.

Whilst we are satisfied that there was a contested election of Member Nominated Directors, we do hope that a greater number of candidates with 1,000 or more membership points, and with the required skills and experience can be sourced in future years.

The Committee also welcomed the appointment of Warren Partners as our Co-op's new search partner following Committee feedback that a new search partner would offer a refreshed approach and access to a broader pool of potential applicants.

The Committee was pleased to see that the first stage of an MND development programme (designed to enable potential candidates to understand how their current skills and experience fits with the role of an MND) has now been piloted, and it has suggested that the programme be rolled out further to enable more potential candidates to receive further support and feedback.

Note on Committee composition

Following elections to this committee in August 2022, the Committee is now comprised of the following Council members:

- Marlene Corbey (Chair).
- Rebecca Hamilton.
- David Paterson.
- Ewen MacLeod.

Promoting the success of our Co-op

Section 172(1) Statement & Stakeholder Engagement

Reporting requirement

Our Co-op prepares its Annual Report and Accounts substantially as though it were a company registered under the Companies Act 2006 ('the Act'). Whilst it is not a requirement for our Strategic Report to contain a Section 172(1) Statement, we are including one in line with best practice.

The Board has, in good faith, acted in a way that it considers would be most likely to promote the success of our Co-op for the benefit of members as a whole, and, in doing so, has recognised the importance of considering all stakeholders and other matters (as set out in Section 172(1) (a) to (f) of the Act) when making decisions.

The following pages comprise our Section 172(1) Statement, setting out how our Directors have, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Act.

Our approach

Corporate governance best practice underpins how we conduct ourselves as a Board; our culture, values, behaviours and how we do business. We are conscious of the impacts that our business and decisions have on our direct stakeholders as well as our wider societal impact. We also understand the importance of developing strong and meaningful relationships. We know that we can't fix everything by ourselves, and that working with others is key. To help us develop the strategies and capabilities to achieve our Vision of '*Co-operating for a Fairer World*', we know we need to continue to build and nurture strong, reciprocal relationships with our stakeholders.

For any key and principal decisions approved by the Board, a discussion takes place around the impact on our key stakeholders, including our members, our colleagues and our customers. The relevance of each stakeholder group may vary in relation to the issue in question, so the Board seeks to understand the needs of each stakeholder group and any potential conflicts as part of its decision making.

We have provided below examples of our key stakeholder interests, their concerns and the ways in which the Board acted with regard to these groups when taking its key strategic decisions during the year.

Our members

As a co-op, we are a different kind of business. We are the UK's largest consumer co-operative owned by more than four million active members (individual members and other co-ops, not big investors), and our members get a chance to have a say in how we're run. Our members are at the heart of everything we do, which is why our Board uses an Ethical Decision Making Tool which considers the impact on, and impact of, members (and communities) in relation to the material decisions it makes.

This was used, for example, when considering the sale of our petrol forecourt business to Asda. As part of the decision making process, our Board considered what our members would think, whether and how it created commercial and social value for our members, the potential impact on communities and whether our members would understand to reason for the decision. 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).

Whenever it makes sense to do so, we ask members to connect with us on projects and activity where their input can make a real difference. During 2022, members participated in our Join In online activity and our Join In Live events more than 300,000 times. More than 10,000 members have also been engaged by our team of local Member Pioneers through over 300 Live Local events, held in communities across the UK. These have enabled our members to put questions to our Council and Directors and help shape our approach and decision making on our products, services, community activity and campaigning. Since their launch in September 2018, members have participated over two million times.

Our Member Pioneers make great things happen with our members in our communities. They are the boots on the ground, working together with other Co-op members, colleagues and local causes to make a difference with their networks. We have 1,000 Member Pioneers and Member Pioneer Co-ordinators based in communities across the UK. As well as encouraging member activity and engagement, they bring our Co-op Vision to life. They connect key contacts in their communities and bring people together to increase co-operation through Local Forums.

During 2022, Member Pioneer Co-ordinators delivered more than 300 Live Local events across the UK with members, colleagues, customers and causes. Themes included Fairtrade, Member Participation and Sustainability to complement our Vision of '*Co-operating for a Fairer World*'. Member Pioneer Co-ordinators also buddy with our National Members' Council as part of our wider activity to encourage greater member participation.

We encourage our members to get involved in our AGM and elections, by voting on motions and on who gets to sit on our Board, and by attending the AGM in person or joining digitally. Our AGM is the forum through which our eligible members can hear more about our performance, ask questions to our Board and vote on AGM motions, which have been put forward by our members, our Members' Council and our Board. Our 2022 AGM was our first in-person event following the lift in Covid restrictions and members were encouraged to attend. Following the great feedback we had received on our previous year's online event, members were also able to join the meeting online, where they could listen to the meeting and put their questions to the Board in real time. We also offered an online workshop on climate and sustainability which members could attend prior to the event.

All motions are voted for on a 'one member, one vote' basis, except for Independent Society Members, which have their voting entitlement calculated based on the amount of trade they do with our Co-op.

We will keep members updated on our plans for our 2023 AGM via our website at 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.

We continue to interact with members through social media channels, including Facebook and Twitter.

Our National Members' Council

Our National Members' Council (NMC) is made up of 100 Co-op members from around the UK, including colleagues. They met regularly during 2022, providing the opportunity for our NMC to ask questions and provide input on decisions, to make sure things were being done in a way that benefited our members and communities.

In addition to formal routes, there are many informal ways our Board, Chair and individual Directors interact with the NMC, its committees, working groups and members.

During 2022 this included:

- Attendance at NMC sessions to update on developments in the Group.
- Directors' Forums where Board members answer questions from the Members' Council.
- The use of working and advisory groups with the NMC, particularly when our Board, leadership or colleagues feel input would be useful and add value.
- Regular discussions between the Group Secretary and Council Secretary to make sure there is a good flow of information between the Board and the NMC.
- Board at the NMC report to each other on meetings and activity.

We also have a non-governance stakeholder working group, which is made up of four Co-op Board members and four NMC members (the Council President, two Vice Presidents and one other). This meets as required to discuss issues that may arise so our Board and Members' Council can have an open debate and better understand the views of the other.

During 2022, our National Members' Council continued to use its Co-op Compass tool to hold the Board to account under four themes: Member Value, Member Voice, Ethical & Sustainable Leadership and Co-operative Leadership. It also worked to refresh its three year plan in consultation with the Executive.

Our customers

Whilst we are committed to ensuring our Co-op is run for the benefit of our members, 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 2022, our Insight and Research teams have conducted numerous projects to help us better understand our customers and members. These included:

- Exploring the impact of cost of living pressures through in-depth synthesis of our own primary research (qualitative and quantitative), analytics, market data and other published resources.
- Using a behavioural economics research techniques to improve our approach to member offers.
- Qualitative and quantitative research to inform our strategy for the Irresistible brand.
- A wide range of ad hoc research projects for our Food business including exploring health and sustainable diets, understanding more about our parcel services and testing communications around our approach to HFSS.

- Beginning a piece of analytics, insight, and research to update our customer segmentation for our Food business, which will continue into 2023.
- Using advanced statistics to test the efficacy of 60 proof points for our Co-op brand.
- Further waves of a Usage & Attitude study for Funeralcare.
- Research to better understand which comms channels members and customers prefer and products to offer in our Motor and Home insurance offerings.
- Quantitative research to understand diverse shoppers' perceptions of Co-op to improve our understanding of these audiences as part of our wider commitments to diversity and inclusion.
- The team have also made improvements to our customer experience tracking research in our Food stores, which will better help us understand customer sentiment and spot emerging themes in the data.

Our colleagues

Our Board recognises the importance of engaging our colleagues. Our Directors are of the view 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. There are lots of formal and informal ways that this happens, including through communicating with our colleague members. As a result, we have not adopted any of the methods set out in the UK Corporate Governance Code to do this (a colleague appointed director, a workforce advisory panel or a designated non-executive director). We intend that at least two of our Directors will attend each of our Colleague Voice listening sessions through 2023, as well as ensuring our Directors continue to visit stores, funeral homes, depots and sites relevant to our community missions.

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 success. Our colleague engagement activities during the year have 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 2022, despite another turbulent year, our overall colleague engagement score stands at 68% (-4 percentage points on 2021) which is 6 percentage points behind the UK retail benchmark.
- In 2022, we refocused our Colleague Voice activity, to hold us in good stead for the challenges of 2023.
- Throughout the year, our Colleague Insight team continued to run listening sessions, discussion groups, one-to-one interviews and surveys, taking on board colleague suggestions and representing the voice of colleagues across our support centre, Food stores and Funeralcare operations. Of particular note is research we have conducted into cost of living challenges for colleagues and exploring different aspects of the colleague lifecycle (namely those colleagues who choose to leave our Co-op) – with more planned in 2023.
- Alongside this, in 2022, we established a programme of work for resolving colleague irritants. The initial hackathon (delivered through a cross-functional team, including store colleagues) has been designed to implement change at pace, with colleagues resolving issues collaboratively at every level of our Co-op. The programme will evolve and continue in 2023, with four more hackathon sessions planned.
- Our Members' Council has a keen interest in our colleagues, and we have a number of colleague members on the Council. Council regularly holds the Board to account on colleague issues and a Council Remuneration Group meets quarterly with the Chair of the Remuneration Committee and senior members of the People Team.

- 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. Areas covered during the year included World Mental Health Day, the menopause and Talk Money Week.
- Our annual #BeingCoop awards event took place in late August with around 100 colleagues celebrating at our Angel Square office. 21 winners were announced across seven award categories including 'Community Star' and 'Inclusion'. A new category was introduced for 2022: 'Climate Star'.
- To help ensure our colleagues feel valued for their contribution and in recognition of the vital role they have played, we made significant additional investment during the year to align our minimum hourly rate for frontline colleagues to the Real Living Wage.

Yet again, our frontline colleagues have continued to do an amazing job despite the external backdrop of rising living costs, inflation and energy prices. We wanted to help our colleagues as much as we could through these challenging times, so we put in place two winter support packages for our frontline colleagues. This included increasing colleague discount on Co-op own brand food and household products to 30% from 20 October to April 2023. In addition to the increasing own brand discount, we also loaded £225 onto colleague membership cards for our frontline colleagues who don't participate in our Bonus Plan. Payments were structured in a way that they would not impact any universal credit payments. We also covered the benefit in kind tax due so colleagues would receive the full benefit.

Our suppliers

A strong, trusted and transparent supply chain is integral to our success. Our Co-operative Values and Principles underpin all of our supplier relationships as we continue to balance commerciality with shared value and communities.

Our Co-op has a range of suppliers, who provide goods and services to support our businesses and operations. The terms of those suppliers and the day-to-day relationships are negotiated and managed by our Procurement team. The Board ensures we work with our suppliers so that everyone involved in producing our products is treated fairly. It monitors our relationship with our suppliers in a number of ways, including via the Risk and Audit Committee on areas such as our compliance with the Groceries Supply Code of Practice and our approach to sustainability issues.

As we faced into the supply chain challenges experienced across the retail industry during 2022, we worked closely with our suppliers to support their recovery and agreed action plans with our most crucial suppliers.

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

Our commitment to Fairtrade spans over 30 years from when we first stocked CaféDirect in 1992, predating the launch of the Fairtrade mark by two years. In 1998, we became the first supermarket in the UK to start selling Fairtrade products in all our Co-op stores. Since then, our relationship with Fairtrade has continued to grow and in 2015 we became the largest seller of Fairtrade wine in the world. Since 2017, all the cocoa used as an ingredient in Co-op products is Fairtrade and 100% of our tea, coffee, chocolate, bananas, African roses and bagged sugar is Fairtrade. In 2022, Co-op made an industry-first commitment to source 100% South African wine as Fairtrade, including both own label and branded. We are committed to growing our contribution to Fairtrade producers and workers around the world.

You can read more about our food sustainability plans to 2030 in our separate Future of Food publication and Co-operate Report, both available on our website: co-operative.coop and our Fairtrade webpages: coop.co.uk/our-suppliers/fairtrade

Community

At our Co-op, our Purpose is to champion a better way of doing business for you and your community. The Board recognises the role of our Co-op in working with and supporting our communities, and this has never been more relevant than during the last few years. Through our membership proposition, we aim to build stronger and more resilient communities by offering:

- Fair access to food.
- Fair access to mental wellbeing support.
- Fair access to opportunities for young people.

The funds raised by our members are split two ways:

- We continue to support thousands of grassroots community causes through our Local Community Fund, where members can select which local cause in their community to support.
- Through our Community Partnerships Fund, we're creating partnerships and resources to support local communities across the UK.

Our community plan is a critical part of delivering our Vision of *'Co-operating for a Fairer World'* and our work to make things fairer for our members, our communities, our colleagues and our planet. We continue to focus on tackling the effects of the pandemic and responding to issues arising from the cost of living crisis in our communities.

Our Community Wellbeing Index was refreshed during the year and helped to inform our community activity.

Examples of how we have engaged with our communities during the year include:

- Celebrating that, together, we've raised £117m for our local communities – supporting over 30,000 Local Community Fund causes - since 2016, the year that our Local Community Fund launched, followed by our Communities Partnership Fund in 2020.
- Funding over 280 fridges with Hubbub, with an additional 70 fridges supported by the end of 2022, bringing the total number to 350.
- In addition, launching our partnership with Your Local Pantry to expand the network of pantries to 225 in three years, providing more communities with sustainable solutions to access to food.

- Exceeding our fundraising target of £8m for Mind, SAMH (Scottish Association for Mental Wellbeing) and Inspire, delivering over 50 mental wellbeing services in local communities and supporting over 22,000 people – with 81% saying their mental wellbeing had improved.
- Helping 6,000 young people make communities safer and fairer places to live through our Peer Action Collective with Youth Endowment Fund and #iwill. Our PAC researchers were busy in 2022 holding fringe events at the Labour and Conservative Party conferences, to showcase how Co-op and our partners are providing opportunities for young people to speak out across the UK.
- The Co-op Foundation launched its new five-year strategy, 'Building communities of the future together' - alongside the £1.5m Future Communities Fund.
- Our Member Pioneers held Join In Live Local events. The feedback from these sessions helped shape our approach and influence our decision making on all matters of Co-op business including community involvement.
- Our colleagues and members helped to raise over £1.2m for the Disaster Emergency Committee appeals in Ukraine and Pakistan.

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 2022, have continued to share our thoughts, experiences and learnings with other co-operatives. In 2022, we delivered two sessions at the Co-operatives UK 2022 Practitioners Forum. The first was on 'Creating Successful email campaigns', providing advice on creating successful email campaigns, which is one of the most important ways to connect with members and/or customers. We also jointly delivered a session on 'Looking after employees' financial wellbeing' and how employees within our Co-op are being supported, especially in light of challenges faced with the cost of living crisis. Our CEO Shirine Khoury-Haq and our INED Lord Victor Adebowale, presented the closing keynote at Co-op Congress 2022, while our National Members' Council President, Denise Scott-McDonald, presented a session on making membership meaningful across co-operatives.

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 of '*Co-operating for a Fairer World*'.

During 2022, 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. In 2023, we anticipated further engagement jointly with our Members' Council.

For more information on the CAT, please see pages 37 and 38 in the Strategic Report.

Environment

Our approach to sustainability is critical in our current and future plans and is embedded in our wider Vision of '*Co-operating for a Fairer World*'.

Driving forward our sustainability agenda and our ambitious approach to climate action will ensure that we keep focused on protecting people and the planet. We can't deliver our commitments alone, and work with our members, communities, customers, colleagues and suppliers continued to be vital. You can read more about our Climate Plan and progress across sustainability at coop.co.uk and in our Co-operate Report.

Financial Statements

Consolidated income statement
for the period ended 31 December 2022

What does this show? Our income statement shows our income for the year less our costs. The result is the profit that we've made.

Continuing Operations	Notes	2022 £m	2021 £m
Revenue	2	**11,480**	11,151
Operating expenses	3	**(11,484)**	(11,097)
Other income	5	**9**	10
Operating profit	1	**5**	64
Profit on sale of petrol forecourts	35	**319**	-
Finance income*	6	**125**	196
Finance costs	7	**(202)**	(203)
Profit before tax	1	**247**	57
Taxation	8	**(4)**	(25)
Profit from continuing operations		**243**	32
Discontinued Operation			
Profit on discontinued operation (after tax)	9	**67**	13
Profit for the period (all attributable to members of the Society)		**310**	45

* Finance income in 2021 includes a one-off gain of £99m following the settlement of a liability (see Note 6 for further details).

Non-GAAP measure: underlying (loss) / profit before tax**

What does this show? The table below adjusts the operating profit figure shown in the consolidated income statement above by taking out items that are not generated by our day-to-day trading. This makes it easier to see how our business is performing. We also take off the underlying interest we pay (being the day-to-day interest on our bank borrowings and lease liabilities).

Continuing Operations	Notes	2022 £m	2021 £m
Operating profit (as above)		**5**	64
Add back / (deduct):			
One-off items	1	**39**	15
Property, business disposals, closures and impairments	1	**41**	30
Change in value of investment properties	26	**15**	(9)
Underlying operating profit	1	**100**	100
Less underlying net interest on loans and deposits	7	**(55)**	(56)
Less underlying net interest expense on lease liabilities	6, 7	**(76)**	(76)
Underlying loss before tax		**(31)**	(32)

The accompanying notes on pages 151 - 209 form an integral part of these financial statements.

** 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 242.

Consolidated statement of comprehensive income

for the period ended 31 December 2022

What does this show? Our statement of comprehensive income includes other income and costs that are not included in the consolidated income statement on the previous page. These generally relate to revaluations of our pension schemes.

	Notes	2022 £m	2021 £m
Profit for the period		**310**	45
Items that will never be reclassified to the income statement:			
Remeasurement (losses) / gains on employee pension schemes	27	**(732)**	350
Related tax on items above	8	**183**	(130)
		(549)	220
Items that are or may be reclassified to the income statement:			
Gain on revaluation of right-of-use assets prior to transfer to investment property		**-**	5
		-	5
Other comprehensive (losses) / profits for the period net of tax		**(549)**	225
Total comprehensive (loss) / profit for the period (all attributable to members of the Society)		**(239)**	270

The accompanying notes on pages 151 - 209 form an integral part of these financial statements.

Consolidated balance sheet

as at 31 December 2022

What does this show? Our balance sheet is a snapshot of our financial position as at 31 December 2022. It shows the assets we have and the amounts we owe.

	Notes	2022 £m	2021 £m
Non-current assets			
Property, plant and equipment	11	**1,631**	1,912
Right-of-use assets	12	**882**	1,086
Goodwill and intangible assets	13	**934**	1,075
Investment properties	26	**40**	55
Investments in associates and joint ventures		**5**	4
Funeral plan investments	14	**1,369**	1,372
Derivatives	29	**1**	-
Pension assets	27	**1,584**	2,262
Trade and other receivables	17	**171**	214
Finance lease receivables	12	**34**	30
Contract assets (funeral plans)	18	**40**	43
Total non-current assets		**6,691**	8,053
Current Assets			
Inventories	16	**433**	488
Trade and other receivables	17	**637**	551
Finance lease receivables	12	**9**	12
Contract assets (funeral plans)	18	**5**	5
Derivatives	29	**7**	4
Cash and cash equivalents	20	**447**	60
Assets held for sale	19	**-**	7
Total current assets		**1,538**	1,127
Total assets		**8,229**	9,180
Non-current liabilities			
Interest-bearing loans and borrowings	21	**763**	796
Lease liabilities	12	**1,124**	1,306
Trade and other payables	22	**31**	44
Contract liabilities (funeral plans)	23	**1,540**	1,614
Derivatives	29	**14**	2
Provisions	24	**59**	74
Pension liabilities	27	**3**	4
Deferred tax liabilities	15	**156**	314
Total non-current liabilities		**3,690**	4,154
Current liabilities			
Overdrafts	20	**-**	4
Interest-bearing loans and borrowings	21	**17**	180
Lease liabilities	12	**182**	210
Trade and other payables	22	**1,403**	1,472
Contract liabilities (funeral plans)	23	**183**	164
Derivatives	29	**2**	3
Provisions	24	**34**	52
Liabilities held for sale	19	**-**	2
Total current liabilities		**1,821**	2,087
Total liabilities		**5,511**	6,241
Equity			
Members' share capital	25	**75**	74
Retained earnings	25	**2,637**	2,859
Other reserves	25	**6**	6
Total equity		**2,718**	2,939
Total equity and liabilities		**8,229**	9,180

The accompanying notes on pages 151 - 209 form an integral part of these financial statements.

Board's certification

The financial statements on pages 146 - 220 are hereby signed on behalf of the Board pursuant to Section 80 (1) (a) of the Co-operative and Community Benefit Societies Act.

Allan Leighton - Chair

Shirine Khoury-Haq - Chief Executive

Dominic Kendal-Ward - Group Secretary

4 April 2023

Consolidated statement of changes in equity

for the period ended 31 December 2022

What does this show? Our statement of changes in equity shows how our reserves have changed during the year.

For the 52 weeks ended 31 December 2022	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 1 January 2022		**74**	**2,859**	**6**	**2,939**
Profit for the period		**-**	**310**	**-**	**310**
Other comprehensive income / (loss):					
Remeasurement losses on employee pension schemes	27	**-**	**(732)**	**-**	**(732)**
Tax on items taken directly to other comprehensive income	8	**-**	**183**	**-**	**183**
Total other comprehensive loss		**-**	**(549)**	**-**	**(549)**
Items taken directly to Retained earnings:					
Shares issued less shares withdrawn	25	**1**	**-**	**-**	**1**
Adjustment to historic funeral plan liabilities	23	**-**	**23**	**-**	**23**
Tax on items taken directly to retained earnings	8	**-**	**(6)**	**-**	**(6)**
Total of items taken directly to retained earnings		**1**	**17**	**-**	**18**
Balance at 31 December 2022	25	**75**	**2,637**	**6**	**2,718**

For the 52 weeks ended 1 January 2022	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 2 January 2021		74	2,594	1	2,669
Profit for the period		-	45	-	45
Other comprehensive income / (loss):					
Remeasurement gain on employee pension schemes	27	-	350	-	350
Gain on revaluation of right-of-use assets prior to transfer to investment property		-	-	5	5
Tax on items taken directly to other comprehensive income	8	-	(130)	-	(130)
Total other comprehensive profit		-	220	5	225
Balance at 1 January 2022		74	2,859	6	2,939

The accompanying notes on pages 151 - 209 form an integral part of these financial statements.

Consolidated statement of cash flows

for the period ended 31 December 2022

What does this show? Our statement of cash flow shows the cash coming in and out during the year. It splits the cash by type of activity - showing how we've generated our cash then how we've spent it.

	Notes	2022 £m	2021 £m
Net cash from operating activities	10	**455**	178
Cash flows from investing activities			
Purchase of property, plant and equipment		**(132)**	(297)
Proceeds from sale of property, plant and equipment		**47**	80
Purchase of intangible assets		**(15)**	(28)
Acquisition of businesses, net of cash acquired		**(4)**	(30)
Disposal of businesses		**10**	22
Disposal of petrol forecourts	35	**408**	-
Payments to funds for pre-paid funeral plan sales		**(76)**	(93)
Receipts from funds for pre-paid funeral plans performed or cancelled		**108**	105
Net cash generated / (used) in investing activities		**346**	(241)
Cash flows from financing activities			
Interest paid on borrowings		**(59)**	(57)
Interest paid on lease liabilities		**(78)**	(79)
Interest received on subleases		**2**	3
Interest received on deposits		**2**	-
Settlement of Group Relief Creditor owed to The Co-operative Bank PLC		**-**	(48)
(Repayment) / issue of corporate investor shares	21	**(1)**	1
Repayment of borrowings (net)	21	**(1)**	(2)
RCF (repayment) / drawdown	21	**(163)**	163
Payment of lease liabilities		**(128)**	(134)
Derivative settlements		**16**	3
Net cash used in financing activities		**(410)**	(150)
Net increase / (decrease) in cash and cash equivalents		**391**	(213)
Cash and cash equivalents at beginning of period		**56**	269
Cash and cash equivalents at end of period		**447**	56
Analysis of cash and cash equivalents			
Cash and cash equivalents (per balance sheet)	20	**447**	60
Overdrafts (per balance sheet)	20	**-**	(4)
		447	56

The balances above include cashflows from Discontinued operations.

The accompanying notes on pages 151 - 209 form an integral part of these financial statements.

Group Net Debt	Notes	2022 £m	2021 £m
Interest-bearing loans and borrowings:			
- current		**(17)**	(180)
- non-current		**(763)**	(796)
Total Interest-bearing loans and borrowings		**(780)**	(976)
Lease liabilities:			
- current		**(182)**	(210)
- non-current		**(1,124)**	(1,306)
Total Lease liabilities		**(1,306)**	(1,516)
Total Debt		**(2,086)**	(2,492)
- Group cash		**447**	60
- Overdrafts		**-**	(4)
Group Net Debt	21	**(1,639)**	(2,436)
Group Net Debt (excluding lease liabilities)		**(333)**	(920)

Notes to the financial statements

Section A - where do our profits come from?

1 Operating segments

What does this show? This note shows how our different businesses have performed. This is how we report and monitor our performance internally. These are the numbers that our Board reviews during the year.

2022	Food £m	Wholesale £m	Funeral £m	Insurance £m	Legal £m	Other businesses (c) £m	Federal (f) £m	Costs from supporting functions £m	Total £m
Revenue from external customers	**7,805**	**1,439**	**271**	**24**	**46**	**-**	**1,895**	**-**	**11,480**
Underlying operating profit / (loss) (a)	**139**	**22**	**16**	**8**	**8**	**-**	**-**	**(93)**	**100**
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**	**10**	**8**	**8**	**-**	**-**	**(94)**	**5**
Depreciation and amortisation	**331**	**8**	**27**	**-**	**1**	**-**	**-**	**23**	**390**
EBITDA (h)	**385**	**27**	**37**	**8**	**9**	**-**	**-**	**(71)**	**395**
Underlying EBITDA (h)	**470**	**30**	**43**	**8**	**9**	**-**	**-**	**(70)**	**490**
Additions to non current assets (d, e)	**115**	**4**	**14**	**-**	**-**	**-**	**-**	**18**	**151**

2021	Food £m	Wholesale £m	Funeral £m	Insurance £m	Legal £m	Other businesses (c) £m	Federal (f) £m	Costs from supporting functions £m	Total £m
Revenue from external customers	7,671	1,386	264	34	39	1	1,756	-	11,151
Underlying operating profit / (loss) (a)	156	7	12	15	5	(1)	-	(94)	100
One-off items (a) (i)	(17)	-	-	-	-	-	-	2	(15)
Property, business disposals and closures (a) (ii)	(14)	-	2	-	-	(1)	-	13	-
Impairments (a) (ii)	(22)	-	-	-	-	-	-	(8)	(30)
Change in value of investment properties	-	-	-	-	-	-	-	9	9
Operating profit / (loss) (b)	103	7	14	15	5	(2)	-	(78)	64
Depreciation and amortisation	332	9	32	-	1	-	-	31	405
EBITDA (e)	435	16	46	15	6	(2)	-	(47)	469
Underlying EBITDA (e)	488	16	44	15	6	(1)	-	(63)	505
Additions to non current assets (d, e)	288	5	28	-	-	-	-	34	355

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 242.

(i) One-off items totalling a £39m charge (2021: £15m charge) are made up of £26m of redundancy charges primarily within our Support Centre, £12m of discretionary costs (membership spend added to colleagues membership cards) helping to support them through the Winter cost-of-living crisis and net £1m other. In the prior period the £15m charged comprised £17m of redundancy charges within our food store teams (under the Fit for Future programme) net of a £2m gain in relation to a reduction in the value of deferred consideration from our acquisition of Nisa.

(ii) Gains from property and business disposals of £64m (2021: net £nil) comprise a £6m gain on food stores, £1m loss on funeral branches and a £59m gain on non-trading properties sold during the year.

(iii) Impairment charges of £105m (2021: £30m) are split: Food £71m (2021: £22m), Funerals £3m (2021: £nil) and Costs from supporting functions of £31m (2021: £8m) and relates to £30m (2021: £5m) of Property, plant and equipment, £60m (2021: £25m) of Right-of-use assets and £15m (2021: £nil) 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 £nil (2021: £nil).

c) The Group identifies its operating segments based on its divisions, which are organised according to the different products and services it offers its customers. The operating segments (and the captions) reported above are based on the periodic results reported into the Chief Operating Decision Maker which is the Board and whether the respective division's results meet the minimum reporting thresholds set out in IFRS 8 (Operating Segments). The Other businesses segment includes activities which are not reportable per IFRS 8. In the comparative period then this mainly comprised the results of Co-op Health which was sold on 6 April 2021. Our other holding and support companies are included within costs from supporting functions.

d) Additions to non-current assets are shown on a cash flow basis.

e) The Group's external revenue and non-current assets arise primarily within the United Kingdom. The Group does not have a major customer who accounts for 10% or more of revenue. In-line with how information is presented to the Board then underlying segment operating profit includes an appropriate allocation of central support centre costs which are re-charged to the operating segments. There are no other material transactions between the main operating segments.

f) Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities. In the current period revenue in the Federal segment includes £40m (2021: £nil) 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 during the year). See footnote (i) below for further details of the transitional service agreement covering the post disposal period.

g) Operating profit in 2021 included £20m of government assistance received through business rates relief in response to the CV-19 pandemic (£18m in Food and £2m in Funerals).

h) EBITDA (earnings before interest, tax, depreciation and amortisation) and underlying EBITDA are non-GAAP measure 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 242.

i) On 30th October we sold our petrol forecourt estate to Asda and as part of the sale process the petrol sites will transfer across on a rolling basis during a handover period of approximately 12 months which is governed by a transitional service agreement. The Group have assessed the nature of the arrangement and concluded that Co-op are acting as agent in the facilitation of the transaction for the end customer, but as a principal for supplying goods to AFS (Arthur Foodstores Limited - the entity that was sold to Asda) under the service agreement, and consequently will record the revenue and costs of supplying the goods gross, as well as recording the outsourcing fee charged to AFS in revenue.

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	2022 £m	2021 £m
Underlying operating profit		**100**	100
Underlying net interest on loans and deposits	6, 7	**(55)**	(56)
Underlying net interest expense on lease liabilities	6, 7	**(76)**	(76)
Underlying loss before tax		**(31)**	(32)
One-off items	1	**(39)**	(15)
Gain on property, business disposals and closures (see table below)	1	**64**	-
Impairment of non-current assets (see table below)	1	**(105)**	(30)
Profit on disposal of petrol forecourts	1	**319**	-
Change in value of investment properties	26	**(15)**	9
Finance income (net pension income)	6	**43**	30
Fair value movement on derivatives (net)	6, 7	**9**	-
Fair value movement on quoted Group debt	6, 7	**28**	5
Finance income (one-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc)	6	**-**	99
Finance income (funeral plans)	6	**29**	54
Finance costs (funeral plans)	7	**(54)**	(58)
Other non-cash finance costs	7	**(1)**	(5)
Profit before tax from continuing operations		**247**	57

Profit / (loss) from property, business disposals, closures and impairment of non-current assets	2022 £m	2022 £m	2021 £m	2021 £m
Disposals, closures and onerous contracts:				
- proceeds	**47**		80	
- less net book value written off	**(15)**		(71)	
- provisions released / (recognised)	**32**		(9)	
		64		-
Impairment of property, plant and equipment, right-of-use assets and goodwill		**(105)**		(30)
Total		**(41)**		(30)

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.

	2022 £m	2021 £m
Retail sales	**7,822**	7,689
Member reward earned on sale of goods	**(17)**	(18)
Provision of services	**344**	341
Member reward earned on provision of services	**(3)**	(3)
Wholesale sales	**1,439**	1,386
Federal sales	**1,895**	1,756
Revenue (as shown in the Consolidated income statement)	**11,480**	11,151

Accounting policies

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). IFRS 15 defines performance obligations as a 'promise to provide a distinct good or service or a series of distinct goods or services'. Revenue is recognised when a performance obligation has been delivered which reflects the point when control over a product or service transfers to a customer. Revenue is measured based on the consideration set out in the contract with the customer and excludes amounts collected on behalf of third parties.

Sale of goods
The Group recognises revenue when it transfers control over a product to a customer. For the sale of goods, revenue is recognised at the point of sale. Any rebates, VAT and other sales tax or duty items are deducted from revenue.

Provision of services
Provision of services relates to activities in our Funerals, Legal services and Insurance businesses. Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') and funeral plan sales ('pre need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed). See Note 29 (Financial instruments) for further details of the accounting policies relating to prepaid funeral plans, funeral benefit options (FBO's) and low cost instalment plans (LCIP's). Revenue from Legal and Insurance services is recognised as distinct performance obligations are delivered to the customer.

Contract liabilities
Amounts received from funeral plan holders are deferred on the balance sheet within contract liabilities until the related funeral is performed (at which point the revenue is recognised). The deferred amount is subject to adjustment to reflect a significant financing component. This significant financing component is calculated based on the expected interest rate that would be reflected in a separate financing transaction between the Group and the plan holder at the inception of the contract and is charged to the income statement as a finance cost (Note 7) each period until the performance obligation is satisfied. The interest rate applied is fixed at inception of each plan and is based on an estimated incremental borrowing rate between the customer and the Group at the point the contract is entered into and reflects the security over our customers' plans through the whole of life policies we have in place. See Note 23 (Contract Liabilities) for further details. When the service prescribed by the plan is delivered, revenue is recognised equal to the deferred revenue balance related to the specific plan. Discounts offered to members on initial sale of a plan are deducted from the related contract liability.

Contract assets
A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) are deferred and shown in the consolidated balance sheet as a contract asset. The costs are then recognised in the consolidated income statement at the point that the funeral is performed and in line with when the revenue is recognised. See Note 18 (Contract assets) for further details.

Member rewards
The member rewards earned as part of our membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. Member rewards are earned at 2% of sales 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 sales value.

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:

	2022 £m	2021 £m
Cost of inventories recognised as an expense	**(8,056)**	(7,894)
Employee benefits expense (see below)	**(1,444)**	(1,484)
Distribution costs	**(501)**	(508)
Gain on property, business disposals and closures (before impairments)	**64**	-
Impairment of plant, property and equipment and goodwill	**(45)**	(5)
Impairment of right-of-use assets	**(60)**	(25)
Impairment reversal on subleases	**-**	1
Net gain on other plant and equipment disposals	**2**	2
Change in value of investment properties	**(15)**	9
Depreciation of plant, property and equipment	**(244)**	(254)
Depreciation of right-of-use assets	**(119)**	(122)
Amortisation of intangible assets	**(27)**	(29)
Furlough repayment	**-**	(16)
Business rates relief received	**-**	20
Subscriptions and donations	**(6)**	(4)
Community reward earned	**(18)**	(19)

Employee benefits expense

	2022 £m	2021 £m
Wages and salaries	**(1,293)**	(1,332)
Social security costs	**(90)**	(86)
Pension costs - defined benefit schemes	**(6)**	(5)
Pension costs - defined contribution schemes	**(55)**	(61)
Total employee benefits expense	**(1,444)**	(1,484)

Employee benefits expense includes executive directors.

The average number of people employed by the Group in the UK (including executive directors) was:

	2022 Number	2021 Number
Full-time	**18,627**	19,618
Part-time	**40,463**	42,919
Total	**59,090**	62,537

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 97 - 114.

Notes to the financial statements continued

3 Operating expenses continued

Auditor remuneration and expenses	2022 £m	2021 £m
Audit of these financial statements	**2.4**	2.1
Amounts receivable by the Society's auditor in respect of:		
- Audit of financial statements of subsidiaries in respect of the Society	**0.4**	0.4
Services relating to:		
- Audit-related assurance services	**-**	-
- All other services	**0.1**	0.1
Total	**2.9**	2.6

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	2022 £m	2021 £m
Food - Long-term agreements	**156**	158
Food - Bonus income	**66**	82
Food - Promotional income	**281**	341
Total Food supplier income	**503**	581
Wholesale - Long-term agreements	**27**	27
Wholesale - Bonus income	**15**	19
Wholesale - Promotional income	**81**	99
Wholesale supplier income	**123**	145
Total supplier income	**626**	726

Percentage of Cost of Sales before deducting Supplier income	%	%
Food - Long-term agreements	**2.6%**	2.6%
Food - Bonus income	**1.1%**	1.4%
Food - Promotional income	**4.7%**	5.7%
Total Food supplier income percentage	**8.4%**	9.7%
Wholesale - Long-term agreements	**2.0%**	2.0%
Wholesale - Bonus income	**1.1%**	1.4%
Wholesale - Promotional income	**6.1%**	7.3%
Total Wholesale supplier income percentage	**9.2%**	10.7%

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 overriders, 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.

	2022 £m	2021 £m
Rental income from non-investment property	**6**	7
Rental income from investment property	**3**	3
Total other income	**9**	10

Accounting policies

Rental income from investment and non-investment properties
Rental income arising from operating leases on both investment and non-investment properties is accounted for on a straight-line basis over the lease term. For accounting policies relating to investment property, refer to Note 26.

Notes to the financial statements continued

6 Finance income

What does this show? Finance income arises from the interest earned on our pension scheme and interest from finance lease receivables which have been discounted. If they are gains then we also include the movement in the fair value of some elements of our debt, our interest rate swap positions, foreign exchange contracts and commodity derivatives (which are used to manage risks from interest rate, foreign exchange and commodity price movements). If they are losses, they are included in Finance costs (see Note 7). If they are gains, we also show the fair value movement on our funeral plan investments as well as the discount unwind on funeral plan instalment debtors.

	2022	2021
	£m	£m
Net pension finance income	**43**	30
Underlying interest income from finance lease receivables	**2**	3
Interest receivable on deposits	**3**	-
Fair value movement on foreign exchange contracts and commodity derivatives	**20**	5
Fair value movement on quoted Group debt (Note 21)	**28**	5
One-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc*	**-**	99
Unrealised fair value movement on funeral plan investments (Note 14)	**28**	54
Discount unwind on funeral plan debtors	**1**	-
Total finance income	**125**	**196**

*The one-off gain of £99m in 2021 relates to the settlement of the Group Relief Creditor owed to the Co-operative Bank Plc.

7 Finance costs

What does this show? Our main finance costs are the interest that we've paid during the year on our bank borrowings (that help fund the business) and the interest payments we incur on our lease liabilities. If they are losses then we also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate and foreign exchange movements). If they are gains, they are included in Finance income (see note 6). We also include the interest that accrues on the funeral plans we hold and any impact of discounting on funeral plan instalment debtors if it is a charge.

	2022	2021
	£m	£m
Loans repayable within five years	**(58)**	(56)
Loans repayable wholly or in part after five years	**-**	-
Underlying loan interest payable	**(58)**	(56)
Underlying interest expense on lease liabilities	**(78)**	(79)
Total underlying interest expense	**(136)**	(135)
Fair value movement on interest rate swaps (Note 29)	**(11)**	(5)
Other non-underlying finance interest	**(1)**	(5)
Interest accruing on funeral plan liabilities (Note 23)	**(54)**	(54)
Discounting on funeral plan debtors	**-**	(4)
Total finance costs	**(202)**	(203)

Non-underlying finance interest includes the impact of discount unwind on payables and provisions (see Note 24).

Total interest expense on financial liabilities (including lease liabilities) that are not at fair value through the income statement was £125m (2021: £127m).

Notes to the financial statements continued

8 Taxation

What does this show? Our tax charge is made up of current and deferred tax. This note explains how those items arise. Additional explanatory footnotes are included to explain the key items. We were re-accredited with the Fair Tax Mark during 2021 and the additional disclosures we provide are in line with best practice guidance.

	Footnote	2022 £m	2021 £m
Current tax credit / (charge) - current period	(i)	**11**	(1)
Current tax credit - adjustment in respect of prior periods	(iii)	**2**	-
Net current tax charge - in respect of continuing operations		**13**	(1)
Net current tax credit - in respect of discontinued operations		**(14)**	1
Total current tax charge		**(1)**	-
Deferred tax charge - current period	(iv)	**(11)**	(5)
Deferred tax charge - adjustments in respect of prior periods	(v)	**(2)**	(6)
Deferred tax charge - impact of rate change (see note below)		**(4)**	(13)
Net deferred tax charge - in respect of continuing operations		**(17)**	(24)
Net deferred tax charge - in respect of discontinued operations		**-**	-
Total deferred tax charge		**(17)**	(24)
Total tax charge reported in the income statement		**(4)**	(25)
Total tax (charge) / credit attributable to a discontinued operation		**(14)**	1
Total tax charge		**(18)**	(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 19% (2021:19%) as follows:

	Footnote	2022 £m	2021 £m
Profit before tax from continuing operations		**247**	57
Profit before tax from discontinued operation		**81**	12
Total profit before tax		**328**	69
Tax charge at 19% (2021: 19%)		**(62)**	(13)
Current tax reconciliation:			
Expenses not deductible for tax (including one-off costs)	(vi)	**(2)**	(2)
Credits not taxable on the Co-operative Bank settlement	(ii)	**-**	19
Depreciation and amortisation on non-qualifying assets	(vii)	**(10)**	(11)
Non-taxable profits arising on business disposals	(viii)	**61**	3
Capital gains arising on property disposals	(ix)	**(1)**	(1)
Adjustments in respect of prior periods	(iii)	**2**	-
Impact on current tax for movement in temporary tax differences (see below)		**11**	5
Total current tax charge		**(1)**	-
Deferred tax reconciliation:			
(Utilisation) / increase of temporary tax differences - see Note 15 footnote (vii):			
Utilisation of capital allowances in excess of depreciation on qualifying assets		**(2)**	-
Utilisation of brought forward tax losses		**(1)**	(1)
Pension timing differences		**(10)**	(10)
Unwind of restatement adjustment on adoption of IFRS 16		**(3)**	(3)
Impact of restatement adjustment in relation to IFRS 15		**-**	-
Unrealised gains on investment properties, rolled-over gains and historic business combinations		**10**	6
Other timing differences		**(5)**	3
Subtotal of deferred tax reconciling items	(iv)	**(11)**	(5)
Other deferred tax items:			
Adjustment in respect of previous periods	(v)	**(2)**	(6)
Impact of restatement of deferred tax to enacted rate	(x)	**(4)**	(13)
Total deferred tax charge		**(17)**	(24)
Total tax charge		**(18)**	(24)

Notes to the financial statements continued

8 Taxation continued

The net tax charge of £4m on a continuing profit before tax of £247m gives an effective tax rate of 2%, which is lower than the standard rate of 19%. The main reason for this being lower is the £319m profit arising on the disposal of Arthur Food Stores Limited (the entity that was sold to Asda as part of the disposal of our petrol forecourt estate) which is exempt from tax as the disposal qualifies under the Substantial Shareholding Exemption Budget that reduces the expected tax charge by £61m. There are other factors as detailed in the disclosure, the main one being the £10m impact of depreciation on non-qualifying assets, that in total then increase the net expected tax charge by £14m. See footnotes for more detail.

Tax expense on items taken directly to consolidated statement of comprehensive income or consolidated statement of changes in equity

	2022	2021
	£m	£m
Actuarial gains and losses on employee pension scheme	**183**	(128)
Investment property revaluation through other comprehensive income	**-**	(2)
Tax on items taken directly to consolidated statement of comprehensive income	**183**	(130)
Adjustment to historic funeral plan liabilities (see Note 23)	**(6)**	-
Total tax on changes in equity	**177**	(130)

Of the £183m tax taken directly to the consolidated statement of comprehensive income, £139m credit (2021: £66m charge) arises on the actuarial movement on employee pension schemes. There is also a £44m credit (2021: £62m charge) being the impact of the 25% rate on the deferred tax related to the employee pension schemes as noted below. There was no movement this year directly to the consolidated statement of comprehensive income in respect of investment property revaluations.

A tax charge of £6m has been attributed to the IFRS 15 adoption adjustment in respect of funeral plan liabilities taken directly to Retained earnings in equity, of which £1m charge is rate impact.

Following the Budget on 3 March 2021, the Chancellor announced the enacted corporation tax rate of 19% would increase to 25% with effect from 1 April 2023. To the extent the above deferred tax assets and liabilities are expected to crystalise 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 crystalise over a much longer time frame, being mainly the retirement benefit obligations, capital allowances on fixed assets and unrealised gains on investment properties, rolled-over gains and historic business combinations. An assessment of the amount of deferred tax assets and liabilities that are expected to crystalise prior to 1 April 2023 is considered to be immaterial when compare to total net deferred tax liability, being less than 1% of the total amount. Due to this assessment being based on projected forecasts and the potential uncertainties inherent in using these, utilising a flat rate of 25% is seen as a fair approximate and has been used to determine the actual net deferred tax liabilities.

The impact in 2022 of recognising the net deferred tax movements at 25% rather than 19% has meant the equity credit is increased by £44m and the tax charge through the income statement is increased by £4m.

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 2022 due to the fact it has a number of brought forward capital allowances (£198m gross claimed in 2022) and tax losses (£5m gross utilised in 2022) 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 £1m, this is partly due to profits earned by Arthur Food Stores Limited that could not be fully covered by the above allowances. The corporation tax libiilty in respect of this, of £3m, was accrued in the the companies balance sheet at disposal. Off-setting this is a credit of £2m in respect of a claim made to HMRC to convert an equivalent amount of deferred tax reliefs into a cash settlement. This is shown as adjustment in repsect of prior periods. In addition, the discontinued disclosure requirements require the tax impact of discontinued operations to be split out resulting in a £14m tax credit and £14m tax charge in continuing and discontinued respectively.

Outside of the UK, our Isle of Man resident subsidiary, Manx Co-operative Society, a convenience retailing business in the Isle of Man showed a small profit in 2022, giving rise to a small current tax liability of £0.1m (2021: £0.2m). This is the Group's only non-UK resident entity for tax purposes, which employs 104 part-time and 142 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 2022 revenue of Manx Co-operative Society is £35m 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 31 December 2022 were £11.8m, compared to net assets of the consolidated Group of £2,803m. The Manx assets represent the only overseas trading assets within the Group. A full copy of the most recent accounts is available here https://www.co-operative.coop/investors/rules. The presence of this IOM resident subsidiary has not resulted in any additional tax charge in 2022 over and above that payable to the Isle of Man authorities stated above. If these activities had been carried out in the UK, these profits would have been included within the Group's taxable profit prior to the availability of capital allowances and tax losses.

In addition the Group has one dormant company registered in the Cayman Islands, Violet S Propco Limited. This is a legacy dormant company and is UK resident for tax purposes, as it is managed and controlled entirely within the UK. All tax obligations in respect of this company are therefore reported in the UK. It should be noted that we have engaged with the Cayman Counsel and are in the process of completing the relevant due diligence that will allow the commencement of the formal striking off of Violet S Propco Ltd as a Cayman Isle registered company.

Notes to the financial statements continued

8 Taxation continued

ii) As noted in last year's financial statements, the accounting gain in the 2021 income statement of £99m arising from the settlement of a creditor balance in relation to group relief claimed from The Co-operative Bank was not subject to corporation tax in accordance with UK tax legislation.

iii) There were minimal adjustments in respect of the current year in respect of prior years for both 2022 and 2021, other than as noted above.

iv) Deferred tax is an accounting concept that reflects how some income and expenses can affect the tax charge in different periods to when they are reflected for accounting purposes. These differences are a result of tax legislation.

The £11m deferred tax charge represents the net utilisation of temporary differences throughout the current year that are offset against the Group's taxable profits, reducing the Group's current tax liabilities. The £11m primarily relates to deferred tax arising on movements on our pension assets. Note 15 gives further detail on how each deferred tax balance has moved in the year.

As the Group is not tax-paying in respect of 2022, the reconciling items between the tax charge at the standard rate and the actual tax charge mostly affect the deferred tax we carry as they will result in us having more or less capital allowances or losses to offset against future profits.

v) There was a £2m tax charge adjustment in the current year relating to prior years. This mainly resulted from a claim made to HMRC to convert some of the Group's deferred tax reliefs into a cash settlement reported as a £2m tax credit to current year tax in respect of prior years (see footnote (i) above). In 2021 the £6m tax charge resulted from changes to the taxable profits reported in the individual subsidiary accounts compared to the Group's tax charge as a whole in 2020.

It is common for adjustments to arise in respect of prior years, as the tax charge in the financial statements is an estimate that is prepared before the detailed tax calculations are required to be submitted to HMRC, which is 12 months after the year end. Also, HMRC may not agree with a tax return some time after the year end and a liability for a prior period may arise as a result. When HMRC may not agree this can give rise to uncertainties for which a provision is recognised. Following recent agreement with HMRC on prior year issues we no longer carry any uncertain tax positions.

vi) Some expenses incurred by the Group may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability. Examples of this include some repairs, entertaining costs and certain legal costs.

vii) The accounting treatment of depreciation differs from the tax treatment. For accounting purposes an annual rate of depreciation is applied to capital assets. For tax purposes the Group is entitled to claim capital allowances, a relief provided by law. Some assets do not qualify for capital allowances and no relief is available for tax purposes on these assets. This value represents depreciation arising on such assets (primarily Land and Buildings).

viii) In 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. The amount shown for 2021 was in connection to the disposal of shares in Co-operative Care Limited that was also covered by SSE.

ix) During the year a number of properties were sold, where the net taxable profit was less than the accounting profit.

x) It is a requirement to measure deferred tax balances at the substantively enacted corporation tax rate at which they are expected to unwind. As noted above the impact of recognising deferred tax at 25% has been to increase the tax charge by £4m 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 are held for sale at the balance sheet date (which means they are most likely to be sold within a year). This note shows the operating result for these segments as well as the profit or loss on disposal.

Discontinued operation - disposal of Insurance (underwriting) business

The sale of our insurance underwriting business (CISGIL) completed on 3 December 2020. The results of that business have been classified as a discontinued operation from 2018 and shown in a separate line at the bottom of the consolidated income statement under Discontinued Operations. As part of the sale agreement Co-op continued to supply CISGIL with certain agreed services in the first half of 2021 under a service agreement (TSA). The costs and recoveries associated with that agreement are included in the table below within Operating expenses and Operating income respectively and are shown within Discontinued operations in the Consolidated Income statement. Operating expenses in 2022 includes the release of any remaining provisions associated with the disposal. Other income includes £72m of income following payments received in respect of a legal claim.

Results of discontinued operation - Insurance (underwriting business)	2022 £m	2021 £m
Operating income	-	12
Operating expenses (net)	3	(13)
Other income	78	13
Profit before tax	**81**	12
Tax	(14)	1
Profit for the period from discontinued operation	**67**	13

Segmental analysis - Insurance (underwriting business)	Revenue from external customers £m	Underlying segment operating (loss) / profit £m	Profit before tax £m	Additions to non-current assets £m	Depreciation and amortisation £m
52 weeks ended 31 December 2022	**-**	**-**	**81**	**-**	**-**
52 weeks ended 1 January 2022	12	(1)	12	-	-

The table below shows a summary of the cash flows of discontinued operations:

Cash flows used in discontinued operations:	2022 £m	2021 £m
Net cash from discontinued operations	**72**	13

Cash flows from financing and investing activities were not significant 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 significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Discontinued operations are those operations that can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes, that have either been disposed of or classified as held for sale and which represent a separate major line of business. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the balance sheet. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
• Represents a separate major line of business or geographical area of operations; or
• Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

10 Reconciliation of operating profit to net cash flow from operating activities

What does this show? This note shows how we adjust our operating profit, as reported in the income statement, to get to the net cash from operating activities which is the starting position in the cash flow statement. Non-cash items are added back to or subtracted from the operating profit figure to show how much cash is generated from our operating activities.

	2022 £m	2021 £m
Operating profit (Note 1)	**5**	64
Depreciation and amortisation charges	**390**	405
Non-current asset impairments	**105**	30
Profit on closure and disposal of businesses and non-current assets	**(66)**	(2)
Change in value of investment properties	**15**	(9)
Retirement benefit obligations	**(12)**	(24)
Decrease / (increase) in inventories	**36**	(28)
Increase in receivables	**(88)**	(17)
Decrease in contract assets (funeral plans)	**3**	18
Increase in contract liabilities (funeral plans)	**(87)**	(19)
Increase / (decrease) in payables and provisions	**80**	(253)
Tax received	**2**	-
Net cash flow from operating activities before net cash operating inflow from discontinued operations	**383**	165
Net cash flow from operating activities relating to discontinued operations	**72**	13
Net cash flow from operating activities	**455**	178

Accounting policies

Refer to note 20 for details of the accounting policy for Cash and cash equivalents.

Notes to the financial statements continued

Section B - what are our major assets?

This section of the accounts (notes 11 - 20) outlines the key assets that we hold at the balance sheet date.

11 Property, plant and equipment

What does this show? Property, plant and equipment is the physical assets we use in our business such as our buildings, equipment and vehicles. This note shows how the amount we include on our balance sheet for these assets has changed over the period.

For the period ended 31 December 2022	Property £m	Plant and equipment £m	Total £m
Cost or valuation:			
At 1 January 2022	1,442	2,731	4,173
Additions	8	96	104
Disposal of petrol forecourts (see Note 35)	(60)	(121)	(181)
Disposals	(31)	(87)	(118)
At 31 December 2022	1,359	2,619	3,978
Depreciation:			
At 1 January 2022	610	1,651	2,261
Charge for the period	27	217	244
Impairment	2	28	30
Disposal of petrol forecourts (see Note 35)	(16)	(76)	(92)
Disposals	(14)	(82)	(96)
At 31 December 2022	609	1,738	2,347
Net book value:			
At 31 December 2022	750	881	1,631
At 1 January 2022	832	1,080	1,912
Capital work in progress included above	10	28	38

The impairment charge of £30m (2021: £5m) 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 1 January 2022	Property £m	Plant and equipment £m	Total £m
Cost or valuation:			
At 2 January 2021	1,467	2,580	4,047
Additions	38	224	262
Transfer to Assets held for sale (see Note 19)	(4)	(6)	(10)
Reclassified to Investment properties (see note 26)	(7)	-	(7)
Disposals	(52)	(67)	(119)
At 1 January 2022	1,442	2,731	4,173
Depreciation:			
At 2 January 2021	607	1,485	2,092
Charge for the period	30	224	254
Impairment	1	4	5
Transfer to Assets held for sale (see Note 19)	(2)	(5)	(7)
Reclassified as assets held for sale (see note 19)	(2)	-	(2)
Disposals	(24)	(57)	(81)
At 1 January 2022	610	1,651	2,261
Net book value:			
At 1 January 2022	832	1,080	1,912
At 2 January 2021	860	1,095	1,955
Capital work in progress included above	21	37	58

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. The value in use for Food and Funeral CGUs has been determined using discounted cash flow calculations. The key assumptions in the value in use calculations are as follows:

Assumption	Food Segment	Funeral Segment
Structure of a CGU	Each individual food store is deemed to be an individual CGU.	A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub.
Cash flow years / assumptions	Future cash flows derived from Board approved four-year plan cash flow assumptions. These forecasts are based on budget for FY23, four- year plan for FY24 and then subject to a long term growth rate of 1.9% (2021: 1.9%) reflecting the UK's long-term post war growth rate which is in-line with industry norms for the period of the lease. Where lease terms are shorter than this, the remaining lease terms have been used. Perpetuities are included in cash flows with 0% growth (2021: 0%) where stores are expected to be operated beyond their current lease term. Cash flows include estimated store capital maintenance costs based on the square footage of the store. 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.	Future cash flows derived from Board approved four-year plan cash flow projections. These cash flows are extrapolated over the remaining lease term for leasehold properties or into perpetuity for freehold properties. Perpetuities included in cash flows where the Hub is expected to be operational beyond its current lease terms. A growth rate of 1.9% (2021: 1.9%) is applied beyond Board approved four-year plan horizon (reflecting the UK's long-term post war growth rate which is in-line with industry norms). 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.
Discount rate and Sensitivity analysis	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 10.1% (2021: 7.3%). The post tax discount rate has been calculated using the capital asset pricing model. 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. 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. Sensitivity analysis has also been performed on our goodwill impairment testing, see note 13.	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 10.9% (2021: 8.8%). The post tax discount rate has been calculated using the capital asset pricing model. 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. In each of the current and comparative years, sensitivity analysis has been performed in relation to our Funeralcare Hub impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions. Sensitivity analysis has also been performed on our goodwill impairment testing, see note 13.

Notes to the financial statements continued

11 Property, plant and equipment continued

Accounting policies

Where parts of an item of property, plant and equipment have materially different useful economic lives, they are accounted for as separate items of property, plant and equipment. Cost includes purchase price plus any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided on the cost or valuation less estimated residual value (excluding freehold land) on a straight-line basis over the anticipated working lives of the assets. The estimated useful lives are as follows and where appropriate would also include our assessment of the expected impact on asset lives of our plan to move to net zero by 2040:

Property

Freehold buildings - 50 years
Leasehold property - shorter of period of lease or 50 years
All properties are measured at cost less accumulated depreciation and impairment losses.

Plant & equipment

Plant and machinery - 3 to 13 years
Vehicles - 3 to 9 years

We no longer include property, plant and equipment in our balance sheet when the Group loses the right to the future economic benefits associated with the asset. For property, this usually happens when we have exchanged contracts on an unconditional basis to sell it.

Impairment

For the Food segment, the Group treats each store as a separate cash-generating unit for impairment testing of property, plant and equipment and right-of-use assets. The Group allocates goodwill to groups of cash-generating units. The lowest level at which goodwill is monitored by management is at a total Food segment level.

For the Funerals segment, the Group treats a local network of interdependent branches, known as a Funeralcare Hub, as a separate cash-generating unit for impairment testing of property, plant and equipment, right-of-use assets and goodwill.

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Impairment losses are recognised in the income statement.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Food stores, the CGU is deemed to be each trading store. For Funeralcare, the CGU is deemed to be a local network of interdependent branches. Where an individual branch within a local network is to be closed, the individual branch is defined as the CGU, rather than being included with the network of interdependent branches. This is because the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount is returned to what it would have been, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements continued

12 Leases

What does this show? This note shows the value of our leased assets and the corresponding value of our lease liabilities. The tables show how these balances have moved in the period from additions, disposals, payments, interest charges and impairments.

A. As a lessee

Right-of-use assets	Property £m	Plant and equipment £m	Total £m
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 forecourts (see Note 35)	**(131)**	**-**	**(131)**
Impairment	**(60)**	**-**	**(60)**
Balance at 31st December 2022	**821**	**61**	**882**
Balance at 2nd January 2021	952	79	1,031
Depreciation charge for the year	(105)	(17)	(122)
Additions	226	10	236
Disposals	(5)	-	(5)
Reclassified to Investment properties (see Note 26)*	(28)	-	(28)
Transfer to assets held for sale (see Note 19)	(1)	-	(1)
Impairment	(25)	-	(25)
Balance at 1st January 2022	1,014	72	1,086

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 (2021: 1 and 20 years), and leases of funeral branches are typically between 1 and 10 years in length (2021: 1 and 8 years). Vehicle and equipment leases are typically between 1 and 4 years in length (2021: 1 and 4 years) and in some cases the Group has options to purchase the assets at the end of the contract term.

In the context of potential impairment then 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 £60m (2021: £25m) comprises £33m against food stores where future cashflow forecasts do not support the carrying value of the right-of-use assets we hold and £27m in the Corporate centre which includes 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	2022 £m	2021 £m
Current	**(182)**	(210)
Non-current	**(1,124)**	(1,306)
Lease liabilities included in the Consolidated balance sheet	**(1,306)**	(1,516)

Lease liabilities	2022 £m	2021 £m
At the start of the period	**(1,516)**	(1,425)
Additions	**(120)**	(244)
Disposals	**31**	17
Disposal of petrol forecourts (see Note 35)	**171**	-
Interest expense	**(78)**	(79)
Transfer to liabilities held for sale (see note 19)	**-**	2
Payments	**206**	213
Total lease liabilities	**(1,306)**	(1,516)

The Group recognised rent expense from short-term leases of £2m (2021: £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 significant event or significant change in circumstances within its control.

As at 31 December 2022, potential discounted future cash outflows of £141m (2021: £150m) 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 £99m (2021: £107m) 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 £6m (2021: £12m) was received, a net lease liability of £1m (2021: £6m) was recognised and net book value of £5m (2021: £3m) disposed creating a profit on disposal of £nil (2021: £3m).

B. As a lessor

Lease income from lease contracts in which the Group acts as a lessor is as below:

	2022 £m	2021 £m
Operating lease (i)		
Lease income	**9**	10
Finance lease (ii)		
Finance income on the net investment in the lease	**2**	3

i. Operating lease

The Group leases out its investment properties. The Group classifies these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

	2022 £m	2021 £m
Less than one year	**5**	6
One to two years	**4**	5
Two to three years	**4**	4
Three to four years	**3**	4
Four to five years	**3**	3
More than five years	**31**	35
Total undiscounted lease payments receivable	**50**	57

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.

	2022 £m	2021 £m
Less than one year	**11**	12
One to two years	**10**	9
Two to three years	**9**	9
Three to four years	**8**	8
Four to five years	**7**	7
More than five years	**24**	23
Total undiscounted lease payments receivable	**69**	68
Less: Unearned finance income	**(17)**	(17)
Present value of minimum lease payments receivable	**52**	51
Impairment loss allowance	**(9)**	(9)
Finance lease receivable (net of impairment allowance)	**43**	42

Notes to the financial statements continued

12 Leases continued

B. As a lessor - continued

ii. Finance lease - continued

	2022 £m	2021 £m
Current	**9**	12
Non-current	**34**	30
Finance lease receivable as per Consolidated balance sheet	**43**	42

The average term of finance leases entered into is 13 years (2021: 10 years).

Impairment of finance lease receivable

The Group estimates the loss allowance on finance lease receivables at an amount equal to lifetime expected credit losses. The lifetime expected credit losses are estimated based upon historical defaults on subleases, the credit quality of current tenants and forward-looking factors.

Accounting policies

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the financial statements continued

13 Goodwill and intangible assets

What does this show? Intangible assets have long-term value but no physical presence, such as software or customer relationships. This note shows how the amount we include on our balance sheet for these assets has changed over the period.

For period ended 31 December 2022	Goodwill	Computer software	Acquired customer relationships and other intangibles	Total
	£m	£m	£m	£m
Cost:				
At 1 January 2022	1,245	346	43	1,634
Additions	-	15	-	15
Disposal of petrol forecourts (see Note 35)	(107)	-	-	(107)
Disposals	(7)	-	-	(7)
At 31 December 2022	1,131	361	43	1,535
Accumulated amortisation and impairment:				
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
Net book value:				
At 31 December 2022	744	185	5	934

The impairment charge of £15m (2021: £nil) primarily relates to software licenses in our Food business that we no longer intend to use.

For period ended 1 January 2022	Goodwill	Computer software	Acquired customer relationships and other intangibles	Total
	£m	£m	£m	£m
Cost:				
At 2 January 2021	1,277	316	43	1,636
Additions	-	30	-	30
Transferred to Assets held for sale (see Note 19)	(3)	-	-	(3)
Disposals	(29)	-	-	(29)
At 1 January 2022	1,245	346	43	1,634
Accumulated amortisation and impairment:				
At 2 January 2021	384	110	37	531
Charge for the period	-	28	1	29
Transferred to Assets held for sale (see Note 19)	-	-	-	-
Disposals	(1)	-	-	(1)
Impairment	-	-	-	-
At 1 January 2022	383	138	38	559
Net book value:				
At 1 January 2022	862	208	5	1,075

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Goodwill

The components of goodwill are as follows:

	2022 £m	2021 £m
Food	**723**	840
Other businesses	**21**	22
	744	862

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 10.1% (2021: 7.3%). A long-term growth rate of 1.9% has been applied beyond the four-year plan period (2021: 1.9%). In each of the current and comparative years, sensitivity analysis has been performed on this assumption, testing for a 1% increase in discount rate and a decrease in revenue growth / cashflow to minus 1%; within both these sensitivities the cash flows remain well in excess of the current carrying value. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified which will then be reflected in our financial models and plans as appropriate and in line with the Group's integrated approach to a changing climate. See our Vision update: Co-operating for a Fairer World for further discussion.

For the Funerals goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the four-year plan. Although inherently uncertain this also includes our best estimate of future death rates including the recent impact of Covid-19. Cash flows have been projected based on the four-year plan and into perpetuity from year four and discounted back to present value using a pre-tax discount rate of 10.9% (2021: 8.8%). A long term growth rate of 1.9% has been applied beyond the four-year plan period (2021: 1.9%). Sensitivity analysis has been performed with the discount rate increased by 1% and a decrease in revenue growth / cashflow to minus 1%, and under these sensitivities no further material amounts of impairment are calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

We continue to allocate goodwill to CGUs, which are determined as a local network of independent branches (known as a Funeralcare Hub), however in the year the allocation of branches to networks has been reorganised to better align to how cashflows are monitored internally. An impairment test was carried out prior to this reorganisation to ensure the change did not result in a materially different impairment result under the new and previous methods.

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Accounting policies

Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Group.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying value of goodwill is included in the carrying amount of the investment in the associate. Where impairment is required the amount is recognised in the income statement and cannot be written back.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Acquisition costs are expensed to the income statement when incurred.

Computer software

Computer software is stated at cost less accumulated amortisation and impairment. Costs directly attributable to the development of computer software for internal use are capitalised and classified as intangible assets where they are not an integral part of the related hardware and amortised over their useful life up to a maximum of seven years. We have considered the impact of guidance issued in March 2021 by the IFRS Interpretations Committee, which clarified IAS 38 guidance around what costs should and should not be capitalised specifically in relation to Software as a Service ('SaaS') contracts, and concluded that our policy continues to be compliant with the standard.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is charged to the income statement as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:
- Software development costs: 3 – 7 years
- Other intangible assets: 1 - 10 years

Impairment

Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates.

Food:

In the Food business, the CGUs to which goodwill has been allocated and the level at which it is monitored is deemed to be the Food segment as a whole as goodwill arising on acquisitions reflects synergies (principally buying benefits) that benefit the whole business. Accordingly, impairment testing for all store goodwill balances is carried out using all the food stores as the group of CGUs.

Other businesses:

The majority of goodwill within other businesses is allocated to the Funerals business.

In the Funerals business, a CGU to which goodwill has been allocated is determined as a local network of interdependent branches, 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:	2022 £m	2021 £m
Current	-	-
Non-current	1,369	1,372
Funeral plan investments	**1,369**	1,372

Funeral plan investments held by the Group are as follows:	2022 £m	2021 £m
Fair value through the income statement:		
Funeral plan investments (see below)	1,369	1,372
Total Funeral plan investments	**1,369**	1,372

Funeral plan investments:	2022 £m	2021 £m
At start of period	1,372	1,331
Net plan investments (including ongoing instalments)	76	92
Plans redeemed	(91)	(96)
Plans cancelled	(17)	(9)
Unrealised fair value movement on funeral plan investments (Note 6)	29	54
At end of period	**1,369**	1,372

See Note 29 for further detail on the accounting policy for funeral plans.

Notes to the financial statements continued

14 Funeral plan investments continued

The 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.

Funeral plan actuarial position as at 30 September 2022:

The Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts (<5% of total). The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the underlying funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funerals on a portfolio basis. The most recent valuation was performed as at 30 September 2022 and the headroom achieved on a portfolio basis is shown in the table below before allowance for taxation.

Funeral Plan Investments Actuarial Valuation (pre tax)	30th September 2022 £m	30th September 2021 £m
Total Assets	**1,258**	1,397
Liabilities:		
Present value (wholesale basis)	**787**	1,102
Total Liabilities (pre tax)	**787**	1,102
Headroom (pre-tax)	**471**	295
Headroom as a % of liabilities (pre-tax)	**60%**	27%

Broadly, a significant increase in expected investment returns (used to derive the discount rate) has reduced future liabilities this year. This has only partly been offset by reduced asset valuations, so increasing the surplus overall. The group continues to manage funeral plans for the medium to long term given, in the normal course of business, this is when the majority of the liability will crystallise. We estimate that the pre-tax "wholesale" cost actuarial valuation surplus (used under IAS 37) at 31 December 2022 would be approximately £517m, an increase of £46m over the 30 September 2022 position reflecting modest favourable changes in assumptions including increased asset values and decreased expected inflation.

Key assumption	30th September 2022	30th September 2021
Average total wholesale costs per plan funeral	**£2,704**	£2,652
Average future cost inflation	**3.4%**	3.9%
Average discount rate (before tax and after allowance for investment management costs)	**4.7%**	2.3%

Sensitivities

The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. The headroom percentage is expressing the surplus as a percentage of total liabilities. Each 0.5% (50 basis points) increase in the inflation assumption would reduce the surplus by approximately £53m (2021: £94m). Each 0.5% (50 basis points) reduction in the discount rate would reduce the surplus by approximately £34m (2021: £70m). Both of these sensitivities include allowance for assets held that would move in line with liabilities.

Under the revised IAS 37 approach the actuarial cost to be used in the assessment of onerous liabilities should be the lower of the wholesale cost and the internal cost per redemption calculated under the standard (and on this basis the "wholesale" cost has been used). The wholesale actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. The future Group administrative costs of maintaining the current funeral plans are allowed for, but no allowance is made for any incremental overheads of the third party because it's assumed that the provider could absorb these funerals into their existing infrastructures. These costs do not represent the expected internal cost of fulfilling the funeral and allowing for these costs in the valuation may materially affect the results.

Accounting policies

See Note 29 Financial Instruments for the accounting policies relating to funeral plans.

Notes to the financial statements continued

15 Deferred taxation

What does this show? Our tax charge is made up of current and deferred tax as explained in note 8. We show a net asset or net liability in the balance sheet to reflect our deferred tax. This note shows how those items are calculated and how they affect the income statement. Additional explanatory footnotes are included to explain the key items.

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25.0% (2021: 19.0%). Temporary differences arise because sometimes accounting and tax requirements mean that transactions are treated as happening at a different time for accounting purposes than they are for tax purposes.

Net deferred tax in the balance sheet comprises:		**2022** **£m**	2021 £m
Deferred tax asset - continuing operations		**400**	429
Deferred tax liability - continuing operations		**(556)**	(743)
Net deferred tax liability		**(156)**	(314)
Comprised of:	Footnote:		
Other temporary differences	(i)	**(6)**	1
Retirement benefit obligations	(ii)	**(395)**	(565)
Capital allowances on fixed assets	(iii)	**314**	327
Unrealised gains on investment properties, rolled-over gains and historic business combinations	(iv)	**(138)**	(155)
Tax losses	(v)	**22**	23
IFRS 16 transition adjustment taken through Opening Reserves	(vi)	**47**	55
		(156)	(314)

The movements in the net deferred tax liability during the period are set out below:		**2022** **£m**	2021 £m
At beginning of the period		**(314)**	(161)
Income statement (charge) / credit:			
Group (see Note 8)	(vii)	**(17)**	(24)
Additions / disposals		**(2)**	1
Charged to equity:			
Retirement benefit obligations (see Note 8)	(ii)	**183**	(128)
Investment property revaluation movement		**-**	(2)
Items taken directly to Retained earnings:			
Adjustment to historic funeral plan liabilities (See Notes 8 and 23)		**(6)**	-
At end of the period (continuing operations)		**(156)**	(314)

Following the Budget on 3 March 2021, the Chancellor announced the enacted corporation tax rate of 19% would increase to 25% with effect from 1 April 2023. To the extent the above deferred tax assets and liabilities are expected to crystalise after this date they should be valued using 25% rather the current corporation tax rate of 19%. The bulk the deferred tax assets and liabilities, as shown in Note 15, are expected to crystalise over a much longer time frame, being mainly the retirement benefit obligations, capital allowances on fixed assets and unrealised gains on investment properties, rolled-over gains and historic business combinations. An assessment of the amount of deferred tax assets and liabilities that are expected to crystalise prior to 1 April 2023 is considered to be immaterial when compare to total net deferred tax liability, being less than 1% of the total amount. Due to this assessment being based on projected forecasts and the potential uncertainties inherent in using these, utilising a flat rate of 25% is seen as a fair approximate and has been used to determine the actual net deferred tax liabilities.

The impact in 2022 of recognising the net deferred tax movements at 25% rather than 19% has meant the equity credit is increased by £44m, the tax charge through the income statement is increased by £4m and the tax charge in respect of amounts taken straight to Retained earnings is increased by £1m.

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 2022 the amount of expense provisions deferred for tax puposes reduced meaning a larger net liability is shown.

ii) This amount represents the theoretical future tax cost to the Group in respect of the current pension scheme surplus. The overall decrease in 2022 was £170m. This is due to the movement in the total schemes' surpluses during the year.

iii) A deferred tax asset arises on capital allowances where the tax value of assets is higher than the accounts value of the same fixed assets. The reason the Group has a higher tax value for these fixed assets is due to the fact the Group has not made a claim to its maximum entitlement to capital allowances since 2013 due to reduced levels of trading profits in the intervening years. However, impairment, disposals and depreciation have continued to reduce the accounts value for our assets. The Group expects to use these allowances to reduce future trading profits. The £13m decrease in the asset over the year is due mainly to the increased use of capital allowances.

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 £17m decrease in the liability over the year is mainly due to disposal of properties under classs (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 £8m is mainly in respect of the unwind during the year.

vii) This movement is made up of a net £11m current year utilisation of temporary differences, £2m prior year adjustments and £4m impact from rate change, see Note 8 for more detail.

Accounting policies
Deferred tax is provided for, with no discounting, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available to use the asset against. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the financial statements continued

16 Inventories

What does this show? This note shows the stock we hold at the period end. This is mainly the goods we're planning to sell, held either at Food stores or distribution centres. We also hold stocks of store consumables (such as plastic bags) as well as work in progress relating to funeral caskets.

Inventories include the following:	**2022** **£m**	2021 £m
Raw materials, consumables and work in progress	**4**	4
Finished goods and goods for resale	**429**	484
	433	488

The period end inventory provision is £44m (2021: £29m) and a net charge of £15m (2021: £6m) has been made within operating expenses in the income statement. Inventory held at fair value less cost to sell is not material in either period. There was no inventory pledged as security for liabilities in the current or prior period.

Accounting policies
Inventories are stated at the lower of cost, including attributable overheads, and net realisable value.

17 Trade and other receivables

What does this show? This note shows amounts we are owed and amounts we have paid in advance for services which will be received over a period of time. It also shows a reduction to reflect amounts we think may not be repaid. They are split between current items (which will be settled within one year) and non-current items (which will be settled after more than one year).

	2022 **£m**	2021 £m
Non-current	**171**	214
Current	**637**	551
	808	765

	2022 **£m**	2021 £m
Trade receivables	**371**	309
Prepayments	**28**	25
Accrued income	**132**	128
Other receivables	**288**	313
	819	775
Allowance for expected credit losses	**(11)**	(10)
	808	765

Trade receivables are non-interest bearing and the Group's standard payment terms are between 7 and 60 days.

Non-current debt includes £166m (2021: £199m) that relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £38m (2021: £37m) of current debt also relates to pre-paid funeral plan instalments which are £204m (2021: £236m) in total. Non-current debt also includes £5m (2021: £15m) of deferred consideration receivable in respect of the agreement with Markerstudy to provide marketing and distribution services for motor and insurance products with an additional £10m (2021: £10m) included in current. These balances are all included within Other receivables.

Within trade receivables is £60m (2021: £52m) of supplier income that is due from Food and Wholesale suppliers. Accrued income includes £116m (2021: £116m) in relation to supplier income that has been recognised but not yet billed. As at 5th April 2023, £45m (2021: £45m) of the trade receivables balance had been invoiced and settled and £102m (2021: £112m) 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:

	2022 £m	2021 £m
Opening allowance for expected credit losses	**10**	12
Charge to the income statement	**12**	7
Credit to the income statement	**(11)**	(9)
Closing allowance for expected credit losses	**11**	10

The Group has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The Group has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables. More information on credit risk and the use of a provision matrix is provided in Note 29 which outlines our approach to financial risk management.

Accounting policies
Refer to Note 29 Financial Instruments for the accounting policies relating to trade receivables and allowances for expected credit losses.

18 Contract assets

What does this show? This note shows the costs we've incurred in setting up funeral plans (fulfilment costs). We hold these on the balance sheet as contract assets until the funerals have been performed and we're entitled to receive payment, then we transfer them to the income statement in line with when the revenue is recognised.

	2022 £m	2021 £m
Current	**5**	5
Non-current	**40**	43
Total	**45**	48

	2022 £m	2021 £m
Opening contract assets	**48**	66
Fulfilment costs - incurred on new funeral plan sales	**2**	12
Fulfilment costs - transferred to contract liabilities in respect of membership discount*	**-**	(24)
Fulfilment costs - transferred to the income statement on funeral plan redemptions	**(1)**	(3)
Fulfilment costs - transferred to the income statement on funeral plan cancellations	**(4)**	(3)
Closing contract assets	**45**	48

*In the prior year we reassessed the treatment of discounts given to members on inception of a plan and reclassified them as a reduction against the contract liability (Note 23) whereas previously they were held as contract assets in the table above.

No provision for expected credit losses has been recognised against contract assets in either the current or prior year.

Accounting policies
A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) associated with delivering the funeral are deferred and shown in the consolidated balance sheet as a contract asset until the funeral is performed (at which point the costs are recognised in the income statement in line with when the revenue is recognised).

Notes to the financial statements continued

19 Assets and liabilities held for sale

What does this show? This shows the value of any assets or liabilities that we hold for sale at the period end (these generally relate to properties or businesses that we plan to sell soon). When this is the case, our balance sheet shows those assets and liabilities separately as held for sale.

Assets and liabilities classified as held for sale	2022 £m	2021 £m	2022 £m	2021 £m
	Assets held for sale		Liabilities held for sale	
Goodwill and Intangible assets	-	3	-	-
Right-of-use assets (leases)	-	1	-	-
Lease liabilities	-	-	-	(2)
Property, plant and equipment	-	3	-	-
	-	7	-	(2)

Accounting policies

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group’s accounting policies. After that, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group’s accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss. See also accounting policy in Note 9 (Loss on discontinued operation, net of tax).

Notes to the financial statements continued

20 Cash and cash equivalents

What does this show? The tables below show a breakdown of the cash and cash equivalent balances that the Group holds at the balance sheet date and the accounting policies explains what is and what isn't classified as cash and cash equivalents.

Cash and cash equivalents	2022 £m	2021 £m
Cash in hand	**63**	59
Cash at banks	**384**	1
Cash and cash equivalents	**447**	60
Cash and cash equivalents (as above)	**447**	60
Bank overdrafts	**-**	(4)
Net cash and cash equivalents	**447**	56

The Group has a right of set-off as part of a pooling arrangement with its principal bank and the bank overdraft figure above reflects the net position across those accounts.

The Cash at banks (prior year Bank overdrafts) figures include amounts receivable from customers or banks for debit or credit card payment transactions made by customers of £39m (2021: £38m) 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.*

Cash at banks (2021: Bank overdrafts) includes £3m (2021: £6m) of non-distributable cash held on behalf of customers in the process of purchasing funeral plans.

Accounting policies

Cash and cash equivalents in the consolidated balance sheet comprise cash in hand, cash in transit and cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

In the statement of consolidated cash flows, cash and cash equivalents includes bank overdrafts as they are repayable on demand and deemed to form an integral part of the Group's cash management.

Amounts held in trustee-administered bank accounts of the Group of £27m (2021: £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.

* At its meeting on 15 September 2021, the IFRS Interpretations Committee (IFRS IC) reached a tentative agenda decision (TAD) on a submission concerning Cash received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments). The TAD looks at the timing of when it is appropriate to recognise a financial asset (the cash) in relation to EFT transactions that are not received in the bank until a few days later (although the TAD was not explicitly covering credit and debit card transactions). Subsequently, in June 2022 the IFRS IC voted to finalise the agenda decision and not to recommend that the IASB undertake standard-setting in this area as they remain of the view that the principles and requirements in IFRS 9 provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable.

However, the IFRS IC acknowledged and reported back some practical concerns with that approach to the IASB accompanying its technical analysis. In light of this at its September 2022 meeting, the IASB decided to explore narrow-scope standard-setting instead of approving the agenda decision. As the IASB have not yet concluded on this matter the Group continue to treat amounts received via credit or debit card as cash at the point the transaction is enacted in store and the goods are sold to the customer (rather than initially recognising them as amounts due from customers).

Notes to the financial statements continued

Section C - what are our major liabilities?

This section of the accounts (notes 21 - 24) outlines the key liabilities that we have at the balance sheet date.

21 Interest-bearing loans and borrowings

What does this show? This note provides information about the terms of our interest-bearing loans. This includes information about their value, interest rate and repayment terms and timings. Details are also given about other borrowings and funding arrangements such as corporate investor shares and leases. All items are split between those that are due to be repaid within one year (current) and those which won't fall due until after more than one year (non-current).

Non-current liabilities:	2022 £m	2021 £m
£105m 7.5% Eurobond Notes due 2026 (fair value)	**95**	123
£245m 7.5% Eurobond Notes due 2026 (amortised cost)	**255**	258
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	**299**	299
£109m 11% Final repayment subordinated notes due 2025	**109**	109
£20m 11% Instalment repayment notes (final payment 2025)	**5**	7
Total (excluding lease liabilities)	**763**	796
Lease liabilities	**1,124**	1,306
Total Group interest-bearing loans and borrowings	**1,887**	2,102

Current liabilities:	2022 £m	2021 £m
£245m 7.5% Eurobond Notes due 2026 (amortised cost) - interest accrued	**9**	9
£300m 5.125% Sustainability Bond due 2024 (amortised cost) - interest accrued	**2**	2
£20m 11% Instalment repayment notes (final payment 2025)	**2**	2
£400m revolving credit facility (RCF)	**-**	163
Other borrowings	**1**	-
Corporate investor shares	**3**	4
Total (excluding lease liabilities)	**17**	180
Lease liabilities	**182**	210
Total Group interest-bearing loans and borrowings	**199**	390

See Note 29 for more information about the Group's exposure to interest rate and foreign currency risk, and a breakdown of the Group's borrowings by the three-level fair value hierarchy (which reflects different valuation techniques) as defined within IFRS 13 (Fair Value Measurement).

Notes to the financial statements continued

21 Interest-bearing loans and borrowings - continued

Reconciliation of movement in net debt

Net debt is a measure that shows the amount we owe to banks and other external financial institutions less the cash that we have and any short-term deposits. Some of our Eurobond borrowings are held as financial liabilities at fair value through the income statement. The fair value movement on these liabilities is shown under non-cash movements in the tables below.

For period ended 31 December 2022	Start of period £m	Non cash movements New leases £m	Non cash movements Other £m	Cash flow £m	End of period £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)**

For period ended 1 January 2022	Start of period £m	Non cash movements New leases £m	Non cash movements Other £m	Cash flow £m	End of period £m
Interest-bearing loans and borrowings:					
- current	(16)	-	-	(164)	(180)
- non-current	(803)	-	5	2	(796)
Lease liabilities					
- current	(191)	(34)	(198)	213	(210)
- non-current	(1,234)	(210)	138	-	(1,306)
Total Debt	(2,244)	(244)	(55)	51	(2,492)
Group cash:					
- cash & overdrafts	269	-	-	(213)	56
Group Net Debt	(1,975)	(244)	(55)	(162)	(2,436)

Details of the Group's bank facilities are shown in Note 29.

Notes to the financial statements continued

21 Interest-bearing loans and borrowings - continued

Terms and repayment schedule

The Group has two bonds in issue. A £300m Sustainability Bond issued in May 2019, and repayable in May 2024 and with an interest rate of 5.125%. The bond proceeds were fully allocated against the cost of purchasing Fairtrade products for resale by the end of 2020. On the 1st March 2023 the Group repurchased £100m of the bond (see Note 34 (Events after the reporting period)).

The other bond is a £350m Bond issued in May 2011, and repayable in May 2026; it has an interest rate of 7.5%. This bond has been paying an additional 1.25% coupon since 8 July 2013 following the downgrade of the Group's credit rating to sub-investment grade. On maturity this bond will be repaid at par.

The Group also has two subordinated debt instruments in issue: £109m 11% final repayments notes due December 2025 and £20m 11% instalment repayment notes, with final repayment in December 2025. As at 31 December 2022 the £109m 11% final repayments notes had an outstanding value of £109m. The £20m 11% instalment repayment notes had an outstanding value of £7m.

The Group has a £400m revolving credit facility (RCF) which matures in September 2024.

Further details of the Group's remaining banking facilities are given in Note 29.

Corporate investor shares

Corporate investor shares represent borrowings the Group has with other co-operative societies. The borrowings are split into Variable Corporate Investor Shares (VCIS) and Fixed Corporate Investor Shares (FCIS). The VCIS are repayable on demand and the FCIS are fixed term borrowings.

Accounting policies

The Group measures its interest-bearing loans and borrowings in two main ways:

1) Fair value through the income statement. Debt is restated as its fair value each period with the fair value movement going through the income statement. The hedged portion of the Eurobond quoted debt is accounted for in this way. This is because the Group has used interest rate swaps to hedge the impact of movements in the interest rate and the movement in the fair value of the quoted debt is partially offset by the fair value movement in the interest rate swaps (notes 6, 7 and 30). The unhedged portion of the Eurobond quoted debt is accounted for at amortised cost in accordance with IFRS 9. This approach applies to those borrowings taken out prior to the adoption of IFRS 9 in 2018. Any subsequent borrowings are measured at amortised cost as noted below.

2) Amortised cost. Borrowings are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. The effective interest rate is calculated when borrowings are first taken out and is the rate that exactly discounts the estimated future cash payments associated with the borrowings to the value when they are initially recognised.

For more general information on accounting policies on financial instruments, refer to Note 29.

Notes to the financial statements continued

22 Trade and other payables

What does this show? This note shows how much we owe, and includes amounts we owe to suppliers for goods and services we've bought, as well as taxes we owe and other sundry liabilities.

	2022 £m	2021 £m
Current	**1,403**	1,472
Non-current	**31**	44
	1,434	1,516

	2022 £m	2021 £m
Trade payables	**967**	1,013
Value Added Tax, PAYE and social security	**14**	16
Accruals	**300**	317
Deferred income	**53**	66
Deferred consideration	**-**	6
Other payables	**100**	98
	1,434	1,516

Further details on the maturity profile of trade and other payables can be found in Note 28.

Deferred income includes £39m (2021: £55m) in relation to the 13 year marketing and distribution arrangement entered into with Markerstudy following the sale of our Insurance underwriting business (CISGIL). Accruals includes capital expenditure accruals of £25m (2021: £52m), payroll accruals of £103m (2021: £110m) as well as standard cost accruals of £172m (2021: £155m).

Deferred consideration includes £nil (2021: £6m) in respect of the Nisa acquisition and is contingent on the level of trade that passes through Nisa.

Other payables also includes £32m (2021: £30m) of rewards earned through our membership offer that have either not been redeemed by members or have not yet been paid out to local causes. During the year a £1m charge (2021: £1m charge) of member reward earned has been charged / written back to the income statement in line with a prudent assessment of the likelihood that members won't redeem their rewards.

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 £40m (2021: £33m) relating to payments due to Co-op suppliers under these arrangements. During the year ended 31 December 2022, the maximum facility was £110m (2021: £120m).

Accounting policies

Refer to Note 29 Financial instruments for the accounting policies relating to trade payables.

Notes to the financial statements continued

23 Contract liabilities

What does this show? When a customer buys a funeral plan from us we invest the money they give us and we recognise that we have an obligation to provide a funeral in the future. We include a liability on our balance sheet for this and we recognise an effective interest charge on the monies received from a customer in each year until the plan is redeemed at which point the revenue is recognised as the total of the monies received from the customer and the interest charged. This note shows these liabilities and how they have changed during the period. Further detail on our accounting policy for funeral plans is given in Note 29.

	2022 £m	2021 £m
Contract liabilities - Funeral plans	**1,723**	1,778

Current	**183**	164
Non-current	**1,540**	1,614
	1,723	1,778

Contract liabilities - Funeral plans comprise £1,392m (2021: £1,366m) relating to fully paid plans, £200m (2021: £253m) on instalment plans and £131m (2021: £159m) of deferred income. Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £328m (2021: £348m). This relates to 62,948 live plans (2021: 65,754 live plans). Refer to Note 29 for further details of the accounting policies for funeral plans, contract liabilities and LCIPs.

Contract Liabilities:	**2022** £m	2021** £m
Opening contract liabilities	**1,778**	1,737
Adjustment to historic funeral plan liabilities*	**(23)**	-
New plan additions	**72**	221
Interest accruing on funeral plan liabilities	**54**	61
Transfered from contract assets in respect of membership discount (see Note 18)	**-**	(24)
Plans cancelled or redeemed outside of the Group	**(48)**	(105)
Recognised as revenue in the period	**(110)**	(112)
Closing contract liabilities	**1,723**	1,778

*A historic adjustment of £23m has been taken directly to retained earnings to more accurately reflect the contract liability balance recognised on initial transition to IFRS 15 (see also the Consolidated Statement of Changes in Equity). The adjustment is not material for restatement in the context of the overall contract liability balance.

**The line-item categorisation has been represented in the comparative period to better reflect the movements in the prior year. There is no change to the overall liability value.

Notes to the financial statements continued

24 Provisions

What does this show? We recognise a provision when a liability has been incurred but there is some uncertainty about when the liability will be settled or how much it may cost us. This note provides an analysis of our provisions by type, and shows how the value of each provision has changed during the period.

	2022 £m	2021 £m
Non-current	**59**	74
Current	**34**	52
	93	126

2022	Uninsured claims £m	Property provisions £m	Restructuring & integration £m	Regulatory / other £m	Total £m
At beginning of the period	**37**	**72**	**3**	**14**	**126**
Credit / release 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**

2021	Uninsured claims £m	Property provisions £m	Restructuring & integration £m	Regulatory / other £m	Total £m
At beginning of the period	40	67	7	17	131
Credit to income statement	(6)	(12)	(2)	(4)	(24)
Charge to income statement	24	27	19	3	73
Payments	(21)	(9)	(21)	(2)	(53)
Transfer to payables	-	(1)	-	-	(1)
At end of the period	37	72	3	14	126

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 expeted 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.

Restructuring and integration
The remaining provisions are expected to be utilised within one year.

Regulatory / other
This provision relates to costs from a number of past events that are expected to be incurred within the next one to three years. Typically, these cover potential legal or regulatory claims.

Accounting policies
A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements continued

Section D - other notes to the accounts

This section (notes 25 - 34) contains additional notes to the accounts.

25 Members' share capital and reserves

What does this show? This note shows the amounts our members have paid to become owners of the business and provides information on their rights as shareholders. It also shows our reserves which, together with our share capital, form the total capital resources of the business.

	2022 £m	2021 £m
Individual shares of £1 each	**66**	65
Corporate shares of £5 each	**9**	9
Share capital	**75**	74
Other reserves	**6**	6
Retained earnings	**2,637**	2,859
Total Retained earnings and Other reserves	**2,643**	2,865
Total Capital resources	**2,718**	2,939

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% (2021: 21.9%) of the vote at the Annual General Meeting. Each individual member has one vote with individual members totalling 78.1% (2021: 78.1%) of the vote at the Annual General Meeting.

For individual shares, new members are required to contribute a minimum of £1 when they join the Society. Each member has 1 individual share although contributions of up to £100,000 per member are allowed. No interest is earned on member capital. Members can withdraw money from their share account upon request (to a minimum of £1) or they can withdraw their £1 when they leave the Society. Share capital increased by £0.5m in the period being the net of new member contributions of £0.6m and withdrawals of £0.1m. There are 17.5m individual member records on the share register.

Notes to the financial statements continued

25 Members' share capital and reserves - continued

Other reserves (2022)	**Revaluation Reserve £m**	**Total £m**
Balance at 1 January 2022	**6**	**6**
Balance at 31 December 2022	**6**	**6**

Other Reserves (2021)	Revaluation Reserve £m	Total £m
Balance at 2 January 2021	1	1
Gain on revaluation of right-of-use assets prior to transfer to investment property*	5	5
Balance at 1 January 2022	6	6

Revaluation reserve - property, plant and equipment

This reserve relates to the surplus created following the revaluation of certain assets in previous periods. Any surplus relating to a revalued asset is transferred to retained earnings at the point the asset is disposed of.

* During the prior year, we reviewed how we identify Investment properties and reclassified £28m from Right-of-use assets (Note 12) to Investment properties (see Note 26). Prior to the transfer from right-of-use-assets a £5m uplift to fair value was recorded through other comprehensive income.

Investments held at fair value through other comprehensive income (FVOCI)

We sold our Insurance underwriting business (CISGIL) on 3 December 2020. Prior to disposal CISGIL held certain debt securities as investments at fair value through other comprehensive income. Subsequent valuation was at fair value with differences between fair value and carrying value recognised in other comprehensive income as they arise. The balance of this reserve has been disposed of as part of the sale of CISGIL and the Group no longer holds any investments at FVOCI.

Distribution of reserves in the event of a winding-up

The Society's rules state that any surplus in the event of a winding-up shall be transferred to one or more societies registered under the Co-operative and Communities Benefit Act 2014. Such societies must be a member of Co-operatives UK Limited and have the same or similar rule provisions in relation to surplus distribution on a dissolution or winding-up as we have. If not transferred to another society in this way, the surplus shall be paid or transferred to Co-operatives UK Limited to be used and applied in accordance with co-operative principles.

Capital management

The Group defines capital as its share capital and reserves. The Group's policy is to maintain a strong base and to be more prudent than industry 'normal' levels as it is not able to raise equity externally. The Group still recognises the need to maintain a balance between the potential higher returns that might be achieved with greater borrowing levels and the advantages and security coming from a sound capital position.

The Group manages capital to make sure we have the right balance between investing in the future growth of the Group and making member and community payments. Following the launch of the membership offer in 2016, the Group has made payments to members and communities of £38m in 2022 (2021: £40m). See Note 33 for more details. It has also invested in future growth through cash capital expenditure additions of £147m (2021: £325m) and still kept within its net debt limits. Total member funds decreased during the period by £221m (2021: increased £270m).

Notes to the financial statements continued

26 Investment properties

What does this show? We own properties that we don't occupy or trade from and which we rent out to generate income or hold for capital growth. These properties are revalued at each period end and this note shows how that valuation has changed during the year as well as showing other changes in our investment property holdings.

	2022	2021
	£m	£m
Valuation at beginning of period	**55**	17
Disposals	**-**	(9)
Reclassification from Property, plant and equipment (Note 11)	**-**	5
Reclassification from Right-of-use assets (Note 12)	**-**	28
Revaluation (loss) / gain recognised in the Consolidated income statement	**(15)**	9
Revaluation gain recognised in the Consolidated statement of comprehensive income	**-**	5
Valuation at end of period	**40**	55

Accounting policies

Properties held for long-term rental yields that are not occupied by the Group or properties held for capital growth are classified as investment property. Investment properties are freehold land and buildings and right-of-use assets. These are carried at fair value which is determined by either independent valuers or internally each year on a three-year cyclical basis in accordance with the RICS Appraisal and Valuation Manual. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement.

If we start to occupy or trade from one of our investment properties, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. Other disclosures required by IAS 40 (Investment Properties) are not considered to be material.

Notes to the financial statements continued

27 Pensions

What does this show? This note provides information about our pension schemes. It explains the types of pension scheme we have, the assets and liabilities they hold, the assumptions used in valuing the pension schemes and the key risks faced in connection with the schemes.

	2022 £m	2021 £m
Pension schemes in surplus	**1,584**	2,262
Pension schemes in deficit	**(3)**	(4)
Closing net retirement benefit surplus	**1,581**	2,258

Defined benefit (DB) plans

The Group operates three funded DB pension schemes all of which are closed to future accrual. This means that colleagues can no longer join or earn future benefits from these schemes. The assets of these schemes are held in separate trustee-administered funds to meet future benefit payments.

The Group's largest pension scheme is the Co-operative Group Pension Scheme ('Pace') which accounts for approximately 85% of the Group's pension assets. The DB section of Pace ('Pace Complete') closed to future service accrual on 28 October 2015. Further information about Pace is set out below.

Defined contribution (DC) plans

Since the closure of the DB schemes, the Group provides all colleagues with DC pension benefits through the DC section of Pace. Colleagues are able to select the level of contributions that they wish to pay. The contribution paid by the Group varies between 1% and 10% of pensionable salary depending on the contribution tier that the scheme member has selected.

Contributions are based on the scheme member's basic pay plus any earnings in respect of overtime, commission and shift allowance.

The Pace DC section provides benefits based on the value of the individual colleague's fund built up through contributions and investment returns. The Group has no legal or constructive obligation to pay contributions beyond those set out above. There is therefore no balance sheet items for DC pension benefits except for any accrued contributions.

Balance sheet position for DB plans

The table below summarises the net surplus in the balance sheet by scheme. The main feature over the year has been a material rise in interest rates and this comes through in a reduced balance sheet surplus as both assets and liabilities have fallen (albeit a slight improvement in funding levels in percentage terms).

All of the 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 from movements in yields on government bonds. Against a backdrop of market uncertainty, investment returns and asset values fell significantly in 2022, in particular as government bond yields rose. However, scheme liabilities also reduced markedly following a significant increase in the discount rate, which is used to calculate the present value of the scheme obligations, as AA corporate bond yields rose significantly over the year. The IAS19 surplus on our largest pensions scheme, PACE, decreased by £0.6bn with asset values falling by £3.5bn whilst liabilities decreased by £2.9bn. Despite the surplus reducing, the funding level across all our schemes has increased, from 125% to 129%, as the percentage fall in assets was marginally lower than that of the liabilities.

	Net 2022 £m	Net 2021 £m
Schemes in surplus		
The Co-operative Group Pension Scheme (Pace)	**1,524**	2,087
Somerfield Pension Scheme	**32**	108
United Norwest Co-operatives Employees' Pension Fund	**28**	67
Total schemes in surplus	**1,584**	2,262
Schemes in deficit		
Other unfunded obligations	**(3)**	(4)
Total schemes in deficit	**(3)**	(4)
Total schemes	**1,581**	2,258

Recognition of accounting surplus

Any net pension asset disclosed represents the maximum economic benefit available to the Group in respect of its pension obligations. The Group has carried out a review of the provisions for the recovery of surplus in its pension schemes. This review concluded that the Group can recoup the benefits of the surplus via a right to refunds and this is reflected in the balance sheet position.

Notes to the financial statements continued

27 Pensions continued

Pace - nature of scheme

As Pace represents around 85% of the Group's pension assets, further information has been included on Pace below. As all of the DB schemes will be exposed to similar risks to Pace, we have not provided additional commentary on each scheme. Benefits accrued in Pace between 6 April 2006 and 28 October 2015 are calculated based on an individual's average career salary. Benefits accrued prior to 6 April 2006 are linked to final salary until scheme members end their pensionable service.

Pace - funding position

A valuation of the Group section of Pace DB was carried out as at 5 April 2019, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The results of the valuation showed that the Group section of Pace DB had a surplus of £907m. On completion of the actuarial valuation in July 2020 the Group and the Trustee agreed that no contributions would be required. The 5 April 2022 valuation is currently being carried out, to be finalised in mid 2023.

Pace - multi-employer provisions following sectionalisation

Pace is a mutli-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.

As a multi-employer pension scheme, Pace exposes the participating employers to the risk of funding the pension obligations associated with the current and former colleagues of other participating employers. The sectionalisation of Pace largely removes The Co-operative Bank's (the 'Bank's') 'last man standing' obligation to the rest of the Pace scheme but an obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section's pension liabilities. The Bank element of Pace is fully funded on both an IAS 19 accounting and a statutory funding basis. At 31 December 2022, the Bank reported an overall defined benefit pension scheme surplus of £154m (2021: £833m). This included £17m (2021: £601m) in relation to the Pace scheme consisting of assets of £930m (2021: £2,129m) and liabilities of £913m (2021: £1,528m).

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 2022 financial year totalled £17m (2021: £27m). Deficit contributions to Pace and Somerfield have now ceased but contributions are still required to the United scheme. All schemes target a more prudent level of funding than the target stipulated under IAS19 which is included in these financial statements. Therefore the funding levels are not comparable and it is possible to have a surplus under IAS19 and yet still be required to pay deficit contributions. We also cannot use a surplus in one scheme to offset the requirement to pay cash contributions to fund a deficit in another scheme. In 2023, deficit contributions will continue at a rate of £16.9m (2021: £16.9m) until the point at which the United scheme becomes fully funded.

Notes to the financial statements continued

27 Pensions continued

Legislative framework for DB schemes - scheme funding regime continued

The average duration of the liabilities is approximately 21 years. The benefits expected to be paid from the schemes take the form of a cash lump sum paid at retirement followed by a stream of pension payments.

The effective date of the last full valuations of the schemes are shown below:	
The Co-operative Pension Scheme ('Pace')	5 April 2019
Somerfield Pension Scheme ('Somerfield Scheme')	31 March 2019
United Norwest Co-operatives Employees' Pension Fund ('United Fund')	31 January 2020

Risks associated with DB pension schemes

The liability associated with the pension schemes is material to the Group, as is the cash funding required. The Group and Trustees work together to address the associated pension risk - in particular, steps have been taken to significantly reduce the investment risk in the schemes.

The key risks in relation to the DB schemes are set out below, alongside a summary of the steps taken to mitigate the risk:

Risk description	Mitigation
Risk of changes in contribution requirements - When setting the contributions that are paid to a scheme, the Group and Trustee are required to consider the funding level at a specified valuation date. The funding level at future valuation dates is uncertain and this leads to uncertainty in future cash requirements for the Group.	The closure of the DB schemes has reduced the exposure of the Group to changes in future contributions, as has the merger of Yorkshire and Plymouth into Pace. In addition, the Group and Trustee have taken steps to reduce the volatility of the funding level (as set out below). The Group monitors the funding level of the schemes in order to understand the likely outcome of valuations and the Trustee is required to obtain agreement from the Group to funding assumptions and deficit recovery contributions.
Interest rate risk - Pension liabilities are measured with reference to yields on bonds, with lower yields increasing the liabilities. The schemes are therefore exposed to the risk of falls in interest rates.	All of the schemes invest in liability-driven investment (LDI) products which increase (decrease) in value when yields on government bonds fall (rise), providing protection against interest rate risk. Across all schemes, approximately 95% of the liability is currently protected from movements in yields on government bonds. LDI involves investing in assets which are expected to generate cashflows that broadly mirror expected benefit payments from the scheme.
Risk associated with volatility in asset value - The market value of the assets held by the pension schemes, particularly the assets held in return-seeking assets such as equity, can be volatile (and, for example, may be affected by environmental, social or corporate governance ("ESG") failures at investee companies and/or sovereign states - including the physical and transition risks of climate change). This creates a risk of short-term fluctuations in funding level.	This risk has been mitigated by reducing the exposure of the pension schemes to those asset classes which have the most volatile market values. In particular, the schemes have limited allocation to return-seeking assets such as equity. Analysis undertaken by the Pace Trustee shows that the low risk investment strategy of Pace DB means the exposure of the scheme's assets to climate risk is limited. In addition, the Trustees of the Co-op's pension schemes have responsible investment policies in place, and aligned with those policies exclude specific investments (where appropriate and viable). Management of ESG risks is considered when appointing investment managers and in their ongoing monitoring, and the schemes' equity assets are explicitly managed with a consideration of such risks, including climate change.
Inflation risk - Many of the benefits paid by the schemes are linked to inflation. Therefore, the pension liabilities reflect expectations of future inflation with higher inflation leading to higher liabilities.	All of the schemes invest in liability driven investment products which increase (decrease) in value when expectations of future inflation rates increase (fall), thus providing protection against inflation risk. Across all schemes, approximately 95% of the liability is currently protected from movements in inflation.
Risk associated with changes in life expectancy - Pensions paid by the schemes are guaranteed for life, and therefore if members are expected to live longer, the liabilities increase.	All of the schemes' funding targets incorporate a margin for prudence to reflect uncertainty in future life expectancy. During 2020, the Group reduced its exposure to longevity risk in the Pace Scheme via three separate pensioner insurance buy-in contracts.

Notes to the financial statements continued

27 Pensions continued

Critical accounting estimates

For IAS 19 disclosure purposes, DB obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

Financial assumptions	2022	2021
Discount rate	**4.76%**	1.90%
RPI Inflation rate	**3.50%**	3.48%
Pension increases in payment (RPI capped at 5% p.a.)	**3.25%**	3.37%
Future salary increases	**3.75%**	3.73%

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) 2021 projections and a long-term future improvement rate of 1.25% p.a. (2021: CMI 1.25% p.a.). The actuaries have made an adjustment to the scaling factors, increasing them by 2%, to reflect recent COVID experience.

For illustration, the average life expectancy (in years) for mortality tables used to determine scheme liabilities for Pace is as follows. These are broadly similar to the life expectancies used for other schemes.

Life expectancy from age 65	2022	2021
Male currently aged 65 years	**21.1**	21.0
Female currently aged 65 years	**23.1**	23.4
Male currently aged 45 years	**22.2**	22.0
Female currently aged 45 years	**24.2**	24.7

Sensitivities

The measurement of the Group's DB liability is particularly sensitive to changes in certain key assumptions, which are described below. The methods used to carry out the sensitivity analysis presented below for the material assumptions are the same as those the Group has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will also increase. However, it enables the reader to isolate one effect from another. It should also be noted that because of the interest rate and inflation hedges, changes in the liability arising from a change in the discount rate or price inflation would be expected to be largely mitigated by a change in assets. It's impossible to predict future discount rates or inflation with any real certainty and so the sensitivities shown are for illustration purposes only and in reality more significant movements could be experienced.

Sensitivities	2022 £m	2021 £m
Change in liability from a 0.5% decrease in discount rate	**474**	960
Change in liability from a 0.5% increase in RPI inflation	**329**	652
Change in liability from a 0.25% increase in long-term rate of longevity improvements	**44**	122

The sensitivities performed and shown in the table above for the discount rate and RPI assumptions have been changed in the current year to more realistically reflect the scale of fluctuations that are currently being experienced. The comparative figures have also been re-calculated on a similar basis for comparability. Previously the sensitivities shown reflected the potential changes to the liability from a 0.1% increase in discount rate and a 0.1% decrease in RPI inflation.

Changes in the present value of the defined benefit obligation (DBO)	2022 £m	2021 £m
Opening defined benefit obligation	**9,194**	9,854
Interest expense on DBO	**171**	157
Remeasurements:		
a. Effect of changes in demographic assumptions	**(51)**	(42)
b. Effect of changes in financial assumptions	**(3,870)**	(316)
c. Effect of experience adjustments	**450**	(57)
Settlements (trivial commutation exercises)	**-**	(2)
Benefit payments from plan	**(351)**	(400)
Closing defined benefit obligation	**5,543**	9,194

Notes to the financial statements continued

27 Pensions continued

Changes in the fair value of the plan assets	2022 £m	2021 £m
Opening fair value of plan assets	11,452	11,708
Interest income	214	187
Return on plan assets (excluding interest income)	(4,203)	(65)
Administrative expenses paid from plan assets	(6)	(5)
Employer contributions	18	27
Benefit payments from plan	(351)	(400)
Closing fair value of plan assets	**7,124**	11,452

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.

	2022 Quoted £m	2022 Unquoted £m	2022 Total £m	2021 Quoted £m	2021 Unquoted £m	2021 Total £m
Equity instruments	35	-	35	197	-	197
Liability driven investments	2,418	-	2,418	4,304	-	4,304
Investment grade credit	1,735	-	1,735	2,978	-	2,978
Illiquid / other credit	-	944	944	-	1,300	1,300
Alternative investments*	-	360	360	-	351	351
Cash and cash equivalents	53	3	56	63	28	91
Insurance buy-in contracts	-	1,576	1,576	-	2,231	2,231
Fair value of plan assets	**4,241**	**2,883**	**7,124**	7,542	3,910	11,452

*Alternative investments consist of private equity, private debt and inflation-linked property.

Amounts recognised in the balance sheet	2022 £m	2021 £m
Present value of funded obligations	(5,540)	(9,190)
Present value of unfunded liabilities	(3)	(4)
Fair value of plan assets	7,124	11,452
Net retirement benefit asset	**1,581**	2,258

Amounts recognised in the income statement and other comprehensive income	2022 £m	2021 £m
Interest expense on defined benefit obligations	(171)	(157)
Interest income on plan assets	214	187
Administrative expenses and taxes	(6)	(5)
Settlements (trivial commutation exercises)	-	(2)
Total recognised in the income statement	37	23
Remeasurement losses on employee pension schemes	(732)	350
Total recognised in other comprehensive income	(732)	350
Total	**(695)**	373

Notes to the financial statements continued

27 Pensions continued

Accounting policies

The Group operates various defined contribution and defined benefit pension schemes for its colleagues as stated above. A defined contribution scheme is a pension plan under which the Group pays pre-specified contributions into a separate entity and has no legal or constructive obligation to pay any further contributions. A defined benefit scheme is a pension plan that defines an amount of pension benefit that a colleague will receive on retirement. In respect of the defined benefit pension scheme, the pension scheme surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The calculation of the defined benefit obligations is performed annually by qualified actuaries (and half-yearly for Pace) using the projected unit credit method. Plan assets are recorded at fair value. When the calculation results in a potential asset for the Group, the recognised asset reflects the present value of the economic benefits that will arise from the surplus in the form of any future refunds from the plan or reductions in future contributions to the plan. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Remeasurements of the surplus / liability of each scheme (which comprise actuarial gains and losses and asset returns excluding interest income) are included within other comprehensive income. Net interest expense and other items of expense relating to the defined benefit plans are recognised in the income statement. Administrative costs of the plans are recognised in operating profit. Net interest expense is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined asset / liability at that point in time taking into account contributions within the period.

Notes to the financial statements continued

28 Financial risk management

What does this show? This note explains the main financial risks we face and how we manage them. These include: credit risk, interest rate risk, foreign currency risk and liquidity risk.

Financial risk management

The main financial risks facing the Group are set out below. Overall Group risks and the strategy used to manage these risks are discussed in the Principal Risks and Uncertainties section on pages 64 - 67.

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 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 significant concentrations of credit risk. Information regarding the age profile of trade receivables is shown in Note 17. The carrying value of all balances that attract a credit risk, which represents the maximum exposure, is set out below:

	Carrying amount 2022 £m	Carrying amount 2021 £m
Trade and other receivables (excluding prepayments and accrued income)	**648**	612
Interest rate swaps	**(13)**	(2)
Foreign exchange contracts and commodity swaps (net)	**5**	1
Funeral plan investments	**1,369**	1,372
Finance lease receivables	**43**	42
Cash	**447**	60

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 31 December 2022 was 86% (at 1 January 2022: 69%). 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 31 December 2022, the Group had interest rate swaps with a notional contract amount of £105m (at 1 January 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 29.

The net fair value of swaps at 31 December 2022 was a net liability of £13m (2021: net liability of £2m) comprising assets of £nil (2021: £nil) and liabilities of £13m (2021: £2m). These amounts are recognised as fair value derivatives on the face of the Consolidated balance sheet.

Notes to the financial statements continued

28 Financial risk management continued

Foreign currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than sterling. The key currencies giving rise to this risk are Euros and US Dollars.

The Group manages the impact of market fluctuations on its currency exposures and future cash flows by undertaking rolling foreign exchange hedges. These are executed on a monthly basis in a layered approach based on forecast requirements.

At 31 December 2022, the Group had forward currency transactions in Euros and US Dollars with a notional contract amount of £88m (2021: £100m).

Liquidity risk

This is the risk that the Group will not have sufficient facilities to fund its future borrowing requirements and will require funding at short notice to meet its obligations as they fall due. The Group's funding maturity profile is managed to ensure appropriate flexibility through a mix of short, medium and long term funding together with diversified sources of finance to meet the Group's needs.

As at 31 December 2022, the Group had available borrowing facilities totalling £1,166m (2021: £1,168m), which was made up of uncommitted facilities of £nil (2021: £nil) and committed facilities of £1,166m (2021: £1,168m). These are detailed below:

Bank facilities as at 31 December 2022	2022		2021	
	Expiry	**£m**	Expiry	£m
Revolving Credit Facility	**Sept 2024**	**400**	Sept 2024	400
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	**May 2024**	**300**	May 2024	300
£109m 11% Final repayment subordinated notes due 2025	**December 2025**	**109**	December 2025	109
£20m Instalment repayment notes (final payment 2025)	**December 2025**	**7**	December 2025	9
£350m 7.5% Eurobond notes due 2026	**July 2026**	**350**	July 2026	350
		1,166		1,168

Notes to the financial statements continued

28 Financial risk management continued

The following are the maturities of financial liabilities as at 31 December 2022:

	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 - 12 months £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Non-derivative financial liabilities							
£105m 7.5% Eurobond 2026 (fair value)	**(95)**	**(105)**	**-**	**-**	**-**	**(105)**	**-**
£245m 7.5% Eurobond 2026 (amortised cost)	**(255)**	**(254)**	**-**	**(9)**	**-**	**(245)**	**-**
£300m Sustainability Bond 2024 (amortised cost)	**(301)**	**(302)**	**(2)**	**-**	**(300)**	**-**	**-**
£109m 11% Final repayment subordinated notes 2025*	**(109)**	**(109)**	**-**	**-**	**-**	**(109)**	**-**
£20m Instalment repayment notes (final payment 2025)	**(7)**	**(7)**	**-**	**(2)**	**(2)**	**(3)**	**-**
Lease liabilities	**(1,306)**	**(1,763)**	**(97)**	**(97)**	**(183)**	**(475)**	**(911)**
Trade and other payables	**(1,434)**	**(1,434)**	**(1,338)**	**(47)**	**(16)**	**(19)**	**(14)**

* Interest on the £109m (11% Final repayment subordinated notes 2025) is settled annually in December such that any interest accrual as at 31 December is not material for disclosure in the contractual cashflows in the table above.

The following are the maturities of financial liabilities as at 1 January 2022:

	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 - 12 months £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Non-derivative financial liabilities							
£105m 7.5% Eurobond 2026 (fair value)	(123)	(105)	-	-	-	(105)	-
£245m 7.5% Eurobond 2026 (amortised cost)	(267)	(254)	-	(9)	-	(245)	-
£300m Sustainability Bond 2024 (amortised cost)	(301)	(302)	(2)	-	-	(300)	-
£109m 11% Final repayment subordinated notes 2025	(109)	(109)	-	-	-	(109)	-
£20m Instalment repayment notes (final payment 2025)	(9)	(9)	-	(2)	(2)	(5)	-
Lease liabilities	(1,516)	(2,090)	(109)	(107)	(204)	(542)	(1,128)
Trade and other payables	(1,516)	(1,516)	(1,376)	(54)	(40)	(15)	(31)

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 31 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 31 December 2022, if the Euro and US dollar had strengthened or weakened by 10% against sterling (GBP) with all variables held constant, the impact to post-tax profit would be a £2m loss (2021: £1m loss) and £1m gain respectively (2021: £1m gain).

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 31 December 2022 the total amount of guarantees / bonds outstanding is £17m (2021: £8m).

Notes to the financial statements continued

29 Financial instruments, derivatives and valuation of financial assets and liabilities

What does this show? This note shows how our financial assets and liabilities are valued, including our interest rate swaps.

Derivatives

Derivatives held for non-trading purposes for which hedge accounting has not been applied are as follows:

	2022			2021		
	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**	**-**	**(13)**	105	-	(2)
Foreign exchange contracts	**88**	**3**	**-**	100	-	(3)
Commodity swaps (diesel)	**38**	**5**	**(3)**	22	4	-
Total recognised derivative assets / (liabilities)	**231**	**8**	**(16)**	227	4	(5)

The interest rate swaps mature in 2026 and as such are held in non-current liabilities. The majority of the foreign exchange contracts and diesel swaps mature within 1 year so are shown in current liabilities and current assets respectively.

The following summarises the major methods and assumptions used in estimating the value of financial instruments reflected in the annual report and accounts:

a) Financial instruments at fair value through the income statement

Investments in funeral plans

Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques (refer to accounting policy (section iv) of this note for further details.

Derivatives

Forward exchange contracts, such as the Group's interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. The Group's derivatives are not formally designated as hedging instruments but under IFRS 9 (Financial Instruments) they are used to match against a proportion of the Eurobond liabilities carried at fair value through the income statement, showing as a cost of £11m in 2022 (2021: £5m cost) see Note 7.

The Group enters into forward contracts for the purchase of energy from third party suppliers for use by 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 2022 year end we had 78% electricity (2021: 80%) and 76% gas (2021:66%) coverage of our forecast demand for 2023.

Fixed rate sterling Eurobonds

The fixed rate sterling Eurobond values are determined in whole by using quoted market prices.

b) Interest-bearing loans and borrowings - amortised cost

These are shown at amortised cost which presently equate to fair value or are determined in whole by using quoted market prices. Fair value measurement is calculated on a discounted cash flow basis using prevailing market interest rates.

c) Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial. For further details see the Accounting Policy section at the end of this note.

Notes to the financial statements continued

29 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 2022 £m	Fair value 2022 £m	Carrying value 2021 £m	Fair value 2021 £m
Interest-bearing loans and borrowings	**685**	**645**	853	915

The table below analyses financial instruments by measurement basis:

2022	Fair value through income statement £m	Amortised cost £m	Loans and receivables £m	Total £m
Assets				
Other investments	**1,369**	**-**	**-**	**1,369**
Trade and other receivables	**-**	**-**	**648**	**648**
Derivative financial instruments	**8**	**-**	**-**	**8**
Cash and cash equivalents	**-**	**447**	**-**	**447**
Total financial assets	**1,377**	**447**	**648**	**2,472**
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**

2021	Fair value through income statement £m	Amortised cost £m	Loans and receivables £m	Total £m
Assets				
Other investments	1,372	-	-	1,372
Trade and other receivables	-	-	612	612
Derivative financial instruments	4			4
Cash and cash equivalents	-	56	-	56
Total financial assets	1,376	56	612	2,044
Liabilities				
Interest-bearing loans and borrowings	123	853	-	976
Derivative financial instruments	5	-		5
Trade and other payables	-	1,139	-	1,139
Total financial liabilities	128	1,992	-	2,120

The following table provides an analysis of financial assets and liabilities that are valued or disclosed at fair value, by the three-level fair value hierarchy as defined within IFRS 13 (Fair Value Measurement):

• Level 1	Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
• Level 2	Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
• Level 3	Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As pricing providers cannot guarantee that the prices they provide are based on actual trades in the market then all of the corporate bonds are classified as Level 2.

Notes to the financial statements continued

29 Financial instruments, derivatives and valuation of financial assets and liabilities continued

Valuation of financial instruments

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 Eurobond	**-**	**95**	**-**	**95**
- Derivative financial instruments	**-**	**16**	**-**	**16**
Total financial liabilities at fair value	**-**	**111**	**-**	**111**

Funeral plan investments are classified as level 3 under the IFRS 13 hierachy. Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs). The vast majority of our funeral plan investments are held in Whole of Life (WoL) insurance policies. The plan investments are financial assets which are recorded at fair value each period using valuations provided to Co-op by the policy provider. The plan values reflect the amount the policy provider would pay out on redemption of the policy at the valuation date with the main driver being underlying market and investment performance.

The value of the Eurobonds carried at amortised cost is disclosed in Note 21. The equivalent fair value for the unhedged proportion of bonds that are now carried at amortised cost would be £222m (2021: £287m) for the 2026 Eurobond.

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements. For other financial assets and liabilities of the Group including cash, trade and other receivables / payables then the notional amount is deemed to reflect the fair value.

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	-	-	1,372	1,372
- Derivative financial instruments	-	4	-	4
Total financial assets at fair value	-	4	1,372	1,376
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed rate sterling Eurobond	-	123	-	123
- Derivative financial instruments	-	5	-	5
Total financial liabilities at fair value	-	128	-	128

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

29 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 significant financing component or where the customer will pay for the related goods or services within one year of receiving them. For financial assets which are not held at fair value through the income statement, transaction costs are also added to the initial fair value. Trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them are measured at the transaction price determined under IFRS 15 (Revenue from Contracts with Customers). See accounting policies for revenue and IFRS 15 in Note 2.

ii) Derecognition of financial assets and financial liabilities
Financial assets are derecognised (removed from the balance sheet) when:

• the rights to receive cash flows from the assets have ceased; or
• the Group has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

iii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market which we do not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently these are measured at amortised cost. The amortised cost is the initial amount at recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, less impairment provisions for incurred losses.

iv) Financial investments and instruments at fair value through the income statement

Funeral plans
When a customer takes out a funeral plan the initial plan value is recognised as an investment asset in the balance sheet and at the same time a liability is also recorded in the balance sheet representing the deferred income to be realised on performance of the funeral service covered by each of the funeral plans. The investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The plan investment is a financial asset, which is recorded at fair value each period through the income statement using valuations provided by the insurance policy provider or reflecting the trust cash balances. The performance obligation to deliver the funeral is treated as a contract liability (deferred income) under IFRS 15. The deferred amount is subject to adjustment to reflect a significant financing component which is charged to the income statement each period. The liability accretes interest in-line with the discount rate applied to the plan on inception. The discount rate applied is based on an estimated borrowing rate between the customer and the Group at the point the contract is entered into. The contract liability is held on the balance sheet as additional deferred income until the delivery of the funeral at which point the revenue is recognised.

The Group is currently reviewing the impact of IFRS 17 (Insurance Contracts) on the accounting for funeral plans. The new standard will be applicable to the Group for next year's reporting (2023). Details of the expected impact on the Group is shown in our Accounting Policies and Basis of Preparation section on page 217.

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

29 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.

Until fully paid, LCIPs are judged to represent insurance contracts and as such fall under the scope of IFRS 4 (Insurance Contracts). The assured benefit between Funeralcare and the 3rd party is judged to represent a reinsurance contract under IFRS 4. In line with IFRS 4 Funeralcare account for the LCIPs in the same way as a normal funeral plan (see accounting policy above).

The Group is currently reviewing the impact of IFRS 17 (Insurance Contracts) on the accounting for LCIPs. The new standard will be applicable to the Group for next year's reporting (2023). Details of the expected impact on the Group is shown in our Accounting Policies and Basis of Preparation section on page 217.

Interest rate swaps

The Group uses derivative financial instruments to provide an economic hedge to its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives entered into include swaps, forward rate agreements, commodity (diesel) swaps and energy contracts. Derivative financial instruments are measured at fair value and any gains or losses are included in the income statement. Fair values are based on quoted prices and where these are not available, valuation techniques such as discounted cash flow models are used.

Interest payments or receipts arising from interest rate swaps are recognised within finance income or finance costs in the period in which the interest is incurred or earned.

v) Credit risk, liquidity risk and Impairment of financial assets

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk from balances with banks and financial institutions is managed by the Group's Treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year subject to approval of the Risk and Audit Committee. The limits are set to minimise the concentration of risk. Financial assets held at fair value through the income statement are primarily held in low-risk investments.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, Eurobonds and leases.

Notes to the financial statements continued

29 **Financial instruments, derivatives and fair values of financial assets and liabilities** continued

Trade receivables and contract assets
An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (for example, by business division, customer, coverage by letters of credit or other forms of credit insurance).

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not insured or subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in trade and other receivables (Note 17).

Impairment of financial assets carried at amortised cost
The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write-off is made when all or part of an asset is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write-offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write-off charge in the income statement once they are received.

Provisions are released at the point when it is deemed that following a subsequent event the risk of loss has reduced to the extent that a provision is no longer required.

Notes to the financial statements continued

30 Commitments and contingencies

What does this show? This note shows the value of capital expenditure that we're committed to spending in the future as at the end of the period. If appropriate then it also shows potential liabilities which aren't included in our balance sheet as it's only possible, rather than probable, that we'll have to pay them.

Commitments:
a) Capital expenditure that the Group is committed to but which has not been accrued for at the period end was £12m (2021: £6m).

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 4,000 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 quantum of the claim and the claim will be vigorously defended.

31 Related party transactions and balances

What does this show? Related parties are companies or people which are closely linked to the Co-op, such as members of our Board or Executive (or their families), or our associates and joint ventures. This note explains the nature of the relationship with any related parties and provides information about any material transactions and balances with them.

	Relationship	**2022 £m**	2021 £m
Subscription to Co-operatives UK Limited	(i)	**0.7**	0.7

i) The Group is a member of Co-operatives UK Limited.

The Group's Independent Society Members (ISMs) include consumer co-operative societies which, in aggregate, own the majority of the corporate shares with rights attaching as described in Note 25. The Co-operative Group has a 76% shareholding in Federal Retail and Trading Services Limited which is operated as a joint buying group by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this and the arrangement is run on a cost recovery basis and therefore no profit is derived from its activities. Sales to ISMs, on normal trading terms, were £1,855m (2021: £1,756m) and the amount due from ISMs in respect of such sales was £144m at 31 December 2022 (2021: £134m). No distributions have been made to ISMs based on their trade with the Group in either the current or prior periods.

Transactions with directors and key management personnel
Disclosure of key management compensation is set out in the Remuneration Report. A number of small 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 £29,000 (2021: £nil). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2021: £nil). Total compensation paid to key management personnel is shown below.

Key management personnel compensation	**2022 £m**	2021 £m
Short-term employee benefits	**3.1**	3.8
Post-employment benefits	**0.1**	0.3
Other long-term benefits	**1.1**	1.3
Termination benefits	**1.6**	-
Total	**5.9**	5.4

Notes to the financial statements continued

32 Principal subsidiary undertakings

What does this show? This note shows the main companies and societies we own, what percentage we own and the type of business they are involved in.

All of the principal subsidiary undertakings as at the period end are registered in England and Wales and their principal place of business is the UK. See general accounting policies section on page 211 for a Group structure diagram.

	Society holding %	Nature of business
Angel Square Investments Ltd	100	Holding company
CFS Management Services Ltd*	100	Service company
Co-operative Group Holdings (2011) Ltd	100	Property management
Co-operative Group Food Ltd	100	Food retailing
Co-operative Foodstores Ltd	100	Food retailing
Nisa Retail Ltd	100	Food wholesaling
Co-op Insurance Services Limited	100	Insurance (marketing)
Funeral Services Ltd	100	Funeral directors
Co-op Funeral Plans Ltd	100	Funeral plan services
Co-operative Legal Services Ltd	100	Legal services
Rochpion Properties (4) LLP	100	Holds property

All of the above have been fully consolidated into the Group's accounts. There are no non-controlling interests in any of these entities.

Notes

i) All of the principal subsidiaries are audited by EY LLP.

ii) *CFS Management Services Ltd ceased trading on 31 December 2021.

iii) All transactions between entities are in the usual course of business and are at arms length.

Notes to the financial statements continued

33 Membership and community reward

What does this show? This note shows the number of active members that we have at the end of the period as well as the benefits earned by those members for themselves and their communities during the period. Active members are defined as those members that have traded with one or more of our businesses within the last 12 months.

Members	2022 (unaudited) m	2021 (unaudited) m
Active members	**4.4**	4.2

Membership and community rewards (within the income statement)	£m	£m
Member reward earned	**20**	21
Community reward earned	**18**	19
Total reward	**38**	40

Member and Community rewards are both earned at 2% (4% in total) of eligible spend.

Full details of our overall investment in our Communities can be found in our Co-operate Report.

34 Events after the reporting period

What does this show? This note gives details of any significant events that have happened after the balance sheet date but before the date that the accounts are approved. These are things that are of such significance that it is appropriate to give a reader of the accounts further detail as to the impact of such events on the financial statements or any expected likely impact in future periods.

Bond liability management exercise – 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. This was announced to the market on 27th February 2023. The bonds were bought back at 99% of par value.

Rolling Credit facility (RCF) refinancing – on the 20th of March 2023 we concluded an amendment and extension exercise for our Revolving Credit Facility. As a result our £400m RCF will increase in size to £442.5m until September 2024 when it will fall to £360m. The £360m facility will mature in March 2026. New sustainability metrics will be added into the facility during 2023, linking Co-op's commitment to sustainability with its financial facilities.

Notes to the financial statements continued

35 Disposal of petrol forecourt sites

What does this show? We have sold our petrol forecourt sites during the year. Given the scale of the disposal we have provided some additional information in this note to help our members to understand the impact of the sale on our financial statements. This includes the profit that we have recorded on the disposal as well as the impact on our year-end Balance sheet and Income statement going forward.

On 31 August 2022 the Group announced its intention to sell its 129 petrol forecourt sites to Asda. The deal completed as planned on 30th October 2022 for an enterprise value of £438m (£609m including IFRS 16 lease liabilities) with a purchase price of £458m, including £24m of non-cash consideration and the sale is therefore not impacted by the ongoing CMA review.

For Interim (HY22) reporting the assets and liabilities associated with the sites were classified as held for sale in our consolidated balance sheet as their disposal was highly probable at the half-year date. For full-year reporting and as the sale has now completed then the assets and liabilities associated with the disposal have been removed from the Group's consolidated balance sheet and the profit on sale has been recognised in our Consolidated income statement.

The results of our petrol forecourt sites, upto the point of disposal on the 30th October, are classified as Continuing operations within our Income statement and are included within the results of our Food business (see Note 1; Operating Segments). The disposal of our petrol forecourt sites does not meet the threshold for classification within Discontinued Operations (see the Key Judgements section of our Accounting Policies and Basis of Preparation section on page 213).

As part of the sale process the petrol sites will transfer on a rolling basis during a handover period of approximately 12 months which is governed by a transitional service agreement. The Group have assessed the nature of the arrangement and concluded that Co-op are acting as agent in the facilitation of the transaction for the end customer, but as a principal for supplying goods to AFS (Arthur Foodstores Limited - the entity that was sold to Asda) under the service agreement, and consequently will record the revenue and costs of supplying the goods gross, as well as recording the outsourcing fee charged to AFS in income.

Balance Sheet on disposal (petrol forecourt sites)	Oct 30th 2022 £m
Property, plant and equipment	89
Right-of-use assets (leases)	131
Goodwill and intangibles	107
Inventories	19
Trade and other receivables	43
Cash in hand	5
Deferred tax assets	2
Total assets	**396**
Lease liabilities	171
Trade and other payables	97
Total liabilities	**268**
Net book value disposed	**128**

Profit on disposal (petrol forecourt sites)	£m
Consideration - cash received	434
Consideration - non-cash*	29
Costs to sell	(16)
Net book value disposed (as above)	(128)
Profit on disposal (petrol forecourt sites)	**319**

*Non-cash consideration comprised £24m of intercompany loan novation from Co-operative Foodstores Limited to Asda. Total consideration of £463m differs from the purchase price of £458m stated above due to £5m of corporation tax group relief written off.

** Proceeds received in 2022 per the Cashflow statement of £408m comprise the £434m cash proceeds noted above (net of £10m not yet received pending final completion accounts) less costs to sell of £16m as noted above.

Income statement result from petrol forecourt sites - year to point of disposal on 30th October 2022	£m
Sales	842
Operating profit	47

Cashflows from petrol forecourt sites - year to point of disposal on 30th October 2022	£m
Net cash from operating activities	78

Accounting policies and basis of preparation

What does this show? This section outlines the general accounting policies that relate to the financial statements as a whole. Details of other accounting policies are included within the notes to the financial statements to which they relate. This allows readers easy access to the relevant policy. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

General information

Co-operative Group Limited ('the Group’) is a registered co-operative society domiciled in England and Wales. The address of the Group’s registered office is 1 Angel Square, Manchester, M60 0AG, and the trading locations of all stores and branches can be located on our website https://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 52 week period ended 31 December 2022 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

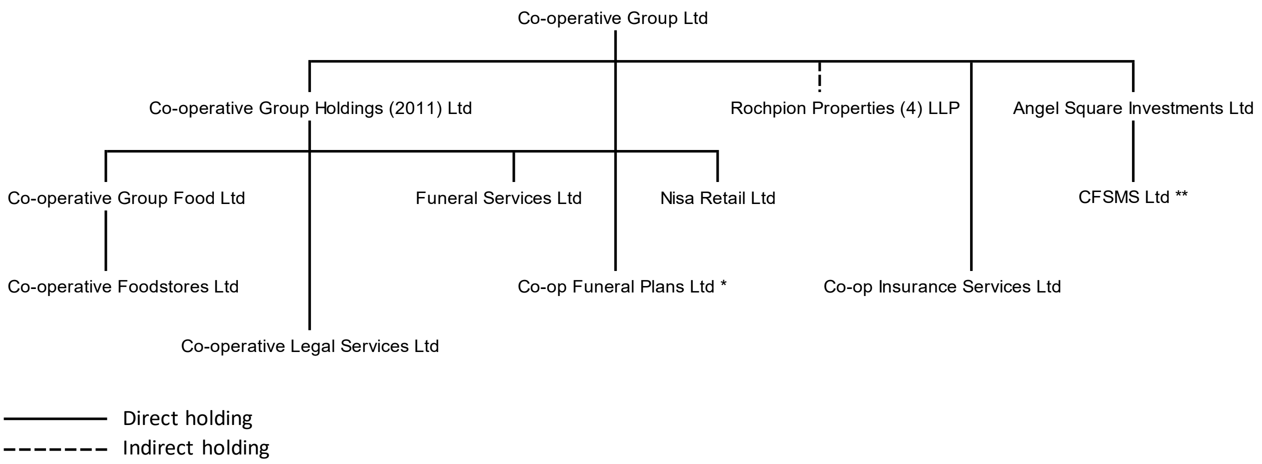
In preparing the Groups’ Consolidated Financial statements management has considered the impact of climate change covering both the financial statements and the disclosures included in the Strategic report. This included an assessment of the potential impact of, and associated responses to, climate change, 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 or the cashflow forecasts used to assess the going concern basis and the viability statement. Furthermore, our forecasts do not include any material spend in relation to climate change. The Group will keep this assessment under review and continue to monitor developments in the future.

Basis of consolidation

The financial statements consolidate Co-operative Group Limited, which is the ultimate parent society, and its subsidiary undertakings. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The diagram overleaf shows the composition of the Group and its principal subsidiaries. Further details can be found in Note 32 (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

Basis of consolidation - continued



All shareholdings are 100% owned unless otherwise stated.

* Co-op Funeral Plans Ltd is owned 33% by Co-operative Group Ltd and 67% by Co-operative Group Holdings Ltd.

** CFSMS Ltd ceased trading on 31 December 2021.

Accounting dates

The Group and its main trading subsidiaries prepare their accounts to the first Saturday of January unless 31 December is a Saturday. These financial statements are therefore prepared for the 52 weeks ended 31 December 2022. Comparative information is presented for the 52 weeks ended 1 January 2022. Since the financial periods are virtually in line with calendar years, the current period figures are headed 2022 and the comparative figures are headed 2021.

Co-operative Insurances Services Limited and certain small holding companies have also prepared accounts for the period ended 31 December 2022.

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.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements that comply with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Key judgements

In the process of applying the Group's accounting policies, management has made the following key judgements which have the most significant impact on the consolidated financial statements:

• Determination of accretion rate: Funeral plans

A significant accounting judgement is present in deriving a suitable accretion rate to apply to the monies received from a customer when they purchase a funeral plan. The accretion rate is required to reflect the borrowing rate that would be applied between the Group and the customer in a separate financing transaction reflecting similar credit characteristics and similar security at the point the contract is entered into. These rates are then fixed for the duration of the plan and we have plans which are up to 36 years old. We derive the relevant accretion rates based upon UK AA rated average corporate bond yields.

When a customer enters into a funeral plan, the monies they pay to the Co-op, less an admin fee, are invested in whole of life insurance policies with FCA regulated institutions protected by the Government's financial services compensation scheme. For further protection, the proceeds of the investments are held on trust by an independent trustee, Apex Corporate Trustees (UK) Limited, to ensure that the customer is entitled to the benefit of the invested monies in the event that the Group goes out of business. Given this protection and security, a UK AA rated average corporate bond yield is considered to have a similar risk profile as that of a separate financing transaction between the Group and a customer and hence a suitable reference point for an accretion rate.

• Determining the lease term of contracts with extension and termination options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

• Petrol forecourt disposal

The Group has disposed of 129 petrol sites during the year through the disposal of the company Arthur Foodstores Limited (AFS). The performance of these sites has not been classified within Discontinued operations in our Income statement (so has remained within Continuing operations to the date of disposal) as it is our judgement that the sites sold do not constitute a major separate line of business. This is in line with how these sites were run operationally and how performance was reported to our Board.

As part of the sale process the petrol sites will transfer to the purchaser on a rolling basis during a handover period of approximatley 12 months which is governed by a transitional service agreement. The Group have considered IFRS 10 and concluded that Group is not the decision maker during the transition period, nor does it exercise influence over decision making. The considerations under IFRS10 are as below:

a) Power over the investee - in the transitional service agreement period the Group is obligated to provide Co-op Group branded and non branded goods to AFS, however it is clearly stated in the franchise agreement that in this relationship, Group acts as an agent. The Group also has no voting rights, rights to change key management personnel, apoint or remove an entity that directs the activities or direct or veto AFS in transactions for the benefit of the Group. Therefore, we are confident Group does not have power over AFS.

b) Exposure, or rights, to variable returns from its involvement - the only returns for the Group are the outsourcing fee at a variable % of net sales, but the magnitude and variability of this is not signigicant enough for the Group to have control.

c) The ability to use its power over the investee to affect the amount of investor's returns - scope of decision making is limited to the activities set out in the franchise agreement and the Group has limited power to change the basis of operation, Group makes an overarching commitment to not treat the AFS properties differently to the core estate during the transition period but Asda acts as a guarantee for the franchise agreement and therefore ultimately has responsibility for performance of the business, remuneration is proportionate to the services provided to AFS at a % of grocery net sales and is largely in line with the basis used for other franchise agreements in the Group, and Group has no other interests in AFS to provide returns.

In regards to the recognition of revenue, the Group has assessed the considerations of IFRS15 to determine that with regards to the end customer, Group acts as an agent, but in relation to the sale of stock to AFS the Group is the principal. This means that the (equal and opposite) revenue and cost of sales associated with providing the goods to the AFS stores is recorded gross rather than net in the case of an agent, and the outsourcing fee is also recognised gross.

The Group has considered the 3 examples from IFRS15 B37 in relation to sales to AFS to come to the conclusion that Group is acting as the principal:

a) Primary responsibility for the good or service meeting customer satisfaction - Group's responsibility in the franchise agreement is to provide Co-op Group branded and non branded goods on the same basis as pre-sale, and therefore has the responsibility to provide the stock to meet AFS's specifications.

b) Inventory risk - Until stock ordered for AFS is delivered to the stores, it is held in the depots and the Group holds the risk of leakage or wastage. If any goods were delivered faulty, AFS could return these and Group would have to take the cost of replacing this stock.

c) Discretion in establishing the price - this is limited due to the CMA investigation and is therefore a neutral point.

Key estimates and assumptions:

• **Pensions (Note 27)** – the Group's defined benefit pension obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The most significant assumptions relate to the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the Group's defined benefit obligation is highly sensitive to changes in these assumptions. Further details of the financial and demographic assumptions that have been used are shown in Note 27 along with associated sensitivities to those assumptions.

• **Impairment of non-financial assets (Notes 11, 12 & 13)** - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets, goodwill and intangibles) are reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated.

The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

This review is performed annually or in the event where indicators of impairment are present. At 31 December 2022, the Group has considered whether general uncertainty in the wider macro-economic environment including the cost-of-living crisis, rising inflation, energy price increases, the on-going conflict in Ukraine as well as the continuing impacts of the COVID-19 pandemic 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 significant impairment and hence a full impairment test across all CGUs was not required. This judgement is unchanged from 1 January 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 10-11% (2021: 7-9%) dependent on the business. The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in Notes 11 and 13.

The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.

• **Provisions (Note 24)** – a provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Group relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See Note 24 for further details.

• **Pre-need funeral plan obligations (Notes 14 & 23)** – the Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts.

The investments are also subject to an annual actuarial valuation at a portfolio level. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The headroom (pre-tax) is estimated to be £471m (2021: £295m), see Note 14.

The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. It's not possible to reasonably forecast future inflation rates with any certainty but to aid the reader and for illustrative purposes each 0.5% (50 basis points) increase in the inflation assumption would reduce the surplus by approximately £53m (2021: £94m). Each 0.5% (50 basis points) reduction in the discount rate would reduce the surplus by approximately £34m (2021: £70m). Both of these sensitivities include allowance for assets held that would move in line with liabilities.

Under the revised IAS 37 approach the actuarial cost to be used in the assessment of onerous liabilities should be the lower of the wholesale cost and the internal cost per redemption calculated under the standard (and on this basis the "wholesale" cost has been used). The wholesale actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. The future Group administrative costs of maintaining the current funeral plans are allowed for, but no allowance is made for any incremental overheads of the third party because it's assumed that the provider could absorb these funerals into their existing infrastructures.

These costs do not represent the expected internal cost of fulfilling the funeral and allowing for these costs in the valuation may materially affect the results.

New and amended standards adopted by the Group:

The Group has considered the following standards and amendments that are effective for the Group for the period commencing 2 January 2022 and concluded that they are either not relevant to the Group or do not have a significant impact on the financial statements :

- Onerous contracts - Costs of Fulfilling a Contract - Amendments to IAS 37
- Reference to the Conceptual Framework - Amendments to IAS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- IAS 41 Agriculture – Taxation in fair value measurements

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 1 January 2022 reporting periods and the Group has not early adopted the following standards and statements.
The adoption of these standards is not expected to have a material impact on the Group's accounts:

- Amendments to IAS 8 - Definition of Accounting Estimates *
- Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies *
- Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction *

* Effective for annual periods beginning on or after 1 January 2023.

Standards, amendments and interpretations issued but not yet effective - continued

The adoption of the following standard will have a material impact on the Group’s accounts when adopted and the Group’s assessment of the impact of the new standard and interpretation is set out below:

Title	**IFRS 17 Insurance Contracts**
Nature of the change	In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. The core of IFRS 17 is the general model, supplemented by: • A specific adaptation for contracts with direct participation features (the variable fee approach) • A simplified approach (the premium allocation approach) mainly for short-duration contracts The new standard will apply to all of the Group’s funeral plans. It will further divide plans between those paid over up to one year and those paid over longer instalments (where Group waives the remaining payments if a customer dies during the payment term subject to conditions). The standard also covers the re-insurance of the payment waiver risk. All of our funeral plans and re-insurance contracts are held by Co-op Funeral Plans Limited ('CFPL') a wholly owned subsidiary of the Group. The plans were transferred to CFPL from Funeral Services Limited (FSL) in the first half of 2022. As FSL held plans after 2 January 2022 its opening balance sheet will need to be restated for the transition to IFRS 17. In future years FSL will only contain our at-need funeral business and as such will not be impacted by IFRS 17. Our insurance marketing and distribution business Co-op Insurance Services Limited ('CISL') is not impacted by IFRS 17.

Standards, amendments and interpretations issued but not yet effective - continued

Title	IFRS 17 Insurance Contracts
Impact - General	The adoption of IFRS 17 in 2023 will represent a fundamental change to the way that we currently account for all of our funeral plans and waiver insurance policies under IFRS 15. The main areas of change will be: • **Profit recognition** – we currently recognise revenue from funeral plans when the funeral is arranged. IFRS 17 requires revenue to be recognised over the contract coverage period. • **Liability measurement** - the current accounting under IFRS 15 does not remeasure the liability to reflect a current estimate of the future cash flows to provide the funeral. IFRS 17 requires actuarial modelling of the liability, updated each reporting period for current estimates of expected cash flows. • **Reinsurance** - waiver insurance costs are currently 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 will need to be restated consistently with IFRS 17. • **Level of aggregation** - under IFRS 17 we'll need to separate our insurance contracts (our funeral plans and waiver insurance policies) 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 and allocate that over time.
Impact - continued **Income Statement**	Management are currently reviewing the likely impact of the change in accounting on our financial statements although the changes are expected to be material. For illustrative purposes only; the tables below show how and where the adoption of IFRS 17 is expected to impact the Group's primary statements (so no numbers are provided). **<u>Consolidated Income Statement:</u>** • **Net Revenue** The result of our insurance activities will be shown separately from the Group's main Revenue line: - Insurance revenue - Insurance service expenses - Insurance service result • **Insurance finance income / expense** Finance income / expense will include the following items: - Net finance expense from insurance contracts - Net finance income from reinsurance contracts Under IFRS 17 the Group may elect to disaggregate certain elements of finance income / expense that arise due to changes in assumptions (such as the discount rate or inflation) and record the impact of those changes in Other comprehensive incomce (OCI) rather than in the Income statement. • **Net expenses from reinsurance contracts** A new line will be included in the Income statement: - Net expenses from reinsurance contracts

Standards, amendments and interpretations issued but not yet effective - continued

Title	IFRS 17 Insurance Contracts
Impact - continued **Balance Sheet**	**<u>Consolidated Balance Sheet:</u>** **• 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. A new line item called Reinsurance contract assets will be included in our balance sheet. **• Liabilities** Contract liabilities in the balance sheet will be replaced with insurance contract liabilities. **• Opening reserves** The adoption of IFRS 17 will require us to restate our opening balance sheet position as at 2nd January 2022.
Impact - continued **Reconciliation of Operating profit to net cashflow**	**<u>Reconciliation of Operating profit to net Cashflow:</u>** **• Contract Assets** Contract assets (deferred fulfilment / acquisition costs) will be included in the measurement of the insurance contract liabilities. As such, the "Increase / or decrease in contract assets" line in the reconciliation of operating profit to net cashflow will no longer be required. **• Contract Liabilities** The line item "Increase / or decrease in contract liabilities" will be replaced with "Increase / or decrease in insurance contract liabilities". **• Re-insurance contract assets** A new line item called "Decrease/(increase) in reinsurance contract assets" will be included.
Date of adoption by the Group	Applicable to annual reporting periods beginning on or after 1 January 2023 - for the Group this is next year's financial statements (2023) and the first time we report under IFRS 17 will be at the half-year 2023. The application is retrospective so we will be restating opening reserves as at 2 January 2022.

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 21 to the accounts.

In addition, notes 21 and 28 also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities. The ongoing impact of the Ukraine/ Russia conflict and the UK recession 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 28, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Group, prepared for the period to December 2024 (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.

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 120 – 123.

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.

Opinion

In our opinion:

- Co-operative Group Limited's consolidated financial statements (the "financial statements") give a true and fair view of the state of the Group's affairs as at 31 December 2022 and of the Group's income and expenditure for the 52-week period then ended;

- the financial statements have been properly prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014;

We have audited the financial statements of Co-operative Group Limited for the period ended 31 December 2022 which comprise:

Group
Consolidated balance sheet as at 31 December 2022
Consolidated income statement for the 52-week period ended 31 December 2022
Consolidated statement of comprehensive income for the 52-week period ended 31 December 2022
Consolidated statement of changes in equity for the 52-week period ended 31 December 2022
Consolidated statement of cash flows for the 52-week period ended 31 December 2022
Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards in conformity with the requirements of the Co-operative and 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 as well as 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 assessment period indicated a longer review period was required.

- We obtained management's cash flow forecasts addressing their base case and downside scenarios and checked the arithmetical accuracy of the cash flow forecast models.

- We tested the appropriateness of the key assumptions which management used within their base case by reference to current and historic trends, external industry sources and our internal specialists.

- We obtained copies of all the facility agreements and understood the terms and conditions including those related to covenant test ratio requirements. We modelled forecast compliance with the covenant tests, assessed the headroom on both the leverage and interest cover ratios and performed a reverse stress test using EY's own sensitivities and mitigating actions, including modelling a potential cash outflow in respect of legal matters during the period of assessment.

- We considered, for management's downside case, the potential for historical forecasting inaccuracies to recur and whether the downside risks captured severe but plausible changes in key assumptions that had a higher than remote possibility of occurring.

- We assessed management's ability to execute feasible controllable mitigating actions to respond to the downside scenario based on our understanding of the group and sector.

- 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.

- We stood back and concluded on the adequacy of management's going concern assessment and disclosures through an overall consideration of the evidence obtained from the procedures above.

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 £283m (2021: £960m), which is common in the retail industry due to the working capital cycle. The Group has net debt of £1,639m (2021: £2,436m) of which £780m (2021: £976m) is subject to covenant testing twice a year.

Cash generated from operating activities was £455m (2021: £178m) and was higher than the prior period, primarily due to favourable movements in working capital balances.

We identified the following significant assumptions made by management which have influenced their going concern assessment:

- Extent to which the inflationary pressure on product costs, payroll and energy prices will be passed through to consumers;

- Extent to which pressure on consumer disposable income impacts sales volumes;

- Achievement of further projected cost saving initiatives.

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 the period to 31 December 2024.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. Going concern has also been determined to be a key audit matter.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Food, Wholesale, Funeral, Insurance and Corporate components and specific audit procedures on material balances for the Legal component. Further to this, we performed specified procedures on the Property Component and review scope procedures on the CFS Management Services (CFSMS) and Angel Square Investments Limited (ASIL) components. • The components where we performed full or specific audit procedures accounted for 83.70% of Profit before tax, 99.90% of Revenue and 98.45% of Total assets.
Key audit matters	• Revenue Recognition • Supplier income • Pre-need funeral plan accounting • Impairment of Food goodwill, Food and Corporate property, plant & equipment and right of use assets • Accounting for the sale of petrol forecourts • Group IT Environment • The going concern basis of preparation
Materiality	• Overall group materiality of £48m which represents 0.5% of adjusted revenue[1]. [1]*Adjusted revenue is calculated as total Group revenue less revenue generated by the Federal Joint Buying Group (Federal per Note 1 of the accounts) as this revenue is passed through at nil margin therefore does not represent revenue the Group has performed services to obtain from which it derives an economic benefit*.

An overview of the scope of the Group audit

Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each component within the Group. Taken together, this enables us to form an opinion on the financial statements. We consider 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 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 (2021: nine) reporting components of the Group. Our audit scope therefore includes all the principal business units within the Group.

Of the nine components selected, we performed an audit of the complete financial information of the Food, Wholesale, Funeral, Insurance and Corporate components (“full scope components”) which were selected based on their size or risk characteristics. For the Legal component (“specific scope component”), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The 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 component may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The audit scope of the Specified procedures component will include 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 together represent 0% of the Group’s adjusted revenue and 0.3% of the Group’s total assets. For these components (CFSMS and ASIL), we performed other procedures, including detailed analytical review, testing of cash balances, testing of intercompany balances for elimination, testing of equity balances and journal entry testing. We performed this testing to respond to the potential risks of material misstatement to the financial statements.

Current 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
Total	100	100	100

Prior Period Coverage

Components	Profit before tax %	Adjusted Revenue[1]	Total assets %
Full Scope Components (5)	74.82	99.48	97.93
Specific Scope Components (1)	19.40	0.11	1.47
Other Procedures (2)	0.40	0.00	0.32
Specified Procedures Component (1)	5.38	0.41	0.28
Total	100	100	100

[1]Adjusted revenue was calculated as total Group revenue less revenue generated by the Federal Joint Buying Group (Federal per Note 1 of the accounts) as this revenue is passed through at nil margin therefore does not represent revenue the Group has performed services to obtain from which it derives an economic benefit.

Changes from the prior period
We revised our scope for the Property component from specific scope in the prior period to specified procedures over material balances in the current period. The purpose of this component is to dispose of and manage property on behalf of the group once assets within the wider group become non-trading. We revised our scoping of the Legal component from specified procedures to specific scope due to the increased contribution to Group profit which has been made by this component in the current year. CFS Management Services was reduced to review scope, from specified procedures, due to a reduction in the balances in the division.

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 five full scope components, audit procedures were performed on one of these directly by the primary audit team. The rest were performed by component teams except for certain centrally managed balances audited directly by the primary audit team. For the specific scope component, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

During the audit, an EY Group-wide team planning event was held with representatives from all full and specific scope component teams in attendance which involved discussing the approach with the component teams. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, discussed issues arising from their work, attended closing meetings with component management, reviewed key working papers and were responsible for the scope and direction of the audit process. During the current period's audit cycle, the Food and Funeral component teams were based together with the primary team in the Co-operative Group Head Office in Manchester. This allowed the Group audit partner to meet regularly with the component team during the performance of the audit. The Food team also made visits to the Wholesale component based in Scunthorpe. The other full scope components: Funeralcare, Corporate and Insurance were led by the Group audit partner. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the financial statements

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has determined that the most significant future impacts from climate change on their operations will be from:

- Changing regulations and UK Government targets / policies
- UK commitment to the 2015 Paris Agreement and to be net zero by 2050
- Increasingly competitive environment on sustainability as organisations move from aspiration to implementation to meet agreed targets
- Climate change and sustainability impacts on food sources; materials used in the business; livelihoods and economic growth
- Government plans for a transition to a greener and fairer economy
- Living up to Co-operative Values and Principles
- Increased awareness and changing attitudes of members, customers, suppliers and partners

These are outlined in further detail on page 67. The Group have also explained their climate commitments on pages 42-45. The Group disclose the key physical risks relating to the impact of flooding and extreme heat, also the wider impacts on the global food supply chain. The Group see their key transitional risks as: Carbon pricing relating to greenhouse gas emissions, market risks and changing customer behaviours, policy risks from new legislation and technology risks creating required investments. 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 section and in Note 11 and 13 their articulation of how they have reflected the impact of climate change in their financial statements and forecasting. The significant judgements and estimates currently reflect the known impacts of climate change and will continue to be reflected in their financial models and plans to reflect the future economic impact on their business model, operational plans and customers. Therefore, the potential impacts of future plans are not fully incorporated in these financial statements.

Within the “other information”, the Group disclose details of their “Climate Plan” which sets out how they are working to transition to a lower carbon future and become a net-zero business before 2040.

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 67 and the significant judgements and estimates disclosed in notes 11 and 13, also disclosed within the accounting policies and basis of preparation section. Our audit effort also assessed whether these have been appropriately reflected in asset values where these are impacted by future cash flows and associated sensitivity disclosures (see notes 11, 13 and 27) following the requirements of IFRS. As part of this evaluation, we performed our own risk assessment, supported by our climate change internal specialists to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

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.

We have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

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
Revenue Recognition **(2022: £11,480 million, 2021: £11,151 million)** The timing of when revenue is recognised is relevant to the reported performance of the Group. There remains opportunity through management override of controls and manual journals to misstate revenue throughout the period. We have determined the risk to affect both over and understatement in the current year to respond to the incentive to manipulate revenue to meet market expectations and to recognise the incentive to defer profits into next year to enhance the prospect of achieving future bonus targets. The key areas where this manipulation could take place is through manual journals into revenue or through adjustments in relation to store polling data close to the end of the period. *Refer to the Audit Committee Report (page 86); Accounting policies (page 210); and Note 2 of*	*Applicable to all material revenue streams* • We obtained an understanding of and documented the key processes used to record revenue transactions by performing a walkthrough of the processes and IT systems. • We performed analytical review procedures over revenue in the period, comparing results with our expectations and tested differences. In particular, we performed procedures in the month preceding and subsequent to the period-end. • We tested whether the Group's revenue recognition policy is in line with the criteria 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 explanations provided by management for any unexpected fluctuations. • We adopted a fully substantive audit approach to test revenue recognition in the year. • For all revenue streams we stood back and concluded whether the overall balance is free from material misstatement. *Food- Store revenue* • We tested manual journals relating to instances where stores recognised revenue outside the normal automated store EPOS process and ensured that there was no duplication of stores within the population or unusual amounts of revenue recognised.

Risk	Our response to the risk
the Consolidated Financial Statements (page 154) The risk has been amended in the year to focus on both overstatement and understatement considering the performance of the group relative to the incentive targets of executives.	• We performed journal analysis to identify sales journals that have not resulted in cash receipts and test a sample of these to supporting evidence to ensure revenue has been recognised correctly. • We challenged manual adjustments made in relation to "non-polled" store data adjustments by comparing these against averages for those stores. *Wholesale* • 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 material instances of misallocation between periods. *CISL* • We tested the appropriateness of recognition of deferred consideration as revenue during the period. Our procedures in respect of Revenue covered 99.99% of reported Revenue.

Key Observations to the Risk and Audit Committee
Revenue has been recognised appropriately in accordance with IFRS 15: Revenue from Contracts with Customers. We have not identified instances of management override of controls in relation to revenue.

Risk	Our response to the risk
Supplier income *Income through the year (2022: £626m, 2021: £726m)* *Income accrued at period-end (2022: £116m, 2021: £116m)* The Group receives money back from suppliers specifically through the Food and Wholesale divisions. This supplier income is categorised as bonus income, promotional income and long-term agreements (LTAs). The terms of agreements with suppliers can be complex and varied. There can be performance conditions or promotional periods that span the Group's reporting date. Due to the complexity and judgement required in relation to bonus income and LTA	• We focussed our procedures on areas where management apply judgement, where the processing is either manual or more complex and where the value of agreements is high. • We held enquiries with management to understand supplier arrangements entered in the period, with a focus on short-term supplier arrangements given supply chain disruptions to assess risks of material misstatement due to unusual contract arrangements or modifications. • We performed a walkthrough of the process for recording the three different arrangement types, additionally we tested controls over Bonus and LTA Income. We also assessed the robustness of the control environment for Promotional Income. • Using the data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier income. • For a 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 in the calculation of the income. We recalculated the income, and accrued income recognised for this sample to check the completeness and existence of the amounts.

Risk	Our response to the risk
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. 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. The risk has been amended in the year to focus on both overstatement and understatement considering the performance of the group relative to the incentive targets of executives. *Refer to the Audit Committee Report (page 86); Accounting policies (page 210); and Note 4 of the Consolidated Financial Statements (page 156)*	• We selected a sample of period-end balances from the trade receivables ledger and requested third party balance confirmations. • For cut-off purposes, we tested an additional sample of supplier income recognised during December to agreement terms and volume submissions from suppliers to ensure the related income was recognised in the correct period. • We tested a sample of credit notes received during January 2023 and assessed whether any of these related to arrangements in respect of 2022. • We performed analytical review procedures over supplier income compared to cost of sales throughout the period to identify any unusual or unexpected trends and 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 were sufficient. • We read management's disclosure with respect to supplier arrangement amounts recorded in the Income Statement and Balance Sheet to check they were consistent with our findings. • We assessed whether management's allocation of supplier income earned jointly with other independent societies through the member buying group was applied appropriately. • We stood back and concluded on the appropriateness of the accounting for supplier income considering all our above procedures. Our procedures in the Food and Wholesale components addressed 100% of the Supplier Income balances during the year.

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
Pre-need funeral plan accounting *Funeral plan liabilities (2022: £1,723m, 2021: £1,793m)* *Finance cost (2022: £55m, 2021: £59m)*	• We understood and evaluated the key estimates in management's accounting policy for pre-need funeral plans. The key data points under the accounting policy are determined to be the effective date of plans, the cash value of the plans at inception, the cancellation or redemption dates of plans and the accretion rate related to funeral plan liabilities applied by management. • We performed a walkthrough of the accounting processes for pre-need funeral plans to confirm our understanding of the way

Risk	Our response to the risk
Cancelled plan provision (2022: £9m, 2021: £39m) The accounting for pre-need funeral plans is inherently complex, contains several estimations and judgements, and involves manual processes which are more susceptible to misstatements. The determination of the accretion rate is a critical estimate, it is applied throughout the lifetime of the contract until the funeral is provided, at which time the value that has been accreted is recognised as revenue in the income statement. During the lifetime of the contract, the increase in the value of the liability is taken to the income statement as a finance expense. There is a risk of misstatement to the valuation of the funeral plan liability and measurement of revenue and finance cost recognised in the income statement should the accretion rate not reflect an appropriate borrowing rate as required under IFRS 15. There is also a risk of a misstatement in the determination of the cancelled plans due to the manual nature of the process. Given the estimation involved in the determination of the accretion rate for funeral plan liabilities, as well as misstatements identified in previous years due, we have identified the risk of error in the accounting for pre-need funeral plan liabilities as a significant risk.	transactions are initiated, recorded, processed, and reported. We will test the design effectiveness of key controls within the process. • We performed testing to assess the completeness and accuracy of data inputs to the model prepared by management to calculate the liability accretion expense in the current period. • We used a data analytics tool to recalculate the accreted liability for all funeral plans and assess the sensitivity of the accretion rate applied by management. • We obtained evidence of after-date cash for a sample of plan debtors using a lower testing threshold to confirm the plan is not cancelled. • We compared the plan debtor's ledger at two discrete points in time to identify non-moving plans which is an indicator of a cancelled plan. • We challenged the treatment of the adjustment required for cancelled plans by assessing the plans against the contractual terms and conditions for when a plan is deemed to have been cancelled. • We assessed the debtor balance amongst live plans for mismatches between the debtor balance and associated deferred income balance. • We performed a stand-back test to assess the judgments taken around funeral plan accounting using evidence from the above testing. Our procedures in the Funerals component addressed 100% of the Funeral Plan liabilities, finance costs relating to the pre-need policies and the provision for cancelled plans.

Risk	Our response to the risk
In the year we have amended the risk to exclude inappropriate plan asset valuation this year given the satisfactory results of testing in the prior year. We have also excluded the risk associated with the assessment of onerous contracts given the increase in headroom. We have amended the remaining elements of the risk in the year to focus on both overstatement and understatement considering the performance of the group relative to the incentive targets of executives. *Refer to the Audit Committee Report (page 86); Accounting policies (page 210); and Note 23 of the Consolidated Financial Statements (page 186)*	

Key Observations to the Risk and Audit Committee
Funeral plan liabilities and the associated finance costs are recorded in accordance with IFRS 15. Cancelled plans were appropriately eliminated from Funeral plan debtors and Funeral plan liabilities and the residual provision for cancelled plans was appropriate.

Risk	Our response to the risk
Impairment of Food Goodwill, Food Store and Corporate property, plant & equipment and right of use assets *PPE (2022:£1,631m, 2021:£1,912m)* *RoU Assets (2022:£882m, 2021:£1,086m)* *Goodwill (2022:£744m, 2021:£862m)* ***Food Goodwill*** Goodwill related to the Food component amounted to £723m (2021: £840m) There is a risk of	***Food Goodwill*** • We documented our understanding of goodwill from acquisitions, the impairment model and the assessment of indicators of impairment for Food stores and properties in the Property division. • We performed a walkthrough on how management obtains the data to be input into their impairment models and assessed the design of the controls over the process. • We obtained the Food goodwill impairment test calculations, which includes both NISA and Food goodwill and other non-current assets and checked that the impairment test was arithmetically correct. • We involved our specialists to assess the discount rate used in the model by management.

Risk	Our response to the risk
misstatement when performing impairment assessments due to the inherent uncertainties in forecasting for the future effects of the macro-economic environment. These factors can result in a material decline in the valuation of intangible and tangible assets. The macro-economic environment is particularly challenging at the moment with high inflation levels, high interest rates and pressure on consumers from the cost of living impact. In the current year, the disposal of the Petrol Forecourts stores has removed a significant contribution to future earnings included in the impairment model. Management's assessment of Food Goodwill resulted in a reduction in headroom from £2.2bn to £0.3bn, reflecting both the disposal of the Petrol Forecourts and higher discount rates. ***Food Store PPE and RoU Asset Impairment*** Food Store PPE/RoUA £2,285m (FY21: £2,583m). The Food division operates the Group's largest Property, Plant and Equipment ('PPE') portfolio. During the year, management recognised an impairment charge of £71m (FY21: £22m). The tougher trading environment described above has increased the inherent uncertainty in forecasting future cashflows used in the impairment assessment.	• We reconciled the group's divisional level forecasts to the forecasts assessed as part of our going concern and viability assessment to check they were consistent. ***Food Store and Corporate PPE/RoUA Impairment*** • We obtained management's impairment indicator workings for store and corporate assets and impairment models for those stores and corporate properties identified with indicators of impairment. We confirmed the integrity of data inputs including store-level cash contribution data, listings of stores which were refitted or new in 2021 or 2022, corporate property rental income and the carrying values of properties We also re-performed manual calculations to check these for clerical accuracy. • We tested the composition and accuracy of the cashflow projections prepared by management and assessed management's forecasting accuracy by comparing to historic outturns. We considered making adjustments to forecasts where judgement is applied, such as for new and loss-making stores in the Food component, as well as the macro-economic impact on profits. • We tested the key assumptions (such as growth rates, discount rates & perpetuity rates) by comparing to external sources and working with our valuation specialists to compare the key assumptions to external benchmarks. • We reconciled short term store revenue forecasts to divisional level forecasts. We selected a sample of stores to perform a more detailed assessment. For this sample, individual store performance was compared to historical actuals and actual performance in the post year end period. We challenged management to provide further evidence where short term revenue growth forecast was higher than we expected. • We assessed and tested management's methodology for calculating store margins and contribution which uses historical actual ratios. • We assessed stores that were excluded from the impairment test on the basis they were new and considered impairments where current performance was significantly behind threshold levels. • We tested the assumptions applied in respect of the highest and best use of corporate PPE, including the likelihood of sub-let income and the duration of such sub-lets. ***General Considerations*** • We read the disclosures related to key assumptions and assessed whether reasonably possible changes to those assumptions could give rise to an impairment. • We stood back and concluded on the assumptions used in management's impairment models and that the related disclosures in the financial statements appropriately described the methods and sensitivities applied.

Risk	Our response to the risk
Corporate PPE and RoU Asset Impairment *Property PPE/RoUA (2022:£101m, 2021: £130m)* The Corporate Property division operates a number of non-trading offices and commercial buildings. The organisational change and operational expense savings programme together with more flexible ways of working has changed the requirements for office accommodation. There is an increased risk that non-trading properties may become impaired. The risk has been amended in the year to include Corporate property, plant and equipment and right of use assets within the risk. *Refer to the Audit Committee Report (page 86); Accounting policies (page 210); and Notes 11, 12 & 13 of the Consolidated Financial Statements (page 164 - 173)*	

Key Observations to the Risk and Audit Committee
An impairment to the Food Goodwill was unnecessary. 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”.

Risk	Our response to the risk
Accounting for the disposal of petrol forecourts (Arthur Food Stores Limited)	***Control Considerations*** • We read the key clauses from relevant agreements being the Sale and Purchase Agreements (SPA), Outsourcing and Interim Franchising Agreement (OIFA) and the CMA’s Initial Enforcement Order and Phase 1 Investigation and assessed the impact of those on

Gain on disposal of Petrol Forecourts £319m On 30 October 2022, the Group completed the sale of 129 petrol forecourts, owned by Arthur Food Stores Limited, a subsidiary of the Group, to Asda. The group continued to sell products to these stores under an Outsourcing and Interim Franchise Agreement with Arthur Food Stores Limited. At the year end, the transaction was still subject to CMA approval. The key financial statement risks arising from the transaction are: • whether the Group continued to control the stores during the period of the restrictions imposed under the CMA's Initial Enforcement Order; • Calculation of the gain on disposal including completeness of the assets and liabilities divested, completeness of consideration received and eligibility of the substantial shareholder exemption to mitigate the tax charge on the gain; • elimination of goodwill associated with the stores sold; and • the presentation of the impact of the transaction in the financial statements. This is a new risk in the current year as the project has only occurred within the current financial period.	the accounting considerations and in particular the consideration of which party has control of the business. • We evaluated the IFRS10 considerations relating to the exercise of control over the disposed stores following completion of the transaction including the Group's power over the business, exposure to variable returns and the ability to use its power to affect its exposure to variable returns. ***Calculation of profit on sale*** • We agreed consideration proceeds and working capital adjustment payments to the bank statement and reconciled through to completion accounts. • We assessed the closing balance sheet for evidence of Petrol Forecourt-related asset and liability balances that should have been derecognised and included in the calculation. • We selected a sample of journal entries relating to the disposal of stores to assess the completeness of the derecognition of assets and liabilities. • We tested a sample of directly attributable transaction costs to assess if they were related to the transaction. • We considered tax implications of the transaction and involved our tax specialists to assist us in assessing the eligibility to benefit from the substantial shareholder exemption relief. ***Elimination of Goodwill*** • We challenged management's basis for the allocation of goodwill to the disposal group. We checked that the allocation of goodwill to the stores divested was proportionate to the value of the remaining Food stores. • We checked that the calculation of the goodwill eliminated was based on the total goodwill of the Food CGU. ***Review of disclosures*** • We assessed the completeness and appropriateness of the disclosures made in relation to the impact of the lost contribution in the last two months of the year, the presentation of the gain on disposal as non-underlying, non-operating income and the disposal note to financial statements.

Refer to the Audit Committee Report (page 86); Accounting policies (page 210); and Note 35 of the Consolidated Financial Statements (page 209).	

Key Observations to the Risk and Audit Committee
The derecognition of the Petrol Forecourts was consistent with the principles of control under IFRS 10 and the resulting gain on disposal was appropriately determined and presented in the income statement.

Risk	**Our response to the risk**
Group IT Environment There are over 600 platforms which operate across the Group. Some of these legacy systems are complex, have been built up over time and there are varying levels of integration between them. The systems are important to the ongoing operations of the business and to the integrity of the financial reporting process. There are limitations in the functionality of certain of the Group's IT systems which necessitates dependence upon manual interventions and complex key control account reconciliations and workbooks between the general ledger and sub-ledger/manual workbooks in the financial close process. Manual interventions are susceptible to the risk of management bias or misstatement. The IT limitations in the Funeralcare business also impact the significant risk" Accounting for pre-need funeral plans under IFRS 15" due to the complexity of the calculations. ISA 315 (Revised) "Identifying and Assessing the Risks of Material Misstatement" became effective for the current year which has led to additional audit procedures being performed on relevant IT systems in order to better understand the IT General Controls	• We involved our IT specialists to assist us in understanding the IT systems, the level of integration between systems and the ability to rely on IT general controls for the key systems impacting the recording of transactions and the presentation of the financial statements. • We enhanced the testing of manual journals posted as part of financial close process due to limitations in the Group's IT systems to address the risk of inappropriate journals. • In response to the limitations in the systems which affected the applications and databases within the scope of our audit, we performed the following audit procedures over information provided to us by the Group: 1) Tested a sample of transactions within the data processed by the IT systems to underlying source documentation to ensure that the extracted data is accurate. 2) Tested the data extracted from the IT systems to the general ledgers to ensure accuracy. 3) Reconciled trial balance movement in the period to the list of journals posted to ensure completeness. 4) Observed and tested the input parameters being entered to ensure appropriateness of the data extracted from the IT systems for the intended purpose. 5) Recalculated the computations and categorizations performed by the IT systems for a sample of transactions in the extracted data report to ensure the data is accurate. • Due to the lack of systems integration and the presence of manual interventions we tested a higher number of

which operate on those systems. We determined there to be 59 systems which are relevant systems. The significance of the risk has remained the same in the current period as the prior period.	reconciling items in both complex and non-complex areas of accounting. • We stood back and concluded whether the accounts impacted by the weaknesses of the group IT environment have been subject to a material misstatement in light of the evidence obtained from our procedures.

Key Observations to the Risk and Audit Committee
We completed additional substantive testing in order to mitigate the risk of material misstatement due to limitations in the functionality of certain of the Group's IT systems and did not identify material misstatements.

In the current period, the procedures performed in respect to Revenue Recognition, Supplier Income and Pre-need funeral plan accounting have been modified to reflect the fact that we are focussing on both the risks of overstatement and understatement.

In relation to Pre-need funeral plan accounting, we have removed the elements of the key audit matter in the prior period which related to inappropriate plan asset valuation and the potential for onerous contracts under the revised IAS 37 due to a lack of complexity in the accounting, no prior history of errors and significant headroom between plan assets and future obligations.

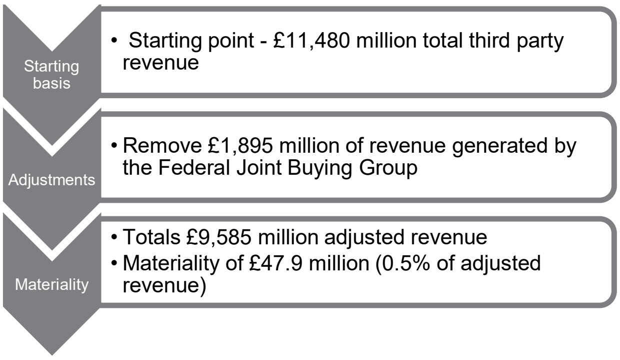
Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £47.9 million (2021: £47.4 million), which is 0.5% (2021: 0.5%) of adjusted revenue. Revenue is a key performance indicator used by management to monitor the Group's performance and also the figure which we believe to be relevant to the members when assessing the performance of the Group. However, we considered adjusted revenue to be a more appropriate performance metric on which to base our materiality calculation. Adjusted revenue was calculated as total Group revenue less revenue generated by the Federal Joint Buying Group (Federal Sales per Note 2 of the accounts). We concluded it was appropriate to deduct Federal revenue as it is passed through at nil margin and therefore does not represent revenue the Group has performed services from which it derives an economic benefit.

In concluding on this benchmark, we considered that the primary users of the financial statements were the Members. Providing services for Members and their communities, Meaningful Membership benefits, employee discounts and charitable contributions are key performance indicators for Members. These amounts are a function of revenue. Accordingly, we consider revenue to be a more relevant performance benchmark than profit before tax and EBITDA. This benchmark is consistent with the prior period.



During the course of our audit, we reassessed initial materiality based on the final figures used per the financial statements and this led to an increase 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% (2021: 50%) of our planning materiality, namely £24.0m (2021: £23.7m).

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 £4.8m to £18.0m (2021: £4.7m to £17.8m).

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 £2.4m (2021: £2.4m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we have been requested to report in accordance with our engagement letter

The directors have instructed us to express an opinion on whether, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement on page 84 is in compliance with the following provisions: Section 2 provision 3, Section 5 provisions 1, 3, 5 and 6 of the Co-operative Corporate Governance Code issued in November 2019 ('the Code'). We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- The Society has not kept proper books of account; or
- The Society has not maintained a satisfactory system of control over its transactions; or
- The financial statements are not in agreement with the books of account; or
- We have not received all the information and explanations we require for our audit

Corporate Governance Statement

International Standards on Auditing (ISAs) require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements, or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 120;
- 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 122;
- Directors' statement on fair, balanced and understandable set out on page 127;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 127;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 59-63; and;
- The section describing the work of the audit committee set out on page 86

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 127, 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. Our procedures in response to fraud risk included involvement of our Forensic specialists to support our journal entries testing with a specific focus on searching for patterns susceptible to fraudulent activities and testing of journals designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For 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 involved EY forensics specialists to assist with designing appropriate audit procedures. 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 30 that a claim has been received in respect of an historic transaction to dispose of 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 30 with management and members of the Risk and Audit Committee.

- During the 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 7 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 one 53-week period ending 6 January 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and we remain independent of the Group in conducting the audit.

The audit opinion is consistent with the additional report to the Risk and Audit Committee.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014 and our engagement letter dated 13 January 2021. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
Manchester
4 April 2023

Jargon Buster (unaudited)

There are lots of technical words in our accounts which we have to use for legal and accounting reasons. We've set out some definitions in the jargon buster table below to help you understand some of the difficult phrases accountants like to use. When a word is in bold in the jargon buster table that means you can also find the definition of that word in this table.

There is also a "What does this show?" introduction to every note to the accounts describing in simple terms what the note is trying to show.

Initially though we define and explain some of the Alternative Performance Measures (APMs) that we use throughout the Annual Report and Accounts.

Alternative Performance Measures (APMs)

Our Annual Report and Accounts includes various references to Alternative Performance Measures (APMs). These are financial ratios and metrics that are not defined by International Financial Reporting Standards (IFRS) and as such they may not be comparable with the APMs that are reported by other entities.

We include our APMs in the Annual Report and Accounts as we think they give useful information to our members to help them better understand the underlying performance and financial health of their Co-op. We don't however think the APMs that we provide are better than the statutory measures noted under IFRSs and they are not meant to replace them.

The table below explains in simple terms how the APMs are calculated and why we think they are useful measures to use. Where possible we also call out the nearest equivalent IFRS measure and cross-refer to the section of the financial statements where we reconcile between the APM and that IFRS measure.

We've introduced 2 new APMs this year in EBITDA and underlying EBITDA (see tables overleaf for definition). These new metrics are in addition to our usual APMs that we referred to last year. The Group's primary APM is Underlying profit / (loss) before tax. As defined overleaf; EBITDA is a measure of operating profit before depreciation and amortisation and we've introduced these metrics this year as we believe it will help our members to further understand how our businesses have performed. The metrics remove the impact of the Group's historic capital expenditure profile which has changed significantly in recent times and so it gives the reader additional useful information on our current performance.

Alternative Performance Measures (APMs) continued

APM	
Like-for-like sales	**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 closed in the year being removed from the calculation and prior year figures). The calculation includes VAT on sales but excludes fuel sales from our petrol forecourts. For Wholesale then the like-for-like metric relates to those partners (stores) that have been with Co-op for more than one year (with any sales from partners who have left in the year being removed from the calculation). 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). **Closest IFRS equivalent:** There is no close equivalent to this measure under IFRS. **Where reconciled in the financial statements:** Not applicable as there is no close equivalent to this measure under IFRS.
Underlying operating profit before tax	**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. 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. **Closest IFRS equivalent:** Operating Profit. **Where reconciled in the financial statements:** Income statement and Note 1 (Operating segments).

Alternative Performance Measures (APMs) continued

APM	
Underlying profit / (loss) before tax (PBT)	**Definition and Purpose:** Our underlying PBT figure is simply our underlying operating profit (as calculated above) less our underlying interest (being the day-to-day interest we pay on our bank borrowings and lease liabilities). Other interest income or expense such as our net interest income or expense on funeral plans is either not generated by our day-to-day trading or is not considered by management in the day-to-day running of the business as it distorts the underlying trading performance of the Group. Such items are not included in our underlying PBT metric so it is easier for our members to see and understand how our core businesses are performing. Again the measure looks to remove those items that are not generated by our day-to-day trading (as per the definition noted above) but we also include the day-to-day finance costs of running of our businesses. **Closest IFRS equivalent:** Profit before tax. **Where reconciled in the financial statements:** Note 1 (Operating segments).
EBITDA (Earnings before interest, taxation, depreciation and amortisation)	**Definition and Purpose:** EBITDA is calculated by adding back depreciation and amortisation charges to Operating profit. Operating profit is stated before interest charges and taxation. 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. **Closest IFRS equivalent:** There is no close equivalent to this measure under IFRS. **Where reconciled in the financial statements:** Note 1 (Operating segments).

APM	
Underlying EBITDA	**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. 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. **Closest IFRS equivalent:** There is no close equivalent to this measure under IFRS. **Where reconciled in the financial statements:** Note 1 (Operating segments).
Net debt (interest bearing loans and borrowings only)	**Definition and Purpose:** Net debt is made up of our of bank borrowings and overdrafts off-set by our cash balances. The figure excludes any lease liabilities. 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. **Closest IFRS equivalent:** Interest bearing borrowings less cash and cash equivalents. **Where reconciled in the financial statements:** Consolidated statement of cashflows.
Total debt (including lease liabilities)	**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. The metric provides a measure of the Group's gross indebtedness. **Closest IFRS equivalent:** Interest bearing loans and borrowings plus lease liabilities. **Where reconciled in the financial statements:** Consolidated statement of cashflows.

Jargon Buster (unaudited)

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**.
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.
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.
Commitments	Where we've committed to spend money on something (such as building projects) but we're not technically liable to pay for it, we don't put the amount on the **balance sheet** but we disclose the amount in the commitments note.

Comprehensive income	This is our profit for the year plus **other comprehensive income**.
Consolidated	As this report is based on the financial performance and position of many societies and companies around **the Group**, we have to add up all those entities and the total is the consolidated position.
Contingent asset	This is an amount that we might get in the future. Unless it's almost certain that we'll get the amount, we're not allowed to put it on the **balance shee**t 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.
Contract assets	These are costs we've incurred in advance of being entitled to receive payment from a customer under a contract, such as costs incurred in setting up a **funeral plan**. We hold these on the **balance sheet** until we've delivered all the services to our customer and are entitled to receive payment.
Contract liabilities	This is where a customer has paid us in advance of them receiving goods or services under a contract (for example, a **funeral plan**). We have to hold this on the **balance sheet** until the customer receives the service they've paid for.
Corporate investor shares	This is money that other **societies** invest with us and we pay them interest on it. The **societies** can get their money back at any time.
Credit	This is an increase in income/reduction in costs on the **income statement** or an increase in a **liability**/reduction in an **asset** on the **balance sheet**.
Current	An **asset** or **liability** that is expected to last for less than a year.
Current tax	This is the amount we expect to pay in tax for the year based on the profits we make.
Debenture	This is a type of loan that we've issued and are paying interest on.
Debit	This is a decrease in income/increase in costs on the **income statement** or a decrease in a **liability**/increase in an **asset** on the **balance sheet**.
Debt	Loans that we've issued and are paying interest on.
Deferred consideration	This is an amount we'll be paying to a seller for businesses we've bought or an amount we'll be getting from a buyer for businesses that we've sold.
Deferred income	Occasionally we receive monies (or recognise **deferred consideration** following the sale of a business) in advance of when we will actually perform the service we are being paid for. When this happens we hold a **liability** on our **balance sheet** until the point at which we perform the service at which point we extinguish the **liability** and recognise the income.
Deferred tax	Sometimes our **assets** and **liabilities** are worth more or less on our **balance sheet** than they are for tax purposes. The tax on the difference in value is called deferred tax and can be an **asset** or **liability** depending on whether the value is greater in the **balance sheet** or for tax purposes.
Defined benefit schemes	This is a pension scheme where an amount is paid out to an employee based on the number of years worked and salary earned.

Defined contribution schemes	This is a pension scheme where an amount is paid into the scheme and at retirement the employee draws on the amount that has been invested over the years.
Depreciation	Some **assets** the Co-op will have for a while (such as vehicles). When we buy them the cost goes on our **balance sheet** and then **depreciation** spreads the cost of the **asset** evenly over the years we expect to use them in the **income statement**.
Derivatives	These are financial products where the value goes up or down based on an underlying **asset** such as currency, a commodity or interest rate.
Discontinued operations	When we sell a large business, we report its results at the bottom of the **income statement** so that it's easier for readers to see the performance of **the Group's** other continuing businesses.
Discount rate	This is the amount that we are **discounting** by. It's a percentage and varies based on what we expect interest rates or inflation to be in the future.
Discount unwind	Every year the amount that we're **discounting** is going to be worth more as we get nearer to paying or receiving it. We have to put that increase in value (the **discount unwind**) through our **income statement**.
Discounting	When we have to pay or receive cash in the future, accountants like to take off part of the amount if it's a big amount (like on our **onerous leases**). This is because cash we pay or receive in the future is going to be worth less than it is now – mainly because of inflation.
Disposals	When we have sold an **asset**.
EBITDA	This is **operating profit** excluding any **depreciation** or **amortisation**. The letters stand for earnings before interest, tax, **depreciation** and **amortisation** (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.
Eurobond Notes	This is our largest, fixed interest **debt** that we pay interest on to fund our businesses' operations.
Expected credit losses	This is an estimate of the amount of our **receivables** which will not be repaid.
Fair value movement	There are some things on our **balance sheet** which we have to revalue every year. This includes some of our **debt**, **investment properties**, our pension schemes and **funeral plans**. The change in value is called the fair value movement.
Federal	Federal relates to the activities of a joint buying group that is operated by **the Group** for itself and other independent co-operative societies. **The Group** acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities. This is separate to our **Wholesale** business.
Finance costs	These are usually the interest we pay on our **debt**, but can also be other things such as the **fair value movement** on our **debt** or the **discount unwind** of **liabilities**.

Finance income	This mainly relates to the interest on our pension assets and the **unrealised gains on funeral plan investments**, but can also be other things such as the **fair value movement** on our **debt** or the **discount unwind** of **receivables**.
Finance lease	A finance lease is a way of providing finance. Effectively a leasing company (the lessor or owner) buys the asset for the user (usually called the hirer or lessee) and rents it to them for an agreed period.
Financial Conduct Authority (FCA)	The FCA regulates the financial services industry in the UK.
Financial instruments	A collective term for **debt** or **derivatives** that we have.
Financial Reporting Council (FRC)	The FRC regulate auditors, accountants and actuaries and they set the UK's Corporate Governance and Stewardship codes.
First Mortgage Debenture Stock	This is a small **debt** we owe that is secured against some properties – a bit like a mortgage.
Franchise	Sometimes we agree to partner with independent food retailers in an 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.
Funds in use invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us. 'Funds in use' is just the term for the amount we owe to the finance company.
Funeral plans	Our customers may not want their family to pay a large single sum for a funeral when he or she dies. Therefore, the customer can pay for it gradually or in lump sums over a number of years and **the Group** will invest that money.
Funeral plan investments	When a customer gives us money for their funeral in the future, we invest this money. The balance of these investments is held on the **balance sheet**.
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) where there isn't a standard definition – these measures are called **Non-GAAP** measures.
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 **IAS**s that cover various accounting topics (e.g. IAS 38 is for **intangible assets**).
IFRIC	International Financial Reporting Interpretations Committee. These are interpretations of **IAS**s or **IFRS**s that the **Group** also has to abide by.
IFRS	International Financial Reporting Standards. Similar to **IAS**, but cover different subjects.

Impairment	Sometimes our **assets** fall in value. If a store, branch, business or investment is not doing as well, we have to revalue it and put the downward change in value as a cost in our **income statement**.
Income statement	This not only shows our income as the name suggests, but also what our costs are and how much profit we've made in the year.
Intangible asset	We have **assets** at the Co-op that we can't see or touch which are shown separately to other **assets**. These include things like computer software and **goodwill**.
Interest rate swaps	We like to know what interest we're going to be paying in the future so we can manage our businesses effectively. We enter into arrangements with banks so that we can do this – for example, if we have debt where the interest rate can vary, we can buy an interest rate swap which means that instead we'll pay a fixed rate of interest. The value of these swaps can go up or down depending on how the market expects interest rates to change in the future.
Inventories	This represents the goods (the stock) we're trying to sell. The cost of this is shown on our **balance sheet**.
Inventory provision	If some of our stock isn't selling, we write those costs off to the **income statement** and hold a **provision** against those goods on the **balance sheet**.
Investment properties	Properties that we don't trade from, and which we might rent out or hold onto because the value might go up, are called investment properties.
Invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us.
Lease Liability	This represents the discounted future payments we are due to make to suppliers in exchange for the right to use their equipment or property.
Liability	This is an amount on our **balance sheet** which we'll have to pay out in the future.
Like-for-like sales	The measure of year-on-year sales growth for stores that have been opened for more than one year. This is a comparison of sales between two periods of time (for example, this year to last year), removing the impact of any store openings or closures.
Listed debt securities	People can trade some of our **debt** such as the **Eurobonds**. When this is the case, it's a listed debt security.
Member payments	This is an amount we've paid our members in the year and approved at the AGM such as dividends.
Member rewards	These are the benefits that members have earned for themselves during the year as part of the 2% membership offer.
Net assets	Same as **equity**.
Net debt	This is the **debt** we have less any cash that we might have.
Net operating assets	**Net assets** less investments, **funeral 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	Items that are not regular in size or nature and would otherwise cloud the underlying profitability of **the Group** are stripped out. This could include a large IT project or a large restructuring exercise.
Onerous leases	When we close a store we sometimes still have to pay running costs until the lease runs out (such as rates). When this happens, we make a **provision** for the amount of the running costs we will have to pay in future and hold this on the **balance sheet**. Rental costs are excluded from this **provision** now we have adopted **IFRS** 16 (Leases) as those costs are included in the **lease liability**.
Operating profit	This is our profit before we have to pay any interest to our lenders or tax to the tax authorities. It is also stated before any net finance income / (costs) from funeral plans.
Operating segments	This is an accounting term for the different businesses we have. When the financial performance of one of our businesses is reviewed separately from the other businesses by our Board, we call that business an operating segment and its sales and profit are disclosed in Note 1.
Other comprehensive income	Sometimes we have big **fair value movements** on long term **assets** and **liabilities**. The **income statement** is meant to show the performance during the year, so to avoid this being distorted by these big changes, they are shown separately as other comprehensive income.
Parent	This is the owner of a **subsidiary**.
Payables	Another name for **liabilities**.
PAYE	Pay As You Earn. A tax which is paid on wages.
Pension interest	This is the interest that we're allowed to show in our **income statement** and is the **discount rate** used to **discount** the pension **liabilities** multiplied by the pension surplus or deficit last year.
Performance obligations	These are promises to provide distinct goods or services to customers.
Prepayment	When we pay in advance for a cost which relates to services that will be received over a future period of time (for example, rent or insurance), we hold that cost on our **balance sheet** as a prepayment and then spread the cost over the period of the service.
Present value	This is the value of a future cost or income in today's money and is arrived at by **discounting**.
Provisions	This is a **liability**, but one where we're unsure what the final amount we have to pay will be and when we'll have to settle it. We use our best estimate of the costs and hold that on the **balance sheet**.
Realised gains	This is when we sell an **asset** for a profit.
Receivables	When someone owes us some money, we hold that amount as a receivable on our balance sheet.
Related party	This is a company or person that is closely linked to the Co-op. It's usually a member of our Board or Executive or their close family plus companies such as our **associates** and **joint ventures**.

Remeasurement gains / losses on employee pension schemes	There are lots of assumptions that are used when valuing pensions. If those assumptions change this can have a big effect on the size of the pension **asset** or **liability**. So that we don't distort the **income statement**, this effect is shown in **other comprehensive income**.
Repayment notes	This is a type of loan, which we repay either in instalments or in a lump sum at the end of the loan.
Reserves	This is the amount of **equity** we have, but excluding any **share capital**.
Restated	Sometimes we change the numbers that we showed in last year's accounts. This might be because we have changed where or how we record certain things or it could be that we have corrected an error. There are strict rules around what can be changed and when we make changes we explain why in the accounting policies.
Retained earnings	This is all the profits we've made since the beginning of time for the Co-op that have not yet been paid out to members.
Retirement benefit obligations	Another term for our pension **liabilities**.
Return on plan assets (pensions)	This is the income our pension **assets** have generated in the year.
Revaluation reserve	When we revalue a property upwards, we're not allowed to put this **unrealised gain** through our **income statement** or within **retained earnings** as law dictates that this can't be distributed to members until the property is sold. It's then ring-fenced as a specific reserve.
Revolving Credit Facility (RCF)	This is money that our lenders have agreed we can borrow if we need to. It works a bit like an overdraft.
Right of use asset (ROU)	This is an **asset** that we don't own legally, but which we lease from another party. The **asset** represents the value the Co-Op has in being able to use the **asset** over the length of a lease contract.
ROCE	Return on capital employed. This is based on our underlying profit we make in the year divided by the net operating assets we have.
Sale and leaseback	This is when an **asset** is sold to a third party and then immediately leased back under a lease agreement. For the Co-op, this usually relates to the sale of a building such as a store.
Sensitivity analysis	When an item on our balance sheet varies in value from year to year based on some estimates that we make, we show a sensitivity analysis which shows you how much the asset or liability would change by if we were to change the estimate.
Share capital	This is the amount of money that our members have paid us to become members less any amounts that we've repaid to them when they cancel their membership.
Society	The Co-operative Group Limited is a registered co-operative society. We sometimes refer to our collective whole as '**the Group**' or 'the Society' and the terms are broadly interchangeable.
Subsidiary	This is a company or **society** that is owned by another company.
Supplier income	Sometimes our agreements with suppliers mean they will give us money back based on the amount of their products we buy and sell. We call this supplier income.

Underlying interest	This is the day-to-day interest we incur on our bank borrowings and **lease liabilities** and is what management consider in the day-to-day running of our Co-op. Non-underlying interest are those items that are not generated by our day-to-day trading or are not considered by management in the day-to-day running of the business (such as the interest on **funeral plan liabilities** or the **fair value movement** on **the Group's** quoted **debt** and **interest rate swaps**).
Unrealised gains	An **asset** may have gone up in value, but we've not sold it. If this is the case, the profit from the gain is unrealised as we've not sold the **asset** yet.
Unrealised gains – funeral plans	The **funeral plan investments** which we hold on behalf of our customers attract interest and bonus payments each year (depending upon market conditions). The gains or losses in the **fair value** of the plan investments is recognised within finance income /costs each year.
Wholesale	**The Group's operating segment** (trading Division) that sells direct to other retailers (rather than to individual members of the public). This primarily relates to the business we operate after we bought Nisa but it also includes any franchise stores. Wholesale is separate to our **Federal** segment.
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	2022	2021	2020	2019	2018
Revenue					
Food	7,805	7,671	7,765	7,505	7,274
Wholesale	1,439	1,386	1,577	1,423	983
Funerals	271	264	272	272	283
Insurance (marketing and distribution)	24	34	6	-	-
Legal	46	39	37	39	34
Federal	1,895	1,756	1,813	1,613	1,532
Other businesses & Costs from Support functions	-	1	2	12	56
Total revenue	**11,480**	**11,151**	**11,472**	**10,864**	**10,162**
Underlying (loss) / profit before tax					
Food	139	156	350	283	204
Wholesale	22	7	6	(10)	(21)
Funerals	16	12	16	12	23
Insurance (marketing and distribution)	8	15	(2)	-	-
Legal	8	5	4	6	2
Other businesses & Costs from Support functions	(93)	(95)	(139)	(118)	(111)
Underlying segment operating profit	100	100	235	173	97
Underlying net interest expense on lease liabilities	(76)	(76)	(72)	(74)	-
Underlying interest	(55)	(56)	(63)	(64)	(64)
Underlying (loss) / profit before tax	**(31)**	**(32)**	**100**	**35**	**33**
EBITDA (i)					
Underlying segment operating profit (above)	100	100	235	173	97
Depreciation (plant, property and equipment)	244	254	250	252	256
Depreciation (right-of-use assets)	119	122	113	110	-
Amortisation	27	29	17	17	15
Underlying segment EBITDA (i)	**490**	**505**	**615**	**552**	**368**
Insurance (underwriting business) - (iii)					
Revenue	-	12	273	315	323
Underlying PBT	-	(1)	19	(10)	(1)
Profit / (loss) on discontinued operation	67	13	5	(16)	(230)
Other performance items					
2% Member reward (iv)	(20)	(21)	(45)	(59)	(60)
2% Community reward (iv)	(18)	(19)	(13)	(11)	(12)
Profit / (loss) after tax - continuing operations	243	32	72	49	66
ROCE (ii)	3.1%	3.2%	8.1%	6.0%	4.7%
Balance sheet items					
Total assets	8,229	9,180	8,986	9,913	9,547
Group net debt (excluding IFRS 16 leases)	(333)	(920)	(550)	(695)	(796)
Group net debt (including IFRS 16 leases)	(1,639)	(2,436)	(1,975)	(2,165)	-
Total equity	2,718	2,939	2,669	2,685	3,061
Net debt: EBITDA ratio (excluding leases)	0.68	1.82	0.89	1.26	2.16
Net debt: EBITDA ratio (including leases)	3.34	4.82	3.21	3.92	-
Total pension assets	7,124	11,452	11,708	11,168	10,271
Total pension liabilities	351	(9,194)	(9,854)	(9,304)	(8,412)
Total net surplus	7,475	2,258	1,854	1,864	1,859
Business-specific measures					
Total Food like-for-like sales increase	3.2%	-2.9%	6.9%	1.9%	4.4%
Number of Food stores	2,377	2,584	2,613	2,611	2,582
Total Food sales area ('000 sq ft) (ii)	7,685	8,276	8,407	8,327	8,292
Number of At-need funerals sold	93,867	90,731	100,943	90,630	95,363
Number of Pre-need funerals sold	16,774	44,751	42,497	49,066	55,593
Number of Funeral homes	818	830	840	998	1,049

(i) See Jargon buster on page 242 for definition.

(ii) Quoted across all years excluding petrol forecourt area but including in-store space at those sites with a petrol forecourt.

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 are earned at 2% each (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

It's what we do

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