

Sustainability Report 2012

Building a
better society

The **co-operative**

Here for you for life



THE QUEEN'S AWARDS
FOR ENTERPRISE:
SUSTAINABLE DEVELOPMENT
2012

Our co-operative difference

The Co-operative Group stands apart from other major businesses in the UK as an organisation which is owned by over 7.6 million individual members and in the region of 80 Independent Co-operative Societies.

Our purpose

To serve our members by carrying on business as a co-operative in accordance with co-operative Values and Principles.

Our vision

To build a better society by excelling in everything we do.

In order to achieve this vision, we have set ourselves a number of strategic aims:

Our aims

- To be a commercially successful business
- To meet the needs of our customers and the communities we serve
- To respond to our members and share our profits
- To be an ethical leader
- To be an exemplary employer
- To inspire others through co-operation.

Our business is guided by the Values and Principles of the Co-operative Movement:

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles

The co-operative Principles are guidelines by which co-operatives put their values into practice. They are:

- Voluntary and open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education, training and information
- Co-operation between co-operatives
- Concern for community.

Our membership

- Our business is run for the benefit of our members
- Membership is open to everyone
- Profits are shared amongst members
- Members exercise democratic control of our business (page 74), and play a direct role in shaping our future.

Our governance

We are owned and democratically controlled by our members, who elect representatives to oversee our business. There are several levels to our elected membership structure (page 75), from area committees to our Group Board, which is entirely non-executive.

The Group Board is responsible for our long-term success. It elects, and is led by, the Group Chair. And it also appoints the Group Chief Executive, who has direct responsibility for the Group on a day-to-day basis, and is accountable to the Board for the financial and operational performance of the Group.

Three Subsidiary Boards are responsible for our major business units – The Co-operative Food, The Co-operative Banking Group and Co-operative Specialist Businesses.

16 years of open and honest sustainability reporting

What matters most

The Report is split into 20 subject areas, relating to our most material sustainability issues. Each details our performance – good and bad – against targets, many of which are derived from our Ethical Plan **E.P.**. Where appropriate, we provide four years of comparable data¹ to allow readers to understand our performance over time.

How we compare to our peers

We believe that better sense can be made of how we're doing if performance can be compared to that of our peers. That's why, in line with our commitment to transparency, we include 40 performance benchmarks throughout this Report that highlight not just where we lead, but also where we strive for improvements.

Building a better society

Our vision is to build a better society. This Report sets out how we seek to take the lead on issues such as community engagement and social inclusion (introduced on pages 8 and 36 respectively). Whilst we recognise that no business can lead on every aspect of sustainability, over the years, we've adopted numerous pioneering approaches, and challenged others to follow.

Inside this year's Report



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Chair's overview



With our customer-led ethical policies and member-led Ethical Plan, our customers and members are perhaps more firmly embedded in living our Values and Principles than at any other time.”

Against a backdrop of economic turmoil and a pervasive mood of uncertainty there are some things that our customers and members know they can rely on.

Since our formation, our Values and Principles have underpinned and guided our decision making.

And with our customer-led ethical policies and member-led Ethical Plan, our customers and members are perhaps more firmly embedded in living our Values and Principles than at any other time.

This member-led approach is what makes us different. It ensures that the millions of members who trade or bank with us have a say: on grassroots issues via our area committees and regional boards to issues of national and international importance via our national Boards.

For over 150 years we've prospered by being able to respond and adapt to changing economic, social and political environments. Indeed our history is littered with examples of where we've led on such matters: be it in providing votes to women before universal suffrage, to selling fairly traded products before the Fairtrade Mark existed, launching ethical banking or being one of the first businesses to recognise and respond to climate change.

And today is no different. The last few years at The Co-operative Group have arguably been amongst the most dramatic and exciting in our long history.

Our membership today is 7.6 million strong of whom 5.5 million shared in our 2012 profits, up from 1.7 million, five years ago.

Our vision is to build a better society. Since the start of the downturn we've helped to channel over £90m into our local communities and we're working to support 12,000 projects a year, that's more than one every hour of every day. Which means that today we're doing more to support our communities than ever before.

What's more, our colleagues, customers and members are central to our vision and, as set out in this Report, we continue to deliver on our aims to be an exemplary employer, to respond to our members and to meet the needs of customers.

I am always immensely proud of the work we do and this Report is invaluable reading to anyone who wants an appreciation of the challenges that arise in running a diverse, multi-billion pound business in a responsible manner. Good or bad, we report our impacts on everything from the environment to animal welfare, from people's diet and health to diversity. Because that is what our members want.

Going forward

And now we start a new chapter in The Co-operative story, with the welcoming of our new Chief Executive Officer, Euan Sutherland. Euan has already made his mark as a Non-Executive Director on our Food Board and brings a wealth of retailing experience.

As we move forward, it may never have been more important for me to reinforce the Group's commitment to robust governance, sound reputation management and clear ethical standards.

Our Values and Principles have ensured that we have remained relevant for over 150 years and will continue to do so for future generations of co-operators.

Len Wardle
Chair
The Co-operative Group

Chief Executive's overview



For over 150 years, our co-operative approach has meant that we can balance short-term and long-term decisions for the benefit of our business, our members and the communities we serve.”

As the new Chief Executive of The Co-operative Group I am delighted to provide the overview to this, our latest in a long line of Sustainability Reports.

Of course, from my time on the Co-operative Food Board I knew that I would be leading a great business that has social responsibility in its DNA.

Yet, in the short time that I have been in my new role, I have been taken aback by the extent to which our Values and Principles are embodied, not just in the fabric of the business, but in the attitude and approach of our colleagues.

Of course, these are challenging times and this Report does not duck any of the challenges that we've faced and continue to face. Indeed, it is this open and honest approach that is so valued by our customers and members, and that helps us retain the trust of UK consumers, something which is core to our co-operative approach.

At the same time, one of my first undertakings as Chief Executive is to conduct a thorough strategic review and ensure that we continue to be well placed to deliver our aims of being commercially successful and an ethical leader.

With that in mind, I can commend this Report to you as a fair and balanced review of our progress to date across the social, environmental and community issues that matter most to our key stakeholders.

Performance overview

In 2012, our UK community investment totalled £18.3m and funded a diverse range of initiatives, many in some of the most deprived communities in the UK. So that, to date, we've supported 1,000 co-operative enterprises, 300 co-operative schools and 1.2 million young people have benefited from our Inspiring Young People programme.

Our food business delivered a solid financial performance and launched its new strategy with a commitment to the development of further Producer Groups, allowing us to build long-term sustainable partnerships with UK farmers. We delivered record Fairtrade sales and were delighted to be recognised by *Which?* as the number one UK retailer on diet and health matters.

The year 2012 marked the 20th anniversary of The Co-operative Bank customer-led Ethical Policy and we remain committed to providing a compelling co-operative alternative.

Of course we have challenges to address in our Banking Group. Like the rest of the UK banking sector, we need to strengthen our capital position in light of the broader economic downturn and the pending introduction of enhanced regulatory requirements and have a clear plan to drive this forward throughout the coming months.

Our Specialist Businesses had another good year, our Pharmacy became the first UK pharmacy to achieve carbon neutrality and, on the back of its revised Ethical Strategy, our Funeralcare business launched a range of fairly traded coffins.

Our new flagship building in Manchester was opened at the start of 2013 and has been recognised as one of the most sustainable office buildings in the world. We have continued to reduce our greenhouse gas emissions across the family of businesses; indeed we have now achieved a 43% reduction in emissions, since 2006.

Going forward

For over 150 years, our co-operative approach has meant that we can balance short-term and long-term decisions for the benefit of our business, our members and the communities we serve.

And it is this approach that will ensure that, as part of our ongoing strategic review, we continue to do the right thing and deliver a sustainable business, one that is both commercially driven and ethically focused.

A handwritten signature in black ink, appearing to read 'Euan Sutherland'.

Euan Sutherland
Chief Executive
The Co-operative Group

Performance overview

With a history as long as ours it's inevitable that we've experienced all manner of challenges, but throughout, we've always stuck resolutely to our Values and Principles and today is no different. Against the backdrop of the current challenging trading conditions we haven't wavered from our aim to be 'an ethical leader'. Indeed, over the last 12 months our performance has earned us more than 25 accolades, including recognition by the UK general public as the leader in social responsibility.

Of course, from time to time, there are setbacks and targets not achieved – and we report on these in an open and honest manner. But on the core issues that matter most to our members, customers and colleagues we have continued to make significant progress.

During 2012, we worked towards 96 targets, many of which are long-term commitments to social responsibility and sustainability. We have achieved or are on track to achieve 70% of these and have set 92 targets going forward (target summary on page 113).

Queen's Award
for Enterprise
in Sustainable
Development



Number one in the world
in the Ethical Corporation
Awards 2013 'Best
Sustainability Report' category



Delivering value

How we are performing against our strategic aims

Progress against the business's strategic aims is measured via Key Performance Indicators (KPIs), which in turn are included in the performance metrics that determine Group Executive remuneration (page 103).

Social responsibility

Business aim: to be an ethical leader
KPI: Business in the Community (BITC) Corporate Responsibility (CR) Index score

Platinum Plus
98%

2011: Platinum Plus – 98%



Membership

Business aim: to respond to our members and share our profits
KPI: Total dividend paid to members:

£51.4m

2011: £70.4m¹



Financial

Business aim: to be a commercially successful business
KPI: Underlying Group operating profit:

£54m

2011: £526m



Employees

Business aim: to be an exemplary employer
KPI: Employee engagement score:

70

2011: 72

Customers

Business aim: to meet the needs of our customers and the communities we serve
KPI: Customer satisfaction

Customer satisfaction:
Food 78.3% (2011: 79.1%)
Pharmacy 93.2% (2011: 91.7%)
Funeralcare 98.6% (2011: 98.5%)

Customer advocacy (vs peer group):

Banking Group +9.7%
(2011: +10.3%)

Supporting co-operatives

1,000+

co-operatives benefiting from our Co-operative Enterprise Hub since 2009

2011: 959



Public policy

13

instances of public policy engagement on sustainability issues

2011: 16

Suppliers

100%

of own-brand eggs, milk, fresh and frozen turkey, pork, sausage, beef and bacon is UK-sourced

2011: 100%



Social responsibility

UK community investment

£18.3m

invested in UK communities

2011: £18.9m



International development and human rights

£132m

sales of Fairtrade products

2011: £110m



Animal welfare

£296m

sales of products from animals reared to higher welfare standards

2011: £251m



Diet and health



Joint number 1

UK retailer for 'Overall Commitment to Action' on diet and health by *Which?*

Responsible banking and finance

Number 1

in UK general public's ranking of UK financial services providers considered to be the leader in social responsibility

2011: Number 1

Social inclusion

100%

of UK postal areas have a Co-operative Food store

2011: 100%



Diversity

31%

of Specialist Businesses Board is female

2011: 31%



Inspiring young people

1.2 million

young people benefited from our UK community investment activities

2011: 342,500

Ecological sustainability

Environmental efficiency

£65m

cost savings from environmental efficiencies in 2012



Climate change

43%

reduction in direct GHG emissions since 2006

2011: 40%



Waste and packaging

38%

reduction in total waste disposed since 2006

2011: 37%



Biodiversity

99%

of own-brand wood and paper sold in The Co-operative Food is FSC certified/recycled

2011: 99%



Chemicals

34

pesticides banned from use in our own-brand produce

2011: 32

Water

12%

reduction in water consumption across our estate since 2010



Expert commentary



“
The Co-operative's continuing commitment to transparency, at a time when its members and stakeholders are expecting more and more in that regard, remains an inspiration.”

When the going gets tough...

It's been another bad year for the UK economy, and it's been a tough year for The Co-operative – which makes this Sustainability Report all the more extraordinary when you think about the backdrop to what has been achieved during that time.

For a business that sells almost entirely in the UK, the internationalism of The Co-operative has always been heartfelt and generous. For many of its food customers, that is best seen in its unwavering commitment to Fairtrade, with total sales up from £71m in 2009 to £132m last year. As the trading environment remains very challenging, you can imagine other businesses scaling back on their Fairtrade sales – but The Co-operative is a very different kind of business.

Close to home, its commitment to an incredibly wide range of social and community issues is equally remarkable. There's a lot of interest at the moment in the idea of 'social return on capital', with companies being held to account for their aggregated investment in maintaining and creating new social capital. I would urge The Co-operative to be in the vanguard of that movement, not least because it has such a good story to tell.

This is all about consistency. It's no good highlighting a values proposition in one part of your business if your colleagues down the corridor treat those values as so much rhetorical bling. You can't mix and match to suit changing external circumstances, and The Co-operative is almost uniquely well-placed to weather today's economic storms by continuing to emphasise the true and lasting value of its values proposition.

For instance, take its record on fossil fuels. Its own carbon management strategy is impressive, with 98% of its electricity coming from renewables, and good progress made on meeting its target to generate 25% of that electricity from its own windfarms by 2017.

Beyond that, it supports many organisations involved in all sorts of initiatives to help decarbonise our economy, including dozens of schools, and 100% of The Co-operative Bank's lending in the energy sector is for renewables and energy efficiency projects. The more we learn about accelerating climate change, the more obvious it becomes that world leaders will – eventually – have to move to restrict the emissions of CO₂ that are causing the problem. The longer they leave it, the more draconian those measures will need to be, causing massive disruption across the entire fossil fuel sector and leaving the majority of investors very badly burned.

For the last 16 years, through its annual Sustainability Report, I've followed The Co-operative's progress on critical issues like this – in the sure knowledge that where it goes, others will surely follow. It was one of the first to pioneer a 'warts and all' approach to corporate reporting, and its continuing commitment to transparency, at a time when its members and stakeholders are expecting more and more in that regard, remains an inspiration.

Jonathon Porritt

Jonathon Porritt is Founder
Director of Forum for the Future

www.forumforthefuture.org

Social responsibility

Our approach

Taking a responsible approach to business has been a guiding principle for The Co-operative since our inception. Co-operative Values and Principles – such as concern for community and equality – date back to the 19th century, and also resonate with contemporary ideas of corporate responsibility. When considering these issues, the business is responsive to the views of its stakeholders, particularly members and customers.

Our Sustainable Development Policy guides our approach and can be found at www.co-operative.coop/sdpolicy

Image: 2012 marked the 20th anniversary of the launch of The Co-operative Bank's Ethical Policy



UK communities

Context

Many large businesses today incorporate community investment into their approach to social responsibility, and some have embedded it in their business strategy.

Community investment programmes can be characterised by philanthropic giving with the expectation of little return, be designed to attain commercial advantage, or support an organisation's social licence to operate.

Materiality and strategy

'Concern for community' was implicit in the founding rules of The Co-operative and it is one of the co-operative Principles (inside front cover). 'Keeping Communities Thriving' is a priority within our Ethical Plan (page 101), and one that complements our position as a retailer with a presence in every UK postal area.

'UK community investment' refers to the donation of money and time by The Co-operative – and donations by employees, customers, members and suppliers facilitated by The Co-operative – that seek to build more sustainable communities.

The public recognises us as a leader among food retailers and financial service providers in terms of community support. During 2012, we undertook work to inform our community strategy, including how best to introduce more locally tailored communications of existing programmes in stores and branches. The outputs from the review will contribute to the look and feel of our UK community work in 2013.

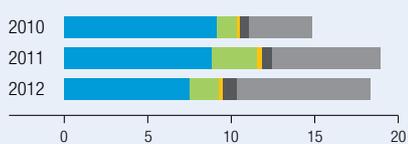
Supporting UK communities

Indicator: **Value of UK community investment**

Targets 2012	Progress	Targets 2013
E.P. Ensure that 10% of the profits available for distribution is made available for community investment by 2013, with £5m deployed per annum to tackle UK poverty around stores and branches	= Profit made available for community investment is reported on page 77	E.P. Ensure that at least 10% of the profits available for distribution is made available for community investment in 2013
E.P. Stores and branches to act as a focus for 10,000 community initiatives per annum	< Over 10,000 community initiatives have been supported since 2011, but due to incomplete records, we are unable to evidence the total number of initiatives supported in 2012	E.P. Stores and branches to act as a focus for 12,000 community initiatives per annum and we will continue to offer local community groups the opportunity to occupy a selection of surplus properties from our estate at nominal rent
With staff and members, raise £5m for 2011 Charity of the Year, Mencap and ENABLE Scotland	✓ We exceeded our target and raised over £7m for the Mencap and ENABLE Scotland partnership	E.P. Seek to raise £5m for Carers Trust in 2013, and translate this into support for 20,000 young adult carers

Headline performance

Breakdown of UK community investment (£m)



	2010	2011	2012
Cash ¹	£9.1m	£8.8m	£7.5m
Employee time	£1.2m	£2.7m	£1.7m
Gifts in kind ²	£0.2m	£0.3m	£0.3m
Management costs	£0.5m	£0.6m	£0.8m
Leverage	£3.8m	£6.5m	£8.0m
Total	£14.8m	£18.9m	£18.3m

Funds raised for Charity of the Year (£m)



2007	2.3
2009	3.7
2011	7.2



Winner of the Third Sector Business Charity Award (awards for businesses) for best short-term charity partnership with Mencap and ENABLE Scotland

We invested £18.3m in UK communities in 2012. This figure includes co-operative support and the contributions by employees, customers, members and suppliers when facilitated by The Co-operative ('leverage'); in addition to data included in the London Benchmarking Group (LBG) analysis (presented online [\[link\]](#)). Community support for overseas projects (for example international development and human rights initiatives) is excluded from this figure, and is reported on pages 12–19.

£18.3m invested in UK communities in 2012

2011: £18.9m

The cash figure has reduced on 2011 levels largely due to a decrease in investment in some Inspiring Young People programmes (page 43) and changes to the Britannia Foundation and Britannia Community Fund (page 11). The 2012 value of leverage reflects increases in Charity of the Year and Community Fund figures, plus the inclusion of new initiatives such as Salvation Army clothing banks³.

Bank charity credit cards

During 2012, The Co-operative Bank issued credit cards for seven national charities or non-governmental organisations that support UK communities. Charity partners receive a donation from the Bank for each new card and a margin on the use of the card thereafter. In 2012 this amounted to £532,000⁴ (2011: £548,000) [\[link\]](#).

Top ten UK community programmes

Programme	Total contribution allocated in 2011 ⁵	Total contribution allocated in 2012
Charity of the Year (CoTY) (below)	£3,000,000	£3,742,000
Co-operative Membership Community Fund (page 11)	£2,743,000	£3,224,000
Inspiring Young People (IYP) (pages 43–46)	£3,617,000	£2,283,000
Employee community engagement (page 10)	£2,667,000	£1,684,000
Co-operative Enterprise Hub ⁶ (page 80)	£1,379,000	£1,579,000
Bank charity credit cards in support of UK communities (below)	£548,000 [link]	£532,000
Employee fundraising (non-CoTY) ⁷ (page 10)	£269,000	£459,000
Consumer Credit Counselling Service 'fairshare contributions'	£381,000	£396,000
Salvation Army clothing banks (below)	n/a	£342,000
Drinkaware (page 29)	£250,000	£250,000
Total	£14,854,000 (79% of total)	£14,491,000 (79% of total)

Charity of the Year

Our Charity of the Year programme runs on a biennial basis and enables a selected national charity to benefit from employee fundraising and volunteering for a dedicated 12-month term. Alongside employee fundraising, local communities are also engaged in the charitable aims of our nominated charity, to raise awareness and influence change. Our 2011 partnership with Mencap and its sister charity, ENABLE Scotland, raised a record £7.2m, in support of the Inspire Me⁸ programme (page 10).

£7.2m raised for 2011 Charity of the Year, Mencap and ENABLE Scotland

2009: £3.7m raised for RNID

Performance benchmark

Winner of 'Best Corporate Partnership' at the Third Sector Excellence Awards, for demonstrating strong mutual benefits in our partnership with Mencap and ENABLE Scotland

In 2012, some 46,000 Co-operative employees and members took part in the largest ever Charity of the Year vote, which determined Carers Trust as the successful partner. The partnership aims to reach 20,000 young adult carers aged between 14 and 25, through the provision of 50 new projects across the UK, which will enable them to access support and explore opportunities for work, education and training.

In focus



Inspire Me

Inspire Me is a three-year programme – funded by our 2011 CotY partnership with Mencap and ENABLE Scotland – to support young people with a learning disability. The programme aims to support over 25,000 young people through volunteering, employment and community involvement opportunities

(an increase on the original target of 20,000). By the end of 2012, over 12,000 young people had attended an Inspire Me workshop; nearly 90 groups had undertaken projects; almost 300 ambassadors had been recruited, and over 50 learning disability awareness sessions had been delivered.

Our Community Map

The Community Map is an interactive web tool that pinpoints the location of thousands of schools, community groups and charities benefiting from our work in the UK. The map was updated and re-launched in early 2012 showcasing 10,280 individual projects supported since 2011.

www.co-operative.co.uk/communitymap



Employee community engagement

Indicator: Number of employee days contributed to community activity

Target 2012	Progress	Target 2013–2014
E.P. Launch an enhanced employee volunteering policy and aim to double volunteering by 2014	= We have introduced nine new volunteering opportunities and increased paid time off for employee volunteers to two days pro rata per year	E.P. Launch an enhanced employee volunteering policy and aim to double volunteering by 2014

Headline performance

Performance benchmark

10,558 days of employee time invested in community activity in 2012 – compared to an average of 4,513 days in other large businesses⁹

Employees involved in community activity

	2009	2010	2011	2012 ¹⁰
Number of employees involved in community activity in work time	10,240	8,436	13,397	12,619
Number of days invested in community activity in work time	18,244	12,571	27,760	10,558
Value of staff time	£1.7m	£1.3m	£2.7m	£1.7m

During 2012, over 12,600 employees took part in community activities during work time, contributing the equivalent of 79,200 hours or 10,558 days (this equates to a donation of time worth £1.7m). Employee volunteering is always lower in a year without a Charity of the Year.

2012 saw the launch of a range of new volunteering opportunities for colleagues. Nine new opportunities are designed to make volunteering more accessible, for example by introducing a desk-based

e-mentoring programme, and more opportunities that are focused around the business skills that our colleagues have to offer. In addition, the Banking Group's Skills4Schools programme (page 39) is delivered entirely by employee volunteers. Across the Group, as well as individual volunteering, 79 team challenges took place across the UK in 2012 (2011: 91).

One-off support is offered for fundraising appeals via The Co-operative Booster Fund, which supplements employees' fundraising activities.

Community Toolkit

To help Food store colleagues engage with and support their local communities, we launched a Community Toolkit in 2012. The Toolkit provides information on community initiatives and how to support local community projects. In 2013, we will look to extend the Toolkit to colleagues across the family of businesses.

Funds and foundations

Targets 2012	Progress	Target 2013
Implement the Truth about Youth strategy across the existing seven Truth about Youth cities and beyond, widening engagement to over 17,000 young people	✓ Truth about Youth expanded across the existing cities and a wider geographic area. 26,313 young people were engaged in the programme in 2012	
Provide financial support through The Co-operative Membership Community Fund to a minimum of 2,000 community groups across the UK, allocating at least £2.5m during 2012	✓ We provided financial support for 2,709 community groups, allocating £3.2m during 2012	Make grants to over 2,000 community groups, allocating at least £2.5m in 2013

Headline performance

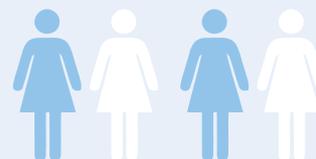
Performance recognition

Winner of the Third Sector Business Charity Award for best corporate foundation 2012

The Co-operative Membership Community Fund requests and awards

	2009	2010	2011	2012
Number of requests	2,198	4,453	4,507	5,076
Number of awards	938	1,691	2,430	2,709
Total dispersed	£1.0m	£1.7m	£2.7m	£3.2m
Average award	£1,075	£1,029	£1,109	£1,189

1 in 2 members donate a share of profits to The Co-operative Membership Community Fund



The Co-operative Membership Community Fund

The Community Fund supports voluntary and self-help community organisations by awarding small grants of between £100 and £2,000. The fund offers co-operative members the opportunity to donate part, or all of their share of profits. 2012 saw an increase in both the number of awards made and the amount donated, with £3.2m dispersed to 2,709 community groups.

Decision-making on grant applications is undertaken by our 48 area committees (page 75). Awards are made to organisations that carry out positive work in the community, and seek to support projects that address a community issue; provide a long-term benefit to the community; support co-operative Values and Principles; and are innovative in approach.

The Co-operative Foundation's Truth about Youth

Since its establishment in 2000, £14.7m¹¹ has been donated to The Co-operative Foundation¹² – an independent, charitable trust.

The Truth about Youth grant-making scheme was developed by The Co-operative Foundation to challenge and change negative perceptions of young people, by supporting projects that enable young people to work with adults, the media and the wider community. A total of £5m has been committed to the programme since 2009.

Grants of £140,000 per year have been awarded to charities in each of The Co-operative's seven democratic regions, who will work with the Foundation for up to five years.

Since 2009, over 61,500 young people and 30,800 adults have been involved with Truth about Youth. Further detail is provided on page 46.

The Britannia Foundation¹³ and The Britannia Community Fund

The Britannia Community Fund closed at the end of 2011 and made no grants in 2012. It is intended that the Britannia Foundation will be legally closed as a charity and removed from the register of charities in 2013. The decision-making responsibilities of The Britannia Foundation have been handed over to the trustees that oversee The Co-operative Membership Community Fund and Co-operative Foundation. The new trustees have agreed to spend any remaining funds on financial literacy projects, as per the wishes of the outgoing trustees of the Britannia Foundation.

In 2012, The Britannia Foundation was supported by a £500,000 annual donation from The Co-operative Banking Group. The Foundation offered grants of between £1,000 and £25,000 to schools and registered charities working within education. In 2012, 28 awards were made totalling £238,000 (2011: 47 awards totalling £425,856). The value of awards decreased due to the closure of the Foundation's grants scheme in March 2012.



International development and human rights

Context

When undertaken equitably, and with respect for human rights, trade and finance have an unparalleled capacity to lift people out of poverty and enhance quality of life across the world.

The United Nations named 2012 International Year of Co-operatives in recognition of the powerful, global contribution made by co-operatives around the world to economic and social development. Co-operative enterprise supports the livelihoods of almost half of the world's population and directly employs an estimated 100 million workers – more than all the world's multinational companies combined¹.

Materiality and strategy

As a business with over 1,400 supplier sites in more than 60 countries and banking activities with a global reach, we have both a responsibility and an opportunity to make a major contribution to international development and human rights. Labour standards, economic justice and human rights were identified as priorities in our latest ethical policy consultations for our Food and Banking businesses (page 104), in which over 100,000 co-operative members and over 80,000 bank customers took part. 'Tackling Global Poverty' is a key focus of our Ethical Plan (page 101) and we deliver a global programme focused on ethical trade, co-operative support, responsible finance and campaigning. Promoting ethical consumerism and voluntary giving are crucial strands of our strategy, but we also campaign with others to achieve broader political and social change. Our contribution to each of the Millennium Development Goals is reported online .

Fairtrade

Indicator: **Fairtrade products and sales value**

Targets 2012	Progress	Targets 2013
<p>E.P. Continue to show the greatest commitment to Fairtrade in the UK, remaining second to none in terms of availability and overtrade, and aim that if a primary commodity from the developing world can be Fairtrade, it will be Fairtrade by end 2013²</p>	<p>= In 2012, all bananas and winter-season blueberries were converted to Fairtrade, taking our Fairtrade product range to 80% of products (by sales value) that can be labelled as Fairtrade</p> <p>= We funded three new projects in 2012 to support banana and coffee producers belonging to co-operatives in Colombia, Dominican Republic and Guatemala</p>	<p>E.P. Continue to show the greatest commitment to Fairtrade in the UK, remaining second to none in terms of availability and overtrade, and aim that if a primary commodity from the developing world can be Fairtrade, it will be Fairtrade by end 2013</p>
<p>E.P. Develop a unique range of projects and initiatives that benefit producers and take us beyond Fairtrade</p>		<p>E.P. Continue to add to the 16 projects and initiatives that have benefited producers since 2009 and take us beyond Fairtrade</p>

Headline performance

Top UK supermarket for Fairtrade retail share relative to size

Supermarket	Index ³
The Co-operative	317
Waitrose	198
Sainsbury's	187
Marks & Spencer	98
Tesco	93

Fairtrade products and sales value

	2009	2010	2011	2012
Total number of Fairtrade products	260	250	265	258 ⁴
Number of own-brand Fairtrade products	173	177	165	159
Fairtrade sales value	£71m	£103m	£110m 	£132m
Estimated Fairtrade premium value	n/a	£2.1m	£2.2m	£3.7m ⁵
Proportion of UK supermarket Fairtrade sales (%)	12	19.4	17.8 	17.7

Fairtrade

We have championed the FAIRTRADE Mark since its launch in 1994. The Mark ensures a better deal for disadvantaged producers and workers in developing countries. The UK Fairtrade Foundation estimates that more than 7.5 million people, including farmers, workers and their families across 66 developing countries, benefit from sales of Fairtrade internationally⁶. Of these, an estimated 200,000 people benefited from our sales of Fairtrade products in 2012⁷. Further details of Fairtrade products, producers and benefits can be found on our website⁸.

Sales

The Co-operative Food is the leading UK supermarket for Fairtrade availability, with a range of Fairtrade products sold in every one of our 2,820 stores. Our aim is to continue to show the greatest commitment to Fairtrade in the UK by having proportionally higher sales of Fairtrade products for the size of our business than any of our competitors. In 2012, we were responsible for 18%⁹ of all UK supermarket Fairtrade sales. Our planned programme of Fairtrade conversions throughout 2013 and ongoing promotions will help us maintain this position. For example, in Fairtrade Fortnight 2013 we ran deals offering 20% off the majority of Fairtrade products in The Co-operative Food stores.

£132m sales of Fairtrade products

2011: £110m 



Range

Since 1998, we have sought to increase the mainstream availability of Fairtrade products. Our Fairtrade firsts include the conversion of all our own-brand block chocolate in 2002 and all our own-brand hot beverages and sugar in 2008. Our goal is that if a primary commodity from the developing world can be labelled Fairtrade it will be, achieving 90% (by sales value) of these conversions by the end of 2013. We had reached 80% by the end of 2012.

80% by sales value, of primary commodities from the developing world that can be, are labelled Fairtrade

We converted to 100% Fairtrade bananas in Fairtrade Fortnight 2012 and committed to sourcing 50% of these from smallholder farmers, a commitment, which, to our knowledge, is unique among UK supermarkets. As at end 2012, around 55% of our bananas were sourced from smallholders. In November 2012, we converted 100% of fresh blueberries that can be Fairtrade. In February 2013, we converted all our own-brand bunches and single roses to 100% Fairtrade¹⁰, and future conversions will include spices.

All our bananas are Fairtrade and 55% are sourced from smallholder farmers



In addition to our commitments on Fairtrade leadership, we are also investing in a range of initiatives that take us beyond Fairtrade. See page 18 for details.

In focus



Fairly traded coffins

In 2012, The Co-operative Funeralcare worked in partnership with existing suppliers and Traidcraft to provide fairly traded bamboo and willow coffins. The hand-crafted coffins are produced in Bangladesh at a production facility in the district of Nilphamari, near to where the bamboo is grown. Local people, working both in the manufacturing facility and farming the raw materials, are benefiting from decent working conditions, fair wages and improved access to markets. For example, Salma (pictured) has used her increased income to help build her own home and send her children to school.

Traidcraft visited Bangladesh in July 2012 to assess the fair trade credentials of the coffin supply chain, reviewing fair trade principles, including working conditions and health and safety. Performance was reported as good in all areas.

Funeralcare's partnership with Traidcraft builds on The Co-operative Food's long-term relationship, which saw the first fairly traded wine in 2001 in advance of international Fairtrade standards and the first fairly traded charcoal in 2011.

Ethical trade

Indicator: **Status of sound sourcing improvement actions**

Targets 2012	Progress	Targets 2013–2014
E.P. Further develop the systems and training programmes within our Food business by 2014 to understand our impact on workers and their communities	= During 2012, we worked to develop our responsible buyer training programme and ran sessions in early 2013	E.P. Further develop the systems and training programmes within our Food business by 2014, to understand our impact on workers and their communities
E.P. Target 800 sites in six countries in our supplier training programme, to create better workplaces by the end of 2013	← 306 supplier sites attended our supplier training activities during 2011 and 2012 ¹¹	E.P. Target 800 sites in six countries by the end of 2013, to create better workplaces

Ethical Trade

We are a member of the Ethical Trading Initiative¹² (ETI) and our Sound Sourcing Code of Conduct (our Code)¹³ identifies the labour standards we expect to be applied across suppliers of our own-brand products and products made exclusively for us. Our approach to labour standards combines: a robust monitoring programme, to help ensure workers in our supply chain are treated fairly; employee training, to improve awareness and understanding of our impacts on workers and communities; and supplier capacity building, to help suppliers in key sourcing countries to manage and raise labour standards.

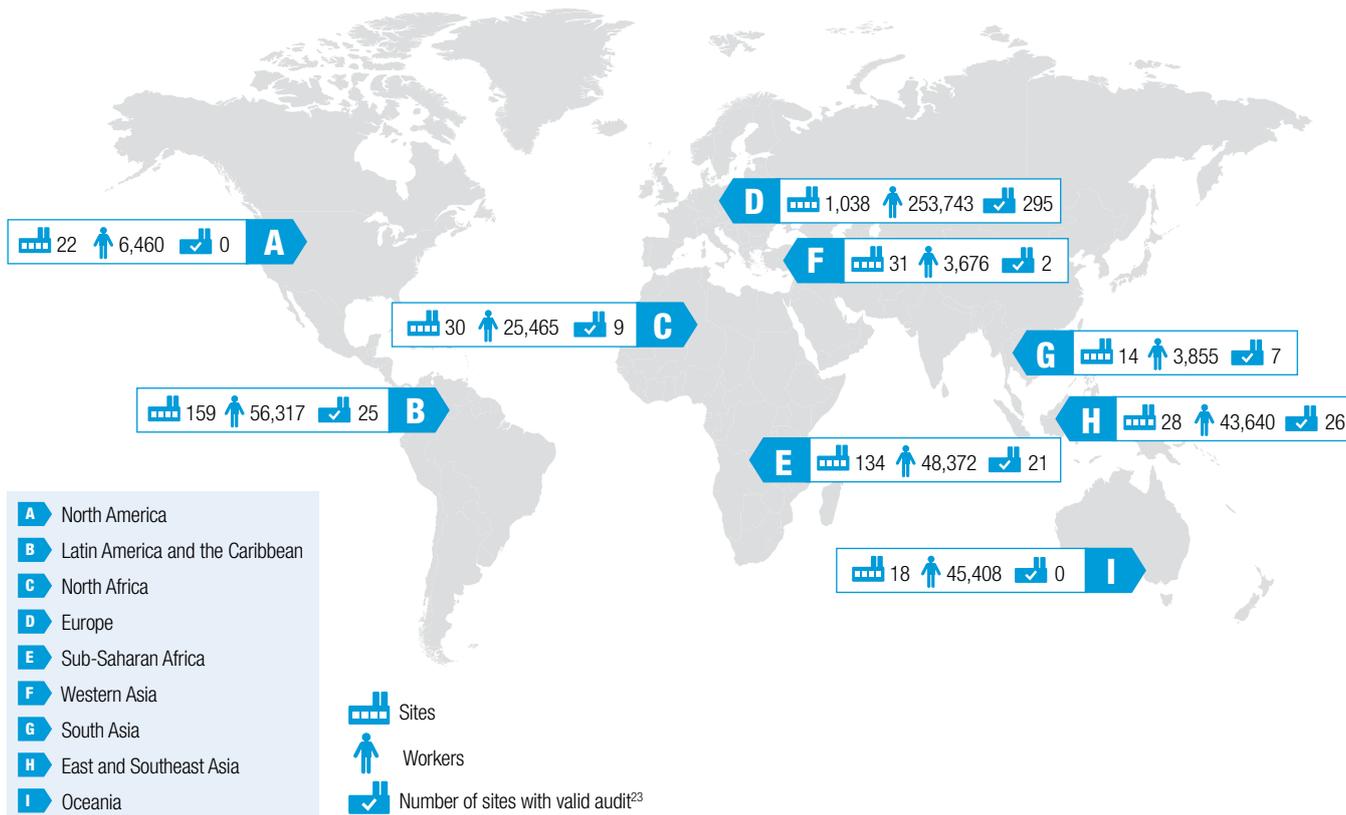
Monitoring compliance

We expect own-brand suppliers to achieve continual improvement in meeting the standards set in our Code and our Supplier Guide to The Co-operative Food Ethical Trade helps support suppliers in meeting our requirements. As a condition of trade, we require all our own-brand suppliers to join the Supplier Ethical Data Exchange (Sedex)¹⁴ – a web-based database where suppliers post labour standards information, including self-assessments and site assessment reports. Suppliers deemed to be ‘in-scope’ include all tier-one¹⁵ sites and some tier-two¹⁶ sites. By the end of December 2012, 1,474 tier-one and tier-two supplier sites had registered on Sedex. 1,380 of these had completed a self-assessment, representing 98%¹⁷ of tier-one sites (2011: 100%).

Site assessments

Site assessments are carried out among suppliers by approved third-party bodies to monitor compliance with our sound sourcing criteria¹⁸. In total, 385 sites have had a valid site assessment audit conducted in the past two years. Of these, 184 audits were carried out in 2012 (2011: 205), 77% at tier-one sites (2011: 76%) and 23% at tier-two sites (2011: 24%)¹⁹. We identify suppliers for assessment based on risk assessment, which is determined through supplier responses to Sedex self-assessment questionnaires regarding worker profile information, country of origin and sector²⁰. 98%²¹ of tier-one suppliers identified as high risk either have a valid audit or are scheduled for audit in 2013.

Number of sites and workers on Sedex and location of valid audits²²



The Co-operative Food – status of sound sourcing improvement actions identified in valid audits²⁴

	Improvement actions identified in valid audits						
	Resolved		Incomplete (as at 31/12/12)	Explanation for incomplete actions			
	in 2011	in 2012		Due in 2013		Overdue	
				Tier one	Tier two	Tier one	Tier two
Major improvement actions	131	355	619	267	81	142	129
Minor improvement actions	81	179	240	115	34	44	47
Sub-totals	212	534		382	115	186	176
	746		859	497		362	
Total	1,605						

- Improvement actions identified in valid audits:** Of the 1,605 improvement actions identified in valid audits (in 2011 and 2012), 812 were identified in audits that took place in 2012, of which 68% were major (2011: 70%) and 32% were minor²⁵ (2011: 30%).
- Incomplete improvement actions:** Of the 859 incomplete improvement actions that were not resolved by the end of 2012, 497 (58%) are due to be completed in 2013. Of the 362 overdue actions, 180 (50%) have been completed by the supplier and will be verified at the next annual audit.
- A breakdown of improvement actions identified in valid audits by site assessment location, and a breakdown of improvement actions status by Sound Sourcing Code provision are both available online .

Improving core business practices

We are developing better systems and training programmes to promote awareness and understanding of the impacts of our Food business on workers and communities. During 2012, we worked with an external ethical trade consultancy to develop our responsible buying training programme with interactive training sessions in early 2013. In 2013, we will continue refresher training sessions and ongoing work to understand our impact on workers in our supply chain.

Our Supplier Performance Matrix, which monitors performance in areas such as ethics and the environment, is discussed on page 95.

Supplier capacity building

The Co-operative Food invests in training programmes to help suppliers manage and improve labour standards. In 2012, 12 supplier events were carried out. These reached 225 delegates who represented 192 sites, amounting to over 1,700 hours of supplier training/engagement (2,500 in 2011). This brings the total number of sites reached in our supplier training programme since 2011 to 306.

Our activities in 2012 include:

- UK:** We continued to engage suppliers on working with a migrant and multicultural workforce, providing practical tools and training. Key activities included two high-profile events in the South and East of England and regular working group meetings in Scotland and the North of England.

- Spain/Italy:** We provided training for key tier-one and tier-two suppliers around our Ethical Trade Programme, covering the ETI Base Code, local legislation and social auditing.
- Global:** We continue to take an active role in supporting collaborative initiatives to improve working conditions in Morocco, Egypt, Thailand, Peru and South Africa.
- Worker engagement:** A key focus in 2012 was to produce a range of resources and tools for suppliers to help increase effective communication between workers and management²⁶.

In 2013, we will continue to provide high-quality and interactive training for suppliers in key sourcing countries in line with our aim to help create better workplaces.

Human rights

Indicator: **Human Rights and Trade Policy implementation**

Target 2012	Progress	Target 2013
E.P. Continue to champion the Human Rights and Trade Policy, and as a matter of last resort curtail trade when called upon by the peoples of affected areas	= We lifted our suspension of trade and banking services with Burma. From April 2012, we no longer engage with any supplier of produce known to be sourcing from the illegal Israeli settlements	E.P. Continue to champion our Human Rights and Trade Policy, which sets out the conditions under which we will, as a last resort, curtail trade with a particular state or settlement

Performance benchmark

Ranked number 1 UK Supermarket²⁷ by Ethical Consumer for human rights

A growing number of businesses accept responsibility for the protection of human rights in their supply chain, but there are very few that take the stand we do. We see trade as a force for good, but we also recognise that, in exceptional circumstances, the benefits of trade may be undermined. Our Human Rights and Trade Policy, introduced in 2009, identifies the extreme conditions under which we will suspend trade with a nation

state, designated region or, in the case of conflict, a particular product. Read more about our Policy online²⁸.

Illegal settlements

One such condition is where there is a broad international consensus that the status of a settlement is illegal. There are only two examples of such settlements: the Israeli settlements in the Palestinian Occupied Territories and the Moroccan settlements in Western Sahara.

On this basis, our policy has previously been not to source any produce or own-brand product from the Israeli or Moroccan settlements. Since its adoption, this position has been underpinned by a rigorous monitoring process. In 2012, we undertook nine traceability audits in Israel and one site assessment in Morocco.

In April 2012, our Group Board determined that, going forward, we will additionally no longer engage with any supplier of produce known to be sourcing from the Israeli settlements. As at December 2012, this decision affected five suppliers²⁹, and circa £350,000 of trade.

We continue to have supply agreements with over 20 Israeli suppliers that do not source from the settlements, a number of which may benefit from a transfer of trade.

Burma

Following a series of political reforms in Burma, the democratic representatives called upon the international community to resume ethical and sustainable trade. We respected this call, and in 2012, lifted our suspension of trade and banking services.

Responsible banking and finance

Indicator: **Consideration of international development and human rights issues in the provision of finance**

Targets 2012	Progress	Targets 2013
E.P. Continue to tackle global poverty via a £25m microfinance support fund	= In 2012, the Bank committed \$5m ³⁰ to a new microfinance investment fund	E.P. Continue to tackle global poverty via a £25m microfinance support fund
E.P. Through lendwithcare.org, facilitate 30,000 loans to entrepreneurs in the developing world by the end of 2012	✓ Achieved, as at end 2012 over 46,000 loans had been facilitated through our three-year partnership with CARE International to support lendwithcare.org	E.P. Grow our partnership with lendwithcare.org further, facilitating 100,000 loans to entrepreneurs in the developing world by the end of 2013

Headline performance

Lendwithcare.org as at end 2012

Number of lenders	8,113
Number of loans	46,300
Total value of loans	£1,669,000
Number of fully funded entrepreneurs	3,241
Proportion of loans made to women ³¹	77%

\$5m new investment in a fund supporting microfinance institutions and social enterprise



£718,000 donated in support of development and human rights, through charity credit cards

2011: £728,000

Bank screening of finance

Since 1992, we have declined £385m finance to businesses in line with our Ethical Policy statements on international development and human rights. During 2012, 110 finance opportunities (2011: 159) were referred to the Ethical Policy Unit in connection with international development and human rights, of which 17 were declined (2011: 13), with an estimated cost of £2,659,000 in terms of gross income foregone.

Microfinance support

In 2007, The Co-operative Bank introduced a £25m microfinance fund to support the development of small businesses in some of the world's poorest countries. To date, we have lent to four microfinance schemes and supported microfinance institutions in 28 countries. In 2012, we agreed a new investment of \$5m in a fund supporting microfinance institutions and social enterprises in Latin America, Eastern Europe and Asia.

Charity credit cards

The Co-operative Bank offers a range of credit cards that support development and human rights charities including Action Aid, CAFOD, Christian Aid, Oxfam, Save the Children, Tearfund, WaterAid and Amnesty International UK. We make a donation to each charity when an account is opened and further donations based on the amount spent using the card. In 2012, we donated over £718,000 through charity credit cards (2011: £728,000).

Banking and finance declines, 2012

	Estimated income foregone 2012
Defence component manufacturers (seven instances). Facilities for business involved in the manufacture or supply of components for weapons and platforms and where there is evidence of sale to oppressive regimes.	£983,100
Defence manufacturers (two instances). Two property finance deals (£3m and £4m) and deposit facilities for businesses engaged in transfer of defence equipment to oppressive regimes.	£269,800
Port operator £20m lending to a port operator owned by a government considered an oppressive regime.	£1,081,800
Military training provider £7.5m lending to a company whose parent is involved in supply of strategic military training to oppressive regimes.	£274,000
Chemicals supplier Facility for a business involved in the provision of nuclear weapons services for a government considered an oppressive regime.	£1,000
International banks (two instances). Treasury deposits for two banks owned or part-owned by governments classified as oppressive regimes.	£34,000
Security services business Banking facilities for an international security services business that has violated national labour laws in a number of countries.	£10,000
Tobacco industry Deposit facility for a business supplying equipment for the manufacture of tobacco products. We decline all support for tobacco manufacture in response to concerns over irresponsible marketing practices in developing countries.	£5,000
Airline Treasury deposit facilities for an airline under the ownership of a government considered an oppressive regime.	£300
Total	£2,659,000

Overseas community involvement

Indicator: **Support for overseas co-operatives and development projects**

Targets 2012	Progress	Targets 2013
E.P. Invest £8m per annum to help tackle global poverty through co-operative support initiatives ³³ , and look to further expand the affinity range	 Over £6.7m ³⁴ was invested in co-operative support initiatives in 2012. We continued our partnership with One Foundation, selling Fairbourne Springs, One Eggs and One Plasters	E.P. Continue to support a range of affinity products which raise vital funds for global poverty charities, with initiatives such as our Pharmacy UNICEF handwash product
E.P. Building on our long-standing campaigning for trade justice, we will work to champion the vital role that smallholder farmers and co-operatives can play in meeting future global food demands through a new Grow Co-operatives campaign	 75,000 Co-operative members and Oxfam supporters took action to help Grow Co-operatives, calling on the UK Government to unlock greater support for smallholder farmers and co-operatives to feed the world fairly and sustainably	E.P. Continue to champion the vital role that smallholder farmers and co-operatives can play in feeding the world fairly and sustainably through our Grow Co-operatives campaign

Headline performance

75,000 members and Oxfam supporters took action on our Grow Co-operatives campaign

800,000 people benefiting from our work on international development in 2012

2011: 670,000

177,500 people will benefit from improved sanitation through our affinity product partnership with UNICEF

The focus of our overseas community involvement is around our range of initiatives that support producers and co-operatives 'beyond Fairtrade'. Communities also benefit from funding provided through our affinity products and carbon offset projects. In 2012, we invested over £6.7m in overseas co-operative support initiatives.

Beyond Fairtrade

The United Nations, International Labour Organization and European Union have all recognised that co-operatives offer one of the only forms of organisation that meets all elements of poverty alleviation. With around three quarters of Fairtrade producers being organised into co-operatives they are an integral part of the Fairtrade system.

Support for co-operatives is at the heart of our work on tackling global poverty. As at 2012, 16 co-operatives and producer associations across Africa, Latin America and the Caribbean are benefiting from our programme of beyond Fairtrade initiatives (2011: 13).

These initiatives support producers with benefits beyond what the Fairtrade premium can deliver alone, including enhanced supply chain ownership and access to basic necessities like clean water and sanitation.

We're working to link our wider global poverty initiatives more closely with our supply chain. Through lendwithcare.org (page 17) and the Global Development Co-operative (page 81), we are aiming to provide access to loan finance for smallholder farmers and co-operatives in our supply chain. We will also seek to invest in green technologies such as fuel-efficient cooking stoves to support carbon savings in our Fairtrade supply chain.

'Beyond Fairtrade' community projects (additional detail online [🔗](#))

Fairtrade product	Donation	Projects and initiatives
 Sugar	£285,000 (2009–2012)	Kasinthula Cane Growers (Malawi) Three-year partnership with Concern Universal to support 10,000 people in our Fairtrade sugar producer communities. Outputs include provision of water and sanitation, natural resource conservation, training and education, and manufacture of fuel-efficient stoves.
 Tea	£255,000 (2010–2012)	Satemwa Tea Estate (Malawi) Two-year project with Oxfam supporting 36,000 tea workers and their communities who supply into our Fairtrade 99 tea blend. Outputs include provision of water and sanitation, and support for a network of trained workers to manufacture and sell fuel-efficient cooking stoves.
	£125,000 ³⁵ (2009–2012)	Fintea Growers Co-operative Union (Kenya) Three-year project supporting 15,000 small-scale tea growers to organise into co-operatives and achieve Fairtrade certification, benefiting the wider community of 100,000 people.
 Bananas	£260,000 (2010–2013)	Coobana co-operative (Panama) Three-year project with TASTE supporting 4,500 members and families of the Coobana co-operative. Outputs include provision of water and sanitation, training on manufacture of low-cost cooking stoves and co-operative capacity building and leadership.
	£100,000 (2013–2014)	Banelino co-operative (Dominican Republic) 18-month project with TASTE supporting 1,500 members and families of the banana co-operative Banelino. Outputs include capacity building and training, diversification and a training school to help secure long-term sustainability of small-scale banana farming.
 Blueberries	£85,000 ³⁶ (2011–2012)	Apicoop co-operative (Chile) One-year project with Traidcraft supporting over 400 members, workers and families of the honey and blueberry producers' co-operative Apicoop and the wider community of 2,000 people. Outputs include: co-operative development, social investment and green energy projects.
 Coffee	£150,000 (2012–2015)	Fedecocagua co-operative (Guatemala) Three-year project supporting 1,260 smallholder coffee producers. Outputs include capacity building and training, in particular to achieve Fairtrade certification, benefiting the wider community of 6,000 people.
	£130,000 ³⁷ (2013–2015)	Aguadas co-operative (Colombia) Two-year project supporting 5,000 members and families of the Aguadas co-operative. Outputs include improvement of coffee quality and productivity and improved environmental practices.
 Cocoa	£86,000 in 2012	Annual additional contributions were made in 2012 to: Acopagro (Peru) Project supporting reforestation and educational support, benefiting 500 people. Conacado (Dominican Republic) Project providing drinking water to 2,000 people. Kuapa Kokoo (Ghana) supporting a project benefiting 65,000 people with co-operative capacity building and women's empowerment.
 Wine	£210,000 in 2012	Annual additional contributions were made in 2012 to: La Riojana (Argentina) Project supporting 1,500 people through a secondary school. Fairhills (South Africa) Project supporting 2,000 people through classroom construction and bursaries for tertiary education. Merwida (South Africa) Project supporting 335 people through upgrading two farm crèches, worker training and installation of solar water heating on homes. Bosman (South Africa) Project supporting 3,820 people through crèche construction and expansion of community health centre. Stellenrust (South Africa) Project supporting 300 people through bursaries for education and crèche construction.

In focus



Supporting smallholder farmers beyond Fairtrade

In 2012, we announced three new beyond Fairtrade projects supporting smallholder banana and coffee farmers. In Colombia, we are supporting Aguadas co-operative to improve their coffee storage and drying facilities, thus helping to boost the growers' productivity. In Guatemala, we are supporting smallholder coffee producers of Fedecocagua co-operative union to form or strengthen co-operatives and achieve Fairtrade certification. The third project is supporting Banelino co-operative in the Dominican Republic with training to improve productivity and the quality of its bananas, and to diversify into other products.

Carbon offset

We are developing a portfolio of international co-operative projects in our Fairtrade supply chain to fulfil our carbon offsetting activities (page 54). In 2012, we supported projects that reduced carbon emissions in developing countries and delivered vital social benefits to local communities:

- Treadle pumps in India**
 Around 20,000 people will benefit from 2012 offset activity to provide new water treadle pumps, generating year-round income for farmers, reducing the need for migration for work and improving land management.
- Energy-efficient stoves in Cambodia**
 An estimated 10,000 people will benefit from 2012 offset activity to provide energy-efficient stoves.
- Reforestation in Uganda**
 Licensing agreements have enabled local communities to extract resources from the Kibale Forest National Park in Uganda at a sustainable rate (page 55).
- Water filters in Kenya**
 An estimated 107,000 people will benefit from 2012 offset activity to provide biosand water filters (page 55).

Affinity products

Since 2007, we have supported The One Foundation – a charity that works with communities in Africa to address pressing humanitarian needs. Every sale of Fairbourne Springs water, the first own-label ethical water in the UK, generates funding towards clean water projects (page 62), whilst sales of One Eggs and Toilet Tissue fund livelihoods and sanitation projects. During 2012, we raised £809,000 for The One Foundation through these products, benefiting around 34,000 people in total.

The Co-operative Pharmacy launched an affinity handwash product with UNICEF in 2011 and 15 pence from every sale is donated towards a project in Togo, to which we pledged £400,000. In 2012, our partnership with UNICEF was extended until 2014 and with a further investment of £200,000. In total 177,500³⁸ people in 710 villages will benefit from improved sanitation.

Influence and action

Grow co-operatives

In early 2012, we launched a new campaigning partnership with Oxfam calling on the UK Government to unlock greater resources for smallholder farmers and co-operatives to help feed the world fairly and sustainably.

- In the run up to the Rio+20 UN Conference on Sustainable Development in June 2012, over 18,000 Co-operative Members and Oxfam supporters called on the UK Government to champion smallholder farmers and co-operatives. At the Summit, Deputy Prime Minister Nick Clegg announced Department for International Development funding to help six million

smallholder farmers to grow more food and lift themselves out of poverty³⁹. In addition, the Rio declaration recognised the importance of smallholder farmers and co-operatives for sustainable development.

- A further 57,000 members 'voted to help feed the world fairly and sustainably' via their annual Membership election (page 75) ballot paper.
- We also called for greater resources for smallholder farmers and co-operatives through a letter to the then Secretary of State for International Development and submissions to Parliamentary Committee and all-party group inquiries.



Animal welfare

Context

Every year in the UK, around 870 million chickens¹ and 10 million pigs² are reared for meat. To meet this level of production, most modern farms operate intensive systems.

Heightened awareness of animal welfare issues means that consumers are increasingly interested in products that guarantee higher standards of animal welfare.

Public policy developments continue to raise standards. On 1 January 2013, an EU ban on sow stalls came into effect, and in March 2013, the EU introduced new regulations banning the sale and import of animal-tested cosmetic products and ingredients.

Materiality and strategy

As a major food retailer, we have a significant impact on animal welfare standards through the products we sell. Animal welfare was identified as a priority in our Food Ethical Policy consultation (page 104), in which over 100,000 co-operative members took part, and is a priority in our Ethical Plan (page 101). Animal welfare issues were also identified as priorities in our latest Bank Ethical Policy consultation (page 104), in which over 80,000 bank customers took part.

Over 600 own-brand fresh and frozen, meat and poultry lines³ are sold in The Co-operative Food stores. Our strategy is to improve baseline production standards for the most intensively farmed animals – pigs and poultry – in the main through the development of our own-brand higher welfare standards and sales of RSPCA Welfare Freedom Food standard.

Animal welfare standards

Indicator: **Standards and assurance of food production**

Targets 2012	Progress	Targets 2013
E.P. Improve animal welfare standards for dairy cows, together with environmental impacts by developing a dedicated supply chain for milk that benefits contracted farmers with green electricity and energy efficiency surveys from 2012	✓ Our dedicated supply chain for own-brand milk allows us to influence the environmental impact (page 53) and welfare of the milk-producing cattle in our supply chain	E.P. Improve animal welfare standards for dairy cows, together with environmental impacts by developing a dedicated supply chain for milk that benefits contracted farmers with a premium, and access to green electricity and energy efficiency surveys
E.P. Measure and report the impact of Elmwood standards on animal welfare	= In 2012, we introduced impact measurements for all our Elmwood chicken, turkey and pig supplier farms	E.P. Measure and report the impact of our own-brand higher welfare standards on animal welfare

Headline performance

Performance benchmark

Highest ranked UK Food Retailer for Animal Welfare by the Business Benchmark on Farm Animal Welfare (BBFAW)⁴

Performance recognition

RSPCA's Hot Topic Award, as voted for by the general public, for our average livestock transportation time of less than one hour, deemed the lowest of all the major UK food retailers



Welfare standards

In the UK, basic animal welfare⁵ is assured via farm assurance standards, sometimes signified by a Red Tractor Mark or Quality Standard Mark⁶. Our own Elmwood standard and the RSPCA Freedom Food Welfare standards stipulate higher welfare requirements such as higher minimum space requirements, greater environmental enrichment and more natural daylight, which allows animals to exhibit more normal behaviours.

Alongside these standards, we have developed additional requirements that apply to all own-brand products. Livestock can only be transported for a maximum of six hours, with the majority of animals transported in less than 60 minutes. All livestock reared for our own-brand products must be stunned prior to slaughter⁷.

Performance benchmark

60 minutes or less: transportation time for the majority of animals



Red tractor baseline standard recommended maximum: 8 hours

From May 2013, we began removing our Elmwood brand name from all relevant product categories. The new branding is designed to provide a consistent message across the fresh meat and fish categories. Our own-brand higher welfare meat and poultry standards that underpinned Elmwood-branded chicken, turkey and pork products remain.

Assurance

Independent third-party auditors check compliance with national standards and with our own Elmwood standard⁸. In 2012, our technical team undertook a further 178 meat and poultry inspections at suppliers' sites to look at product quality, safety and legality, and animal welfare matters (2011: 163). We visited another 55 sites such as farms, hatcheries and abattoirs to look specifically at livestock production and welfare issues (2011: 62).

Our online database records animal welfare indicators for all own-brand higher welfare chicken, turkey and pig supplier farms, and our Co-operative Dairy Group farms, and we work with suppliers to monitor standard farm assurance indicators.

As of 2012, all own-brand primary product suppliers have CCTV in live animal-handling and processing areas of abattoirs, to improve our ability to monitor standards.

Our higher welfare standards are explained in more detail online [🔗](#).

UK sourcing

In 2012, all our own-brand eggs, milk, fresh and frozen chicken, fresh and frozen turkey, fresh bacon, fresh and frozen pork, fresh and frozen sausage, and fresh and frozen beef was UK-sourced (see page 94). Our own-brand fresh and frozen lamb is sourced on a seasonal basis from the UK (40%) and New Zealand (60%) and raised, as a minimum, to UK farm assurance scheme standards (or equivalent).

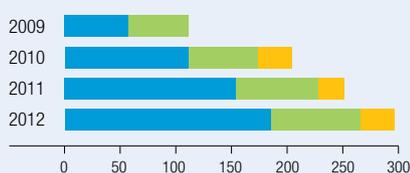
Product range and sales

Indicator: **Range and sales value of products from animals reared to higher welfare standards**

Targets 2012	Progress	Targets 2013
E.P. Continue to ensure that shoppers operating on a variety of budgets have the opportunity to support higher baseline animal welfare standards, and that all shell eggs and egg ingredients in own-brand products are at least free range	✓ Higher baseline animal welfare standards are met across a range of own-brand products and all shell eggs and egg ingredients in own-brand products are at least free range	E.P. Continue to ensure that shoppers operating on a variety of budgets have the opportunity to support higher baseline animal welfare standards, and that all shell eggs and egg ingredients in own-brand products are at least free range
E.P. Continue to pursue higher welfare standards across our meat and fish, converting our own-brand salmon to RSPCA Welfare Freedom Food standard in 2012	✓ In March 2012, we converted all our own-brand fresh and frozen salmon products, including smoked salmon, to RSPCA Welfare Freedom Food standard	E.P. Continue to pursue higher welfare standards across our meat and fish

Headline performance

Higher welfare sales for fresh, frozen and prepared products, 2012 (£m)



	2009	2010	2011	2012
Elmwood	£57m	£111m	£154m	£185m
RSPCA Welfare Freedom Food	£54m	£63m	£74m	£81m
Other higher welfare	n/a	£30m	£23m	£30m
Total	£111m	£204m	£251m	£296m

Product range and sales

In 2012, sales of products from animals reared to higher welfare standards totalled £296m (2011: £251m), with 393 lines available in Food stores (2011: 321)⁹. Sales continue to grow, driven for instance by the conversion of all our own-brand fresh and frozen salmon products, including smoked salmon, to RSPCA Welfare Freedom Food standard. Free range, organic production and traditional breed production are also supported.

£296m sales of products from animals reared to higher welfare standards

2011: £251m

UK farming groups

The Co-operative Dairy Group

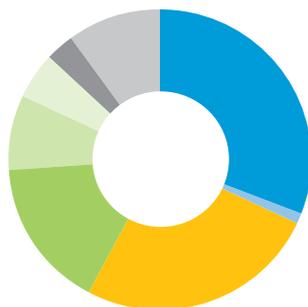
The Co-operative Dairy Group (CDG) is a long-term dedicated supply chain made up of over 220 British dairy farmers. The Group provides the equivalent of approximately 85% of our own-brand assured milk, which is added to the supply pool of our own-brand milk supplier. Contracted farmers must adhere to certain CDG requirements such as non-export of male dairy calves, compliance with CDG grazing policy¹⁰, and reporting and monitoring of key herd health indicators, such as mastitis, mobility and body condition.

CDG farmers are organised into 15 local business groups that meet three times a year to share industry best practice to improve dairy cow welfare. Training sessions have been held on cow mobility, reduction and prevention of mastitis, disease reduction, and foot trimming. Furthermore, a proportion of the premium that contracted farmers receive from The Co-operative for the milk they produce is allocated to veterinary costs to improve welfare. Further detail on the CDG is provided on pages 53 and 94–95.

In 2013, we will introduce a further five UK farming groups for producers of all own-brand fresh standard chicken, standard and premium fresh pork, premium lamb, and premium beef. Contracted farmers will maintain the existing farm animal welfare and health standards for each species. Independent audits will be used to monitor each farmer against an agreed set of key welfare indicators.

Poultry, meat and fish

Own-brand fresh and frozen poultry, meat and fish: proportion of sales by product type, 2012



	Sales (%)
Chicken	31
Turkey	1
Beef	26
Bacon	16
Pork	8
Sausage	5
Lamb	3
Fish	10

Own-brand fresh and frozen poultry, meat and fish: proportion of sales by welfare standard, 2012

	Welfare standards				
	Base-level Farm Assurance Standard	Elmwood	RSPCA Welfare Freedom Food	Free-range	Wild caught
Chicken		95%	5%		
Turkey		99%		1%	
Beef	100%				
Bacon	95%		5%		
Pork	1%	96%	3%		
Sausage	2%	41%	57%		
Lamb	96%		4%		
Fish	18%		31%		51%

100% of our own-brand fresh and frozen chicken, turkey, pork and pork sausage products are produced to higher welfare standards

Poultry

In 2012, 99% of fresh and frozen chicken and 85% of fresh and frozen turkey sales were own-brand¹¹. All our own-brand fresh and frozen chicken and turkey continues to be produced, as a minimum, to Elmwood standards and exceeds conventional farm assurance standards by stipulating lower stocking densities, more environmental enrichment and for birds to be fed a high cereal vegetarian diet. As of 2012, 223 farms were adapted to meet Elmwood poultry production standards (2011: 220).

Our *premium* fresh chicken is RSPCA Welfare Freedom Food free-range accredited. Sourced from the UK, birds have access to range outdoors for at least half of their lifetime and they have a lower daily growth rate than conventional standards.

For Christmas 2012, we sourced all our *premium* fresh turkey products from free-range traditional Bronze breed turkeys. Free-range turkey standards require stocking densities of approximately half those of conventional standards, a higher minimum slaughter age and environmental enrichment.

Beef

In 2012, 97% of fresh and frozen beef sales were own-brand. All our own-brand fresh and frozen beef is assured to UK conventional farm assurance standards. Animals are either reared outdoors on grass pasture with shelter provided during harsh weather, or on grass pasture during summer and then in open-sided barns on silage during the winter. The ingredients for all fresh *premium* products are sourced from traditional Scottish-reared Aberdeen Angus breed cattle.

Pig meat

In 2012, 93% of fresh and frozen pork, 85% of fresh bacon and 51% of fresh and frozen sausage sales were own-brand. All our fresh pork and pork sausage products are produced, as a minimum, to Elmwood pig meat standards, which stipulate higher minimum space and housing requirements than conventional farm assurance standards. Pigs must be reared and finished in naturally ventilated and lit barns, or yards, with straw bedding and enhanced environmental enrichment. As of 2012, approximately 100 farms meet Elmwood pig meat production standards.

The ingredients for all *premium* pork, bacon and sausage products are sourced from RSPCA Welfare Freedom Food accredited, outdoor-reared, traditional Hampshire breed pigs. RSPCA Welfare Freedom Food standards also exceed conventional farm assurance standards by stipulating that the animals are born in free farrowing outdoor systems and spend half their life from birth to fattening outdoors.

Lamb

In 2012, 98% of fresh and frozen lamb sales were own-brand. Our own-brand fresh and frozen lamb is sourced on a seasonal basis according to UK conventional farm assurance (40%) and New Zealand farm assurance (60%) scheme standards¹². All fresh lamb is reared outdoors on grass pasture with access to shelter during harsh weather. Ingredients for all fresh *premium*-range products¹³ are UK-sourced from RSPCA Welfare Freedom Food lamb reared in hefted flocks¹⁴. Castration is not allowed for animals intended for slaughter below the age of sexual maturity.

Fish

In 2012, 52% of fresh and frozen fish sales were own-brand. In March 2012, we converted all our own-brand fresh and frozen salmon products, including smoked salmon, to RSPCA Welfare Freedom Food standard.

The Co-operative Food's Responsible Fish Sourcing Policy (page 63) requires that all farmed fish are stunned using an approved method prior to slaughter.

100% fresh and frozen salmon products converted to RSPCA Welfare Freedom Food standard in 2012



Eggs and milk

Since 2008, all shell eggs sold (both own-brand and branded sales) have been, as a minimum, free range.

Own-brand eggs and milk: proportion of sales by welfare standard, 2012

	National Dairy Farm Assured Scheme	RSPCA Welfare Freedom Food	Organic
Eggs		98%	2%
Milk	96%		4%

98% of own-brand eggs sales were RSPCA Welfare Freedom Food accredited and the remaining 2% were organic*

2011: 95%
*2011: 5%



The vast majority of eggs (2012: 85%) and milk sales (2012: 86%) are own-brand. In 2012, 98% of our own-brand eggs sales were RSPCA Welfare Freedom Food accredited (2011: 95%), requiring lower outdoor stocking densities than conventional free-range standards, and the rest are certified organic. We only use free-range eggs as ingredients in our own-brand products.

In 2012, 96% of own-brand fresh milk was assured under the National Dairy Farm Assured Scheme (2011: 97%). The remainder was certified as organic by the Soil Association.

In focus



RSPCA Welfare Freedom Food salmon

In 2012, the majority of salmon sold was farmed. Since 2007, all our *premium*-range farmed salmon products have been

accredited to RSPCA Welfare Freedom Food standards.

RSPCA Welfare Freedom Food standards for salmon exceed those of conventional farm assurance, stipulating lower stocking densities, higher water quality and lower fasting times prior to slaughter.

In March 2012, we extended these standards to all our own-brand fresh and frozen salmon products, including smoked salmon, so that in 2012, the proportion of total fresh and frozen fish sales that are RSPCA Welfare Freedom Food accredited increased 10-fold.

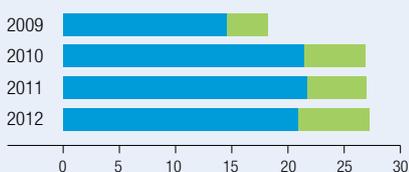
Animal testing of toiletry and household products

Indicator: **Sales of accredited toiletry and household products**

Target 2012	Progress	Target 2013
E.P. Continue to take a lead on the issue of animal testing of cosmetic and household products	<input checked="" type="checkbox"/> All own-brand toiletry and household products are accredited to Cruelty Free International's Humane Cosmetics and Humane Household Products Standards, operating to strict fixed cut-off dates	E.P. Continue to take a lead on the issue of animal testing of cosmetic and household products

Headline performance

Sales of accredited products (£m)



	2009	2010	2011	2012
Household products	14.5	21.4	21.7	21.0
Toiletries	3.7	5.5	5.2	6.4



Since 1985 and 1997 respectively, none of our own-brand toiletry or household products or their ingredients have been tested on animals. All own-brand products continue to carry Cruelty Free International's (CFI) 'rabbit and stars' logo¹⁵, proving that they, and their

ingredients, have been independently assured as not having been tested on animals. CFI conducts audits every three years to monitor compliance. An interim audit was conducted on our products at the beginning of 2012, with the next triennial audit due in 2013.

In 2012, our own-brand toiletry products were available in all stores, resulting in a 23% increase in sales. From 2013, key own-brand household and laundry products will also be available in all stores.

Responsible banking and finance

Indicator: **Consideration of animal welfare in the provision of finance**

Screening of finance

Since 1992, we have declined £257m finance to businesses in line with our Ethical Policy statements on fur-trade, blood sports, intensive farming and animal testing.

During 2012, the Bank referred 43 banking and finance opportunities related to animal welfare to the Ethical Policy Unit (2011: 63), of which five were declined (2011: nine), with an estimated cost of £30,000 gross income foregone.

Banking and finance declines, 2012

	Estimated income foregone 2012
Cosmetics manufacturers (three instances). Deposit facilities for three businesses involved in the manufacture of cosmetics without an animal testing policy in place that includes a fixed cut-off date for the testing of ingredients.	£16,000
Chemicals manufacturer Deposit facilities for a business involved in manufacture of household product ingredients with no policy or fixed cut-off date for animal testing.	£10,000
Clothing manufacturer Deposit facilities for a designer goods manufacturer using fur in a range of products.	£4,000
Total	£30,000

Diet and health

Context

The choice of foods and products available today would have been unimaginable a century ago. While the majority welcome this improvement in choice, many consumers are concerned about food production and health.

The average UK diet contains higher levels of salt, fat and sugar than government-recommended guidelines, contributing to obesity, high blood pressure and diabetes¹. More than 25% of UK adults are clinically obese, and this figure will potentially increase to over 50% by 2050². The promotion of a healthy diet and lifestyle is considered essential to reverse this trend³.

Materiality and strategy

As a major community food retailer and pharmacy, with customers from a wide cross-section of society, we have a vital role to play in offering healthy, affordable food and improving the health of the communities we serve. Diet and health was identified as a priority in our Food Ethical Policy consultation in 2008 (page 104), in which over 100,000 co-operative members took part. Responsible retailing, which includes improving the nation's health, is a key strategic priority in our Ethical Plan (page 101).

Our strategy focuses on making healthy offerings available to all, reducing salt, saturated fat and sugar in all key products and, in line with our principle of openness and honesty, providing product labelling that enables customers to make informed choices about the products they buy. We are committed to marketing our products in a way that helps promote a healthy attitude to food and drink, and we provide health and lifestyle advice via our pharmacy network on issues such as stopping smoking.

The Co-operative Food has 3,300 own-brand products, which account for 45% of sales by value. These fall into three main ranges: Simply Value, The Co-operative, and Truly Irresistible; along with cross-range sub-brands, such as our Healthier Choice, Wholefoods and Free From ranges.

Performance benchmark

Joint number 1
UK retailer⁴ (score 5/5) for 'Overall Commitment to Action' on diet and health by *Which?*



Public Health Responsibility Deal

We signed up to the Government's Public Health Responsibility Deal in 2011 to support the drive to improve the nation's health, committing to:

- **Improving health** Recognising that we have a vital role to play in improving people's health.
- **Physical activity** Encouraging and assisting people to become more physically active.
- **Healthier lifestyle** Actively supporting our workforce to lead healthier lives.
- **Responsible drinking** Fostering a culture of responsible drinking, which will help people to drink within guidelines.
- **Healthier diet** Encouraging and enabling people to adopt a healthier diet.

As well as these core commitments, The Responsibility Deal sets out supporting pledges, detailing specific actions. We signed up – at launch – to all the food and alcohol pledges relevant to our business, four of the six health at work pledges and three of the five physical activity pledges. In 2012, we signed up to new pledges on alcohol unit reduction⁵ and fruit and vegetables⁶. Further detail on the pledges and our performance against them is provided online [👉](#).

Nutrition

Indicator: **Nutritional content: salt, saturated fat and sugar**

Targets 2012	Progress	Targets 2013
E.P. Continue to ensure that Healthier Choice products are no more expensive than standard equivalent lines	✓ 100% of Healthier Choice products are no more expensive than standard equivalent lines	E.P. Ensure that Healthier Choice products are no more expensive than standard equivalent lines
E.P. Continue to ensure that Simply Value nutritional content is at least as good as standard equivalent lines	✓ 100% of Simply Value products have a nutritional content at least as good as standard equivalent lines	E.P. The nutritional content of Simply Value products will be at least as good as standard equivalent lines
E.P. Continue to target salt, saturated fat and sugar reductions in key products, whilst maintaining food safety and product quality	⚡ In 2012, we achieved significant saturated fat reductions in key products. We met 2012 Department of Health Salt Targets for 91% of relevant products and 48 out of 65 categories. We continue to work with suppliers to reduce sugar levels in key products	E.P. Continue to target salt, saturated fat and sugar reductions in key products, whilst maintaining food safety and product quality

Performance benchmark

Joint number 1

UK retailer⁷ (score 3/5) for 'Cutting Calories, Fat and Sugar' and third UK retailer⁸ (score 3/5) for 'Reducing Salt' by *Which?*



Keeping healthier choices accessible

We believe that healthier options should be accessible to everyone. Our Healthier Choice products are no more expensive than our standard equivalent lines⁹ and the nutritional content of our Simply Value products are at least as good as standard equivalent lines¹⁰.

Salt reduction

Salt reduction has been part of our product improvement process since 1995. In 2009, we were one of the first retailers to meet all the salt reduction targets set for 2010 by the FSA¹¹. Salt reduction continues to be a key priority in the product improvement process of our own-brand ranges. By March 2013¹², we had met the 2012 Department of Health salt reduction targets¹³ for 91% of relevant products and 48 of the 65 relevant categories (74%). Progress against these targets for some products

has been inhibited across the industry, as new technical solutions are needed to replace salt's property as a preservative. We continue to work collaboratively with others in the industry to develop these. At launch, all new and reformulated products comply with FSA 2012 salt reduction targets (subject to technical constraints).

Recipes featured on our website and in our magazines, wherever possible, do not include salt as an ingredient or use salted water for boiling vegetables or carbohydrates.

In focus



Reducing salt

During 2012, we made targeted salt reductions in some of our key ranges. We reduced salt levels in our packets of flavoured pasta and sauce by an average of 61% and our range of cheesecakes and fruit crumbles by an average of 46%. We also halved the salt levels in our tomato ketchup, cheese singles and sultana scones.

Saturated fat reduction

In 2012, we achieved significant reductions in saturated fat across our ready meals and bakery ranges.

In focus



Reducing saturated fat

We reduced levels of saturated fat by 22% across our range of ready meals, with greatest reductions in our spaghetti carbonara (66%) and spaghetti and meatballs (57%).

In our bakery range we removed 38% of the saturated fat from our popular caterpillar celebration cake, and 47% and 40% from our standard and Truly Irresistible hot cross buns, respectively.

Sugar reduction

Many foods that contain sugar are also high in calories, contributing to high levels of obesity. We are working with our suppliers to reduce sugar from our own-brand products during formulation and rebranding.

Nutritional labelling

Indicator: **Clear and transparent labelling**

Target 2012

Progress

Target 2013

E.P. Ensure at least 30% of own-brand food products that carry traffic-light labelling are healthy¹⁴

✓ 38% of own-brand food products that carry traffic-light labelling were healthy

E.P. Ensure at least 30% of own-brand food products that carry traffic-light labelling are healthy

Headline performance

Performance benchmark

Joint number 1

UK retailer¹⁵ (score 5/5) for 'Clear Nutritional Labelling' by *Which?*



Performance benchmark

1st UK retailer to include the terms 'High', 'Medium' and 'Low' in nutrition tables to describe nutritional content

38% of own-brand food products carrying traffic-light labelling are healthy

We have introduced a series of labelling innovations to help consumers understand the nutritional make-up of food products. For example, in 1986, we were the first UK retailer to include the terms 'High', 'Medium' and 'Low' in nutrition tables to describe the nutritional content of our products.

Integrated labelling

In 2006, we introduced our first traffic-light labelling and, in 2010, we launched an integrated labelling scheme that combines both traffic-light labelling and Guideline Daily Amount (GDA) information. These integrated labels help customers see whether the food has high, medium or low amounts of fat, saturated fat, salt and sugars and to understand how it contributes to their recommended daily intake. Integrated traffic-light labelling is on all relevant¹⁶ own-brand products. As part of our commitment to helping customers make informed choices, we introduced a new target in our 2012 Ethical Plan that at least 30% of own-brand food products that carry traffic-light labelling will be healthy.

approx. per pack				
Calories	Fat	Saturates	Sugars	Salt
530	21.6g High	5.6g Low	6.0g Low	2.2g Med
Serves 1	31%	28%	7%	36%
of your guideline daily amount				

We will develop a new look for our front-of-pack nutritional labelling based on new Department of Health guidelines (see box). These will be rolled out on packs of own-brand products during 2013, with the aim to complete a full rebrand by the end of 2014.

Integrated labelling also appears against all relevant corporate website and magazine recipes, as well as on price tickets for loose products sold in our Food to Go range and coffee bars.

Influence and action

In response to a Department of Health consultation on front-of-pack nutritional labelling in 2012, we recommended greater consistency in front-of-pack food labelling and that this should include a combination of Guideline Daily Amount information and traffic-light labelling¹⁷.

Following the consultation, all retailers agreed to adopt a hybrid front-of-pack scheme, incorporating both traffic-light labelling and Guideline Daily Amount information, similar to that used by The Co-operative. We have been involved in roundtable discussions with the Department of Health, retailers, manufacturers and non-governmental organisations (NGOs) to develop the design and criteria for the new scheme.

Green Dot labelling

Since 2009, we have made it easier for customers to make healthier choices, by adding Green Dot labelling to identify all own-brand products that meet certain healthy nutritional criteria, such as high fibre, rich in omega 3, and low saturated fat¹⁸. Green Dot is a market-leading graphical way of presenting the nutritional benefits of products, and has been replicated by other retailers. Furthermore, it is applied consistently across our product ranges.



Out-of-home calorie labelling

We provide calorie information for customers in all our in-store Espresso café bars¹⁹, which offer pre-packed and loose food and drinks. All pre-packed food and shelf-edge labelling carry traffic-light nutritional information and the drinks menu boards include calorie information per serving. This enables customers to better consider healthier choices in out-of-home environments.

Healthy promotions

Indicator: **Responsible promotions, marketing and information**

Target 2012	Progress	Targets 2013
E.P. A minimum of 30% of food promotions will be for healthy offerings ²⁰	✓ 33% of food promotions in 2012 were for healthy offerings	E.P. A minimum of 30% of food promotions will be for healthy offerings
		E.P. Encourage members to increase their consumption of fruit and vegetables ²¹ through targeted incentives such as money-off coupons

Headline performance

Performance benchmark

Joint number 1

UK retailer²² (score 3/5) for 'Price Promotions' of healthy products and number 1²³ (score 4/5) for our policy of not locating 'Sweets at Checkouts' by *Which?*

Performance benchmark

Only major UK food retailer²⁴ to have a specific policy not to market foods high in fat, sugar and salt to children, including through use of cartoon characters on packaging

90,000 members took advantage of our fruit and veg smart coupons



In 2012, 33% of promotions were for healthier products, against a target of 30% (2011: 34%)²⁵.

33% of promotions are for healthier products

2011: 34%



Every week during 2012, we supported key Government public health targets in-store, including advising customers on the importance of reducing salt and saturated fat in their diets. We are also a national partner of the Department of Health's Change4Life movement, which encourages people to make changes to their diet and activity levels to reduce preventable illness.

Marketing to young people

We do not target children in the marketing of products that are high in fat, sugar or salt. This policy extends to free samples at in-store demonstrations and promotions. We are the only retailer to ban the use of cartoon characters on the packaging of own-brand products with a high fat, salt or sugar content, and for over 10 years we have had a policy that prohibits sweets at checkout stands and kiosks.

Our From Farm to Fork initiative invites primary school children to visit The Co-operative's working farms, to teach

them about the origins of their food and to inspire them about fresh, healthy ingredients (page 45).

Fruit and vegetables

We seek to encourage customers to increase their consumption of fruit and vegetables through a variety of actions,

including Green Dot labelling and 5-a-day messages across various digital and printed media channels²⁶. In 2013, we will continue to explore new ways to make it easier for people to choose a wider range of fruit and vegetables, such as through our smart coupon campaign (see box).

Change4Life

During January 2012, we supported the Department of Health's Change4Life programme with two campaigns to help customers make healthier food choices: the supermeals campaign on planning healthy meals on a budget and Be Food Smart. We were one of only three retailers to support Change4Life's Be Food Smart campaign, which aims to highlight how healthier eating can be tasty, cheap and quick.

Our support for these campaigns included raising awareness with staff and customers through our healthy deals website; till screen and radio advertising channels; our Green Schools Revolution programme (page 45); and partnering with Change4Life on a 5-a-day TV advertising campaign, the first time a business has partnered with Change4Life in this way.



In focus



Fruit and vegetables Smart Coupon

In 2012, we introduced a smart coupon campaign targeting our members with a weekly spend of less than £1 on fruit and vegetables. Coupons provided a £1 discount on a minimum spend of £3 on fresh, frozen, canned and dried fruit and vegetables.

Over 90,000 members took advantage of the four-week campaign, leading to a corresponding increase in sales of fruit and vegetables, with Fairtrade bananas and British strawberries proving most popular.

Alcohol

Indicator: **Responsible promotions, marketing and information**

New target in 2013

Target 2013

E.P. Support our customers to drink responsibly, by running alcohol awareness campaigns, and offer customers a choice of lower alcohol and alcohol-free products

We are committed to selling alcohol responsibly and have signed up to all seven relevant collective alcohol pledges in the Responsibility Deal²⁷.

Alcohol labelling

We include clear information on unit content, NHS guidelines and a drinking when pregnant warning on 100% of own-brand alcohol products. We meet the Responsibility Deal pledges on alcohol labelling²⁸, awareness of alcohol units, calories and other information²⁹. We go beyond legal requirements and Government guidance by labelling all own-brand alcohol with an ingredient list and by making sure all products suitable for vegetarians and vegans are labelled as such.

Alcohol marketing and information

We are supporting UK charity, Drinkaware³⁰, with funding of £250,000 per year until 2013 and all our own-brand products and external communications relating to alcohol carry Drinkaware messaging³¹. In 2012, the in-kind value of our support for Drinkaware's Campaign for Smarter Drinking was over £328,000.

We support community action³² to tackle negative impacts of alcohol misuse through local initiatives including Community Alcohol Partnerships (CAP), Pubwatch and Nightsafe schemes. We are involved in 32 CAP schemes (2011: 20) and, in 2013, we aim to become involved in at least 10 more.

Since 2009, we have committed to Challenge 25, requiring proof of age from under-25s buying alcohol, including customers who look under 25. Training is given to all Food store employees, and refreshed every year³³.

Unit reduction

In 2012, we reduced alcohol levels (ABV) of our own-brand canned bitter (from 4% to 3% ABV) and strong lager (8% to 7% ABV). We also started stocking lower alcohol and alcohol-free alternatives. As part of a new alcohol pledge in the Responsibility Deal, to help reduce the amount of alcohol units sold in the UK³⁴, we will include lower alcohol alternatives on alcohol product promotions.

Physical activity and health

Physical activity

We have signed up to three out of five Physical Activity pledges in the Responsibility Deal, including raising awareness of physical activity guidelines³⁵ and encouraging employees to cycle or walk to work through our Green Travel initiatives (page 86)³⁶. In 2012, we continued to use our presence in local communities to encourage physical activity through initiatives such as Walking Buses (see page 45), The Co-operative Streetgames Young Volunteers programme (page 46)³⁷ and The Co-operative Active Culture Campaign³⁸.

Influence and action

We submitted a letter of support on behalf of the Manchester Green Travel Employers Forum (MaGTEF) for *The Times*' Cities fit for Cycling campaign, which aims to improve cyclists' safety in the UK³⁹.

In focus



Our partnership with Activate Sport

Since 2009, we have partnered with specialist sports coaching provider, Activate Sport. In 2012, we provided funding for 600 individual sport participation days for children from across the UK. Through our new Active Culture Campaign, we aim to inspire 80,000 children to get involved in sport by the end of 2013.

Health at work

We have signed up to four Health at Work Pledges as part of the Responsibility Deal. Details are provided in the Delivering value section online .

Health and lifestyle services

The Co-operative Pharmacy provides dispensing services and health and lifestyle services and advice for UK communities:

- **Smoking cessation** 459 of our pharmacies (59% of all branches) provide an NHS Stop Smoking service.
- **New Medicines Service** This free NHS service is offered by our pharmacies across England⁴⁰, providing advice to patients diagnosed with certain conditions and/or requiring new medication. So far, 42,000 individuals have benefited. In Wales, our pharmacies offer the Discharge Medicine Review⁴¹.
- **Flu vaccinations** We provided the largest private in-pharmacy flu vaccination service in Europe through 2012/13, issuing 10,000 vaccinations. Nearly 500 of our pharmacies provide this paid-for service. We offered free flu vaccinations to all our Group employees.



Responsible banking and finance

Context

The global financial crisis and subsequent recession over the last five years continue to have a marked effect on the UK economy and financial service sector. Higher capital requirements, squeezed margins and a lack of consumer confidence have impacted heavily. Prospects for growth remain fragile and the long-term outlook remains unclear. Media attention on a number of high-profile banking issues during 2012 has served to further undermine trust in the sector, leaving an increasing number of consumers more disposed to consider responsible and ethical alternatives.

Materiality and strategy

We've been providing co-operative banking products and services to consumers and businesses for well over 100 years, and we've long recognised that the provision of responsible banking and finance is crucial to sustainable development.

For 20 years our Ethical Policy has been central to our approach and today is still unique in UK banking, in that it is based on an explicit mandate from customers to restrict the provision of financial services to certain activities and sectors.

Our long-term strategy is to deliver a compelling co-operative alternative on the high street founded on the provision of responsible banking and underpinned by strong customer relationships.

Headline performance

Performance benchmark

Number 1 in UK general public's ranking of UK financial services providers considered to be the leader in social responsibility¹

Rank

- 1** The Co-operative
- 2 Barclays
- 3 HSBC
- 4 Lloyds TSB
- 5 NatWest

Performance benchmark

Best buy In 2012, the Ethical Consumer Research Association awarded 'Best Buy' status to The Co-operative Bank's current account, and, in 2013, for The Co-operative Insurance home and motor policies²

The Co-operative Banking Group

The Co-operative Banking Group includes The Co-operative Bank (including Britannia and smile) and The Co-operative Insurance³.

Core business activity⁴ is the provision of general financial services – banking and insurance – to business and personal customers. In 2012, our core business activities delivered an operating profit of £120m. The non-core business, those activities not congruent with the current strategy, generated an operating loss of £377m. A statutory loss of £662m

reflected a number of additional non-operating exceptional charges in the year, in particular an intangible asset write-down of £150m and a further PPI provision of £150m.

In April 2013, we withdrew from the process to acquire the Verde business being disposed of by Lloyds Banking Group. Based on the current economic environment, the worsened outlook for economic growth and the increasing regulatory requirements on the financial services sector in general, both the Group and Banking Boards determined that the deal could no longer be considered to be in the best interests of members.

In May 2013, the ratings agency Moody's issued a downgrade of the Bank's debt rating. We acknowledge, like the rest of our banking sector peers, the need to strengthen our capital position in light of the broader economic downturn and the pending introduction of enhanced regulatory requirements, and have a clear plan to drive this forward through 2013.

Our commitment remains to provide consumers and businesses with a responsible and co-operative alternative. Our regard by the general public remains high, as evidenced by our recognition as the UK's most socially responsible bank and by an 8.2% increase in primary current accounts in 2012.

Support for banking customers

Headline performance

55% of direct new lending was to house buyers, with a third to first-time buyers

8.2% increase in primary current accounts in 2012

Performance benchmark

First high street bank to abolish sales-related targets

Trust in UK banks has fallen from 43% in 2008 to 23% in 2012⁵ and half the general public think “UK banks have lower ethical standards than other UK sectors”⁶.

The number of customers who consider The Co-operative Bank their main bank, key to the continued overall growth of the business, has increased, with the number of primary current accounts increasing by 8.2% during 2012.

In 2012, £2.8bn was lent to Retail mortgage customers (2011: £1.6bn), while £1.3bn (2011: £1.2bn) was lent to businesses. We were also the first major bank to focus

targets for branch network staff on customer service, rather than sales.

The potential mis-selling of derivatives to corporate and business banking customers has been much publicised during 2012. The Bank voluntarily joined the FSA review of these sales and will be carrying out further work in the next stage of the FSA review. The Bank sold only small numbers of simple products to its customers to help them manage interest rate risk.

In line with the rest of the banking industry, the Bank saw a continued increase in the volume of PPI complaints in 2012. As a

result, a charge of £40m at the half year has been increased by a further £109.7m to cover the anticipated cost of customer redress. Detail on customer complaints relating to PPI is reported on page 92.

Customer advocacy

In 2012, customer advocacy levels remained strong, testifying to the high degree of trust placed in the Bank by its customers. As at December 2012, advocacy levels for The Co-operative Banking Group were 9.7% higher than the average of the top five competitors for the business (page 91).

In focus

20 years of our Ethical Policy

2012 marked the 20th anniversary of the launch of the Bank's Ethical Policy, which remains unique among UK financial service providers. The Policy contains specific clauses that restrict the provision of finance to certain business sectors or activities. It comprises 27 policy statements that are underpinned by a mandate from approximately a quarter of a million customers who have participated in the five policy consultations (1995, 1998, 2001, 2005 and 2009).

The Policy covers all the Bank's non-personal assets and liabilities held on the Bank's balance sheet eg, retail and syndicated loans, corporate leasing, retail deposits and savings, and treasury dealings and the investment of all retained balances.

We have withheld finance to the value of £1.3bn, including:

£284m

relating to fossil fuel extraction



£385m

relating to human rights and international development



£242m

relating to unsustainable ecological practices



£275m

relating to animal welfare



Provision of responsible finance

Indicator: Ethical screening of banking customers and insurance investments

Headline performance

Ethical screening referrals and outcomes



All 2012 bank business declines by issue	Referred	Declined	Value
Climate change (page 55)	93	15	£3,021,000
International development and human rights (page 17)	110	17	£2,659,000
Social inclusion (page 39)	10	3	£273,000
Animal welfare (page 24)	43	5	£30,000
Chemicals (page 72)	12	2	£5,000
Waste	9	0	£0
Biodiversity	29	0	£0
Other	20	0	£0
Total	326	42	£5,988,000

Assurance

Many financial services organisations produce social and environmental reports but few, if any, subject their core business activity – the provision of finance – to open, independent scrutiny. Our sustainability auditor, Two Tomorrows, has provided a high level of assurance over the implementation of The Co-operative Bank's Ethical Policy (pages 105 and 106). They have directly investigated a 10% sample of potential business customers referred to the Ethical Policy Unit over the year to assure the extent to which we have carried out the Policy, the accuracy of our data and the outcomes we claim.

Bank screening of finance

The Bank provides services to some 104,000 corporate, business and wholesale market customers. Ethical Policy compliance is secured, in the main, by self-completion questionnaires as part of the application process, which are checked by account opening staff. A central bi-annual screening exercise ensures continued compliance.

Corporate banking customers with a turnover greater than £1m are directly investigated for ethical compliance by trained business development managers and reviewed on an annual basis. Business development managers are issued with Ethical Policy guidelines that set out the criteria to be considered in the provision of facilities, and make explicit where

involvement is prohibited. High-risk sector guidelines detail corporate activities considered to present an elevated Ethical Policy risk, for example the manufacture of chemicals, where referral to our dedicated Ethical Policy Unit is mandatory and in most cases, we commission independent analysis from EIRIS, a leading ethical investment research organisation.

During 2012, our Ethical Policy Unit reviewed 326 (2011: 437) financial opportunities. Of these, 42 (13%) were found to be in conflict with our Ethical Policy and we declined the business opportunity (2011: 8%). In 2012, the annualised gross income foregone by the Bank as a result of ethical screening was an estimated £22m⁸.

On the basis of customer confidentiality, the Bank is generally unwilling to name businesses found to be in conflict with our Ethical Policy. However, all referrals to the Ethical Policy Unit are subject to independent third-party scrutiny.

The Co-operative Insurance

The Co-operative Insurance provides home and motor insurance (also called general insurance) cover to over 1.4 million customers. In 2011, we extended the Bank's Ethical Policy to cover the fixed income bonds underpinning home and car premiums.

During 2012, the Ethical Policy Unit reviewed seven fixed income investment opportunities, of which two were declined.

In early 2013, we announced our intention to seek a buyer for our General Insurance (GI) business.

Money Market Funds

Our prudent approach to balance sheet management necessitates investment in a diverse portfolio. As with all Treasury investments, such vehicles must comply with our Ethical Policy and may, from time to time, require the adoption of new processes. For example, in 2012, a process was developed for monitoring and screening the underlying holdings of Money Market Funds, short-term investment vehicles. On one occasion in 2012, an investment was temporarily withdrawn whilst a fund divested an underlying holding that contravened our Policy.

Employee training

In 2012, new Banking Group employees continued to receive induction training on our approach to responsible banking and finance and the Ethical Policy via a number of e-learning induction modules. A separate specific training programme, covering the Ethical Policy in more detail, is also available for new Corporate and Business Banking employees.

Social and environmental banking

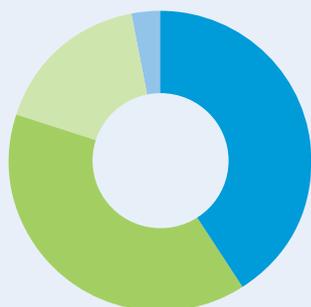
Indicator: **Value of social and environmental banking**

Targets 2012	Progress	Target 2013
<p>E.P. Within our £1bn commitment to fund energy efficiency and renewables, we will dedicate £100m to community renewable opportunities and support projects that provide demonstrable reductions in fuel poverty</p>	<p>✓ £828m agreed lending to date for energy efficiency and renewables, of which £214m was new lending committed to 27 projects in 2012</p> <p>£37m has been lent against the £100m target for community energy schemes</p>	<p>E.P. Commit £1bn to the financing of energy efficiency and renewables in the UK, of which £100m will be dedicated to community projects and initiatives that provide demonstrable reductions in fuel poverty</p>
<p>Help to kick-start a revolution in community-owned renewable energy generation via a combination of £1m of grants and the development of a new financial product for the public sector</p>	<p>✗ We continue to provide lending for renewable energy to the public sector but a new product has not yet been delivered</p>	

Headline performance

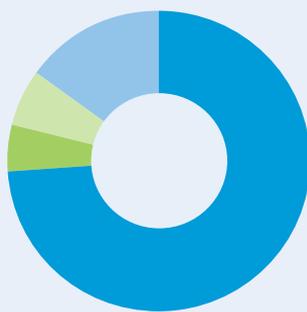
41% of bank liabilities have a positive social or environmental contribution

Positive contribution of bank liabilities (eg, deposits) to society in 2012: £2,986m
(41% of £7,289m, total bank liabilities)

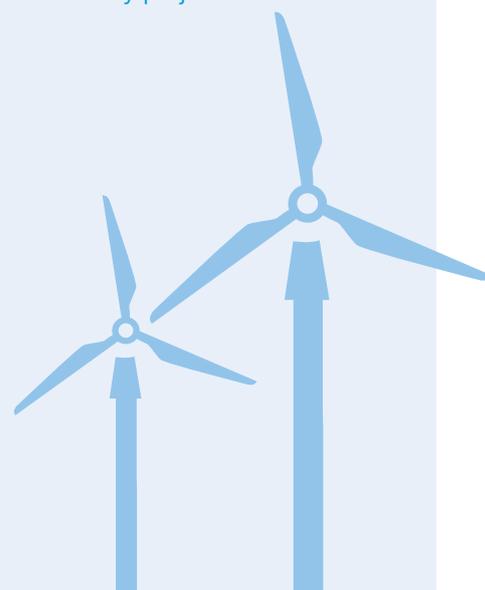


30% of bank assets have a positive social or environmental contribution

Positive contribution of bank assets (eg, loans and overdrafts) to society in 2012: £2,601m
(30% of £8,567m⁹ total bank assets)



100% of our energy lending is to a diverse portfolio of renewables and energy efficiency projects



Social and environmental banking

The Co-operative Bank's Social Banking Unit (SBU) provides management and development expertise for charities, social enterprises, microfinance, credit unions and the public sector. It operates out of three UK offices, with a team of 45. The Bank's social housing and renewable energy businesses, which were previously part of SBU, are now managed by two specialist teams with almost 40 staff. Since 2008, we have more than doubled the number of charities banking with us.

We have developed our renewable energy expertise over a number of years and are now considered a market leader in the provision of sub-£20m finance for renewable energy.

In 2010, the Bank committed to fund £1bn renewable energy and energy efficiency projects. In 2012, our total agreed lending against this commitment reached £828m, of which £429m has been drawn down by the recipients of funding. In 2012, the Bank approved finance for 27 renewable energy and carbon reduction projects (page 55).

£828m of our £1bn commitment to fund renewable energy and energy efficiency projects agreed

Total Bank deposits from social, co-operative and environmental businesses in 2012 reached £2.99bn, 41% of our total corporate and business banking liabilities (2011: 42%). Of this, community and charitable deposits grew by £75m. In 2012, the value of assets such as loans and overdrafts to these businesses reached £2.6bn, or 30% of all Bank assets (2011: 28%).

In focus



Energy infrastructure upgrade at East and North Hertfordshire NHS Trust

The Bank provided £2m funding to support the installation of a new energy centre at Lister Hospital. The project included installation of a combined heat and power system, a steam boiler, energy efficient lighting and a new building management system.

Over the 15-year life of the project, the new energy centre is guaranteed to deliver to the Trust annual savings of over £647,000 and around 4,000 tonnes of CO₂. This project is one of 17 such public sector energy efficiency projects funded by the Bank to date.



Regional Growth Fund

The Bank has committed £15m to a £60m fund to provide lending to small, micro and social enterprises under the Government's Regional Growth Fund scheme to secure and create jobs over a three-year period. To date, 11 Community Development Finance Institutions (CDFIs) have received funding

approval to the value of £36m, to be disbursed to an estimated 1,500 SMEs and Social Enterprises, protecting/creating an estimated 7,000 jobs. This funding meets some of the growing demand from small businesses for access to finance and will drive investment in local economies. All recipients of funding have had traditional bank funding declined.

The Co-operative Group pension scheme

Target 2012	Progress	Target 2013
<p>E.P. Encourage our primary pension scheme to operate a Responsible Investment Policy that is amongst the most comprehensive of private sector schemes in the UK</p>	<p>= In 2012 we reviewed the established Responsible Investment Policy for our primary pension scheme, Pace, and introduced an ethical fund option</p>	<p>E.P. Encourage our primary pension scheme to operate a Responsible Investment Policy that is amongst the most comprehensive of private sector schemes in the UK</p>

Pension arrangements are an important part of the rewards package we offer our employees, helping us to attract and retain the best people. As of October 2012, we operate a single scheme, Pace (page 88).

The scheme operates a Responsible Investment (RI) Policy which provides for the Trustee to instruct investment managers in relation to specific

environmental, social and governance issues; to engage with investee companies; and to direct investment managers on the exercise of shareholder voting rights.

In 2012, all disclosures stipulated by the RI Policy were made available on the scheme's website.

Following a strategic review of the Group's pension arrangements in 2012 (page 88), and as part of the Trustee's commitment to responsible investment, an ethical fund option was made available. The ethical fund is an equity fund that invests in companies with positive social and environmental impacts and does not invest in companies involved in practices such as intensive farming, gambling, pornography, weapon manufacture and tobacco.

Sustainable and ethical products and services

Indicator: **Range of sustainable and ethical products and services**

Targets 2012	Progress	Targets 2013
E.P. Reward young safer drivers with premium discounts worth £20m over the next three years and provide safety workshops for more than 20,000 young people in partnership with road safety charity, Brake	= Policy premium savings of £12.3m have been delivered. The relationship with Brake came to an end in 2012 and workshops are no longer running	E.P. Reward young safer drivers with a new double premium discount by 2014 worth £20m
E.P. Work with home and motor insurance suppliers and claims fulfilment partners to reduce environmental impacts of claims and develop industry best practice by 2014	= We commenced a range of initiatives with suppliers and claims fulfilment partners in 2012 to help them reduce carbon footprints	E.P. Work with our home and motor insurance suppliers and claims fulfilment partners to reduce environmental impact and develop industry best practice by 2014

Performance recognition

Best Charity Card Programme winner at the Card and Payments Awards 2013 for our Amnesty International affinity credit card¹⁰

Motor insurance initiative for young drivers

The Co-operative Insurance motor insurance initiative for drivers between 17 and 24 and their parents links drivers' premiums to safer driving and encourages a responsible attitude to driving. Using innovative Smartbox technology, we collect driving data and send it to an online dashboard for use when reviewing premiums. We use four parameters to assess how a car is driven, every 90 days, to calculate a safe driving score. Safer Driving Discounts can be earned in addition to No Claims Discounts, and premiums can increase if vehicles are not driven within Safe Driving Parameters.

Carbon offset insurance

In 2012, offsetting continued as a standard feature of virtually all new car insurance policies, as reported on page 54.

Charity credit cards

The Bank offers a range of credit cards, each linked to one of 15 charity partners (pages 17 and 68). A donation is made to the chosen charity when an account is opened and additional donations are made in proportion to the amount spent using the card. In 2012, we raised a total of £1.25m for charity through affinity credit cards.

£1.25m raised for charity through affinity credit cards

2011: £1.38m



Our think credit card promotes ethical purchasing by offering better rates of interest for purchases from 16¹¹ ethical partners that provide sustainable products or services or are considered to be 'ethical leaders'¹² in their sector. When a new think card is activated, we purchase and protect a third of an acre of Indonesian rainforest in the customer's name, in partnership with the Royal Society for the Protection of Birds (RSPB)¹³. For every £100 spent on the card, a further 25p is donated to rainforest protection. Since its launch in December 2008, the partnership has raised £276,000, enough to protect 7,948 acres of rainforest.

Other sustainable and ethical products and services

International development and human rights

We support small businesses in some of the world's poorest areas through the provision of a £25m microfinance fund (page 17), and through our support for lendwithcare.org, which, by the end of 2012 had facilitated 46,000 loans to entrepreneurs in the developing world (page 17).

Social inclusion

We promote social inclusion through wider access to our services for banking customers, such as an extensive free ATM network, including in deprived areas. In 2012 we opened 200 new ATMs. We also provide basic bank accounts for prisoners, with 4,362 new accounts opened in 2012 (page 38). We support businesses in deprived areas, where our lending is above the industry average and 38% of our branches are situated in such areas. We also offer free banking services to the co-operative, voluntary, charity and social enterprise sectors and have specialist support teams. As a result over 60% of the UK credit union sector bank with us (page 38).

Supporting co-operatives

Our financial support for co-operatives (page 81) includes advice and assistance to Public Service Mutuals; bespoke banking support; and access to ethical loan finance through The Co-operative Loan Fund. We are also spearheading the new Global Development Co-operative Loan Fund (page 81), which was progressed from a project to a legal entity in 2012 and it is anticipated that the first loans will be made during 2013 and are investing in co-operative support and development (page 79).

Social inclusion

Context

Inequalities in earnings in Britain have risen over the last 30 years, and are high compared with other industrialised countries¹. Factors such as unemployment, low income, poor skills, ill-health, disability and discrimination can all contribute to social exclusion, preventing individuals from accessing many of society's opportunities and giving rise to inequality. Poor money management can have long-term consequences for income, living standards and savings behaviour². Financial inclusion, which is borne of financial capability and the availability of suitable financial products and services, plays a key role in achieving social inclusion.

Materiality and strategy

Guided by our co-operative Values and Principles, we've been working to build a fairer, more just society for over 150 years. Our Ethical Plan (page 101) includes a commitment to doing business in a socially inclusive manner. Social and financial inclusion were identified as priorities in the most recent Ethical Policy consultations for our Food and Banking businesses (page 104), in which over 100,000 co-operative members and over 80,000 bank customers took part.

As a retailer and financial services provider, our strategy is to serve as many communities as possible. We achieve this through the provision of accessible products and services, whether this is through our physical presence in UK communities or bespoke products and services to meet individual community needs. We are also helping people access opportunities in society to develop skills and employability, financial capability, and social integration.

Products and services

Indicator: **Access to products and services**

Target 2012

E.P. Continue to have a presence in every UK postal area³, and increase the number of new stores by 300 by 2014 (compared to 2010)

Progress

← We continue to operate a food store in every UK postal area. In 2012, our new store opening programme continued with 83 new stores (2011: 32). Our new Food Strategy will see us increase our new store opening programme significantly from 2014

Target 2013

E.P. We will continue to be socially inclusive, maintaining a physical presence in every postal area in the UK

Headline performance

Proportion⁴ of The Co-operative's outlets in deprived⁵ areas

	2009	2010	2011	2012
Food	18%	17%	18%	19%
Pharmacy	26%	28%	30%	30%
Funeralcare	37%	36%	29% ⁶	31%
Bank	35%	37%	37%	38%
Post Offices ⁷	16%	18%	18%	16%

Performance benchmark

22% of funeral providers in deprived areas are The Co-operative Funeralcare

2011: 21%
(we make up 17% of all UK funeral providers)

Performance benchmark

30% of food stores operated by major food retailers⁸ in deprived areas are The Co-operative Food

2011: 33%
(we make up 4.7% of all UK food stores)



Inclusive products and services

We aim to serve as wide a range of communities as possible. We promote bespoke products and services that are inclusive and respond to differing customer needs.

Food

We're the UK's fifth largest food retailer and operate 2,820 community stores. We have a food store in every postal area in the UK, and each week serve around 14.5 million customers. In 2012, we opened 83 new stores. This included two key business acquisitions⁹ as well as a number of new developments and relocations. We undertook several extensions of stores as we continued to invest in our existing estate. Our member-controlled committees (page 75) are consulted on intended store closures or new developments, so that potential negative impacts on the local community are fully considered.

We offer a free home delivery service from some 330 (2011: 329) stores. The service is targeted at stores in areas with low car ownership or for those who have difficulty transporting their shopping home.

Pharmacy

We aim to offer a range of services in support of social inclusion:

- 95% of our branches offer a prescription delivery service. We offer an online pharmacy store and a confidential online Co-operative Doctor service, and we offer a free, managed, repeat prescription service.
- Our substance misuse service provides clients with access to supervised consumption, needle exchange and recovery services. Unlike many of our competitors, we do not require a signed contract before providing this service.

Funeralcare

We operate over 900 funeral homes, crematoria and woodland burial grounds and carry out over 100,000 funerals each year. We aim to develop services that support the needs of different cultural and faith groups. For the LGBT (Lesbian, Gay, Bisexual and Transsexual) community, we work with the Pink Weddings Group to promote our funeral service and the support that we can provide to LGBT families at the time of bereavement.

Accessible communications

Lack of appropriate, accessible communications can leave customers feeling excluded, whether this is through product packaging, direct correspondence or online communications. For our main websites, where possible, we follow the guidelines developed by the World Wide Web Consortium (W3C) under the Web Accessibility Initiative and in 2012, we

updated our Digital Guidelines in line with guidance from the Royal National Institute of Blind People.

In focus



Supporting Mencap's employee programme

In 2012, The Co-operative Funeralcare supported Mencap's Employ Me programme, a service which enables people with learning disabilities to find work and to develop workplace skills. This followed the Group's partnership with Mencap and the Making Opportunities programme (page 10), where we committed to offer permanent, paid employment to all participants who successfully completed work trials – even where no vacancy existed. Since 2008, over 350 people have gained work experience and 148 people consequently gained employment.

Financial inclusion

Indicator: **Promotion of financial inclusion**

Targets 2012	Progress	Target 2013
E.P. Continue to take a lead on financial inclusion	✓ We continued to promote financial inclusion through our support for small businesses in deprived areas and our support for credit unions	E.P. Continue to take a lead on financial inclusion
Develop a new three-year strategy for work with credit unions	✓ Building on research, and engagement with the credit union sector, a Group-wide working party formed to identify commercial opportunities in this area, and a new three-year strategy was developed	

Headline performance

Financial support to small businesses in deprived areas as a proportion of all equivalent Co-operative Bank activity

	2009	2010	2011	2012	Industry average ¹⁰
Business current accounts	6.6%	6.3%	5.4%	5.4%	4.5%
Overdrafts	5.9%	5.5%	4.7%	4.9%	4.7%
Loans	5.0%	5.7%	5.9%	5.7%	3.5%

13,380 bank accounts
for prisoners opened
since 2009

2011: 9,018

Business customers

Supporting small businesses in deprived areas

In 2012, our finance to small businesses¹¹ in deprived¹² areas (as a proportion of equivalent bank activity) remained above the industry average (see Headline performance box on previous page).

Personal customers

We do not charge for use of any of our 2,660 (2011: 2,382) cash machines, 15 (2011: 17) of which are located in low-income communities eligible for a financial inclusion premium. In several remote locations, such as Scottish Islands and Highland villages, we believe we are the only cash machine provider. In 2012, we installed over 200 new machines in our Food stores, and plan to further expand next year.

2,660 cash machines operate UK-wide and all are free to use

2011: 2,382



We have seven¹³ in-store banking outlets – small staffed outlets in our Food stores. Although planned, we did not pilot smaller sized in-store branches in 2012.

We offer legal and life planning services in selected bank branches, providing an approachable alternative in an area customers often find daunting. In 2013, customers will also have access to wills and funeral plans via our bank branch network¹⁴.

Support for credit unions

Credit unions are financial co-operatives that offer savings and low-cost loans to members – many of whom are unable to use traditional services. They play a crucial role in the provision of financial services in areas and communities currently not served by mainstream providers. We remain the largest provider of banking to the credit union sector (approximately 60%):

- The Bank's overall credit balances held by credit unions increased 38% during 2012 to £117m (2011: £84.7m).
- Our Credit Union Current Account launched in 2006, and we remain the only bank to offer a current account for credit union members, in partnership with the Association of British Credit Unions Ltd (ABCUL). In 2012, 25 credit unions offered the account and over 36,500 (2011: 33,281) customers benefited.

In line with the Bank's Ethical Policy commitment to support credit unions, a new three-year strategy was developed and agreed in 2012. Principles are to provide credit unions and their members with: an accessible, Co-operative banking package; access to a range of Group products and services; and assistance and advice.

The Co-operative Electrical continues to develop its service to offer credit union members access to goods financed by affordable loans and in 2012, the service was available via 160 (2011: 137) credit unions.

Basic bank account provision

Access to basic bank account features, such as the ability to pay bills by direct debit, can help customers organise their finances. Holding an account can also improve consumer confidence in money management¹⁵. The Co-operative Bank offers a basic bank account, Cashminder, aimed at those who may not be eligible for a standard current account.

During 2012, there was a 13% increase, on the back of a 21% increase in 2011, in the number of Cashminder accounts provided by the Bank.

Influence and action

Basic bank accounts

In 2012, we issued a letter to the Chair of the Treasury Select Committee to ensure other banking retailers play a more prominent role in this field, in our bid to make the provision of this service fairer and more open to everyone. Through lobbying, we aim to ensure that all providers act fairly in providing basic bank accounts so that consumers have a fair choice and access to facilities.

Bank accounts for prisoners

The provision of a bank account can facilitate employment and housing for offenders leaving prison – factors that are considered key to the reduction of re-offending. However, it is often difficult for ex-offenders to provide the proof of identity or address required to open a bank account.

Since 2006, we've enabled prisoners to open a basic bank account while in prison, ready for use on release. The scheme now operates from 31 UK prisons, and 4,362 accounts were opened in 2012, with a total of 13,380 accounts opened since 2006. While it is difficult to wholly attribute causality, research undertaken by John Moores University in 2009 found that, of a group of over 100 prisoners who opened a Co-operative Bank account before leaving prison, 34% re-offended, nearly a third less than the national average of 47%¹⁶.

Responsible banking and finance

Indicator: **Consideration of social inclusion in the provision of finance**

Since 1992 we have declined £88m finance to businesses, in line with our Ethical Policy statements on social inclusion. During 2012, 10 finance opportunities (2011: 28) were referred to the Ethical Policy Unit in connection with social inclusion, of which three were declined (2011: four) at an estimated cost of £273,000 in terms of gross income foregone.

Banking and finance declines, 2012

	Estimated income foregone 2012
Personal loans (three instances) A £3.2m property loan plus general banking facilities for companies involved in cheque encashment facilities and short-term consumer lending, including pay-day loans, all with exploitative interest rates typically over 2000%.	£273,000

Community initiatives

Target 2012	Progress	Target 2013
E.P. Continue to champion financial literacy amongst young people (in 2012: extend the Skills4Schools programme to our store/branch staff)	E.P. Throughout 2012, staff volunteers continued to deliver the Skills4Schools programme. It was extended to all colleagues in our family of businesses	E.P. Continue to champion financial literacy amongst young people

Financial education – Skills4Schools

Skills4Schools comprises two education initiatives to improve numeracy and financial literacy: Fit4finance and Number Partners. Staff volunteers visit local schools and deliver workshops, focusing on numeracy in primary schools and financial literacy in secondary schools. In 2012:

- 250 (2011: 485) trained employee volunteers were able to participate in Skills4Schools;
- some 2,000 young people benefited;
- 26 schools took part in Skills4Schools workshops, including nine Co-operative Trust schools;
- over 2,170 hours of business time and expertise were invested, supported by learning resources worth approximately £30,000.

In 2012, Skills4Schools volunteering opportunities were extended to all store and branch staff, however, business change (page 87) resulted in some long-term volunteers leaving the business, so delivery of the overall programme was more limited than in previous years. In 2013, we will re-launch Fit4Finance throughout our Food business.

Reading Partners

In 2012, we supported a literacy programme at The Co-operative Academy in Stoke-on-Trent (page 44) and local primary schools. A total of 25 volunteers from our businesses worked with pupils to improve their literacy and communication skills. The programme is also due to deliver adult literacy sessions during 2013.

The Co-operative StreetGames Young Volunteers

We have partnered with the national sports charity StreetGames since 2007, developing volunteering opportunities for young people through sport in the 20% most deprived communities across England and Wales. Along with health and social benefits, the project promotes self-belief, self-responsibility and leadership. Further details are provided on page 46.

Offenders' art exhibitions

Since 2009, we've supported The Koestler Trust's exhibitions of offenders' art. In 2012, we invested £82,000 towards delivery of the national exhibition in London and regional exhibitions in Liverpool and Glasgow. Both regional exhibitions were curated by young people, in line with our focus on inspiring young people (pages 43–46). Since 2009:

- over 93,000 people have attended the exhibitions (28,000 in 2012);
- 1,470 pieces of artwork have been exhibited; and
- 5,680 offenders have had their achievements recognised through certificates and awards.

Supporting the homeless

We continued to support Lifeshare, a Manchester-based charity that works with homeless, disadvantaged people, providing advice, information and support. Since 2010, we have donated a total of £89,000, as well as in-kind support such as renovating premises and donating office furniture.



Context

In the UK, women represent almost half of the UK workforce¹, and globally, women are increasingly an economic force, with huge earning and spending power. There are 11.2 million disabled people in the UK² and 1 in 10 people in the UK are carers³.

In the last two decades, England and Wales have become increasingly ethnically diverse, with rising numbers of people identifying with minority ethnic groups in the 2011 UK census⁴. And almost three-quarters of a million UK adults identify as gay, lesbian or bisexual – equivalent to 1.5% of the population⁵.

Materiality and strategy

Our long-standing commitment to diversity is enshrined in our Values and Principles (inside front cover) with 'equality' and 'voluntary and open membership' key to our approach. We strive to build a workforce that is diverse, inclusive and representative of our wide customer base. We're an active member of professional bodies that promote diversity and inclusion, including: Inclusive Employers; Opportunity Now; Race for Opportunity; Business Disability Forum; Stonewall; and Employers for Carers.

The Trading Group has had an employee diversity strategy since 2004, which was updated in line with the Equality Act in 2010. A separate diversity strategy is in place for the Banking Group, given the specific challenges and opportunities faced by financial services providers.

Our Ethical Plan (page 101) sets out targets aimed at improving levels of membership diversity. The Board Diversity Policy (page 42) aims to improve the diversity of our elected membership.

Employees

Indicator: **Workforce composition**

Targets 2012	Progress	Targets 2013
To build on the Trading Group Census (conducted in 2011), roll out a second phase of targeted data collection, to include an additional 23% of employees	✘ Due to business change (page 87), and in particular Project Unity, we were unable to meet this target	Roll out targeted data collection, to include an additional 23% of employees (compared to the number captured in 2011 census)
Build a proactive career support network for women within the Trading Group and attract 300 members during 2012	✔ Our Aspire network was launched in 2012 and at the end of the year had 257 members. This number had grown to over 300 by early 2013	Implement a development programme to support senior women within the Group, launching in 2013
Pilot diversity awareness training for Co-operative Food store managers in at least one region in 2012	✘ Due to business change (page 87), and in particular Project Unity, we were unable to meet this target	Train all recruiting managers to recognise and counter unconscious bias during 2013

Headline performance

Proportion of female, ethnic minority and disabled employees⁶ and managers⁷

	Group					
	Female		Ethnic minority		Disabled	
	Employees	Managers	Employees	Managers	Employees	Managers
2012⁸	59%	46%	3%	3%	1%	1%

Diverse Business of the Year award at the National Diversity Awards



Gender

Gender was an area of particular focus for our work on diversity in 2012. We signed up to the Government's 'Think Act Report' initiative, committing to report on progress towards securing gender equality. We continue to examine pay on an annual basis via Equal Pay Audits for management and in 2013 we will benchmark our broader performance against that of other businesses.

The 2011 Davies Report⁹ made recommendations aimed at increasing the representation of women on boards. It concluded that whilst the absence of women at senior level is of concern, so too is 'leakage' of women at every level after graduate entry. The reasons for this are complex, relating to factors ranging from access to flexible working to difficulties in achieving work-life balance.

Our Aspire network was launched in 2012 as part of a three-year plan to increase the pipeline of female talent. It is an employee network, driven by, and for, female employees¹⁰. In 2012, Aspire delivered 21 development and skills training events. It provides career advice, mentoring, leadership and personal development, and access to senior managers.

LGBT

Respect is our Lesbian Gay Bisexual and Transgender (LGBT) employee network, with 1,500 members in 2012. We supported 18 LGBT Pride events in 2012 and raised over £13,000 for LGBT charities. The network is currently developing a new three-year strategy for 2013–15.

In 2012, the Respect network initiated the launch of an inter-Retail LGBT network (the first of its kind in the UK), to provide support across the industry, supported by Stonewall¹¹. The network was also recognised as 'Star Performer Network Group' at the Homo Hero awards for the third consecutive year.

Performance benchmark

11th* in Stonewall's Workplace Equality Index and the only retailer to feature in the top 100

*2011: 64th



Performance recognition

Business of the Year at the Lesbian and Gay Foundation's Homo Hero Awards 2012, for the second year running

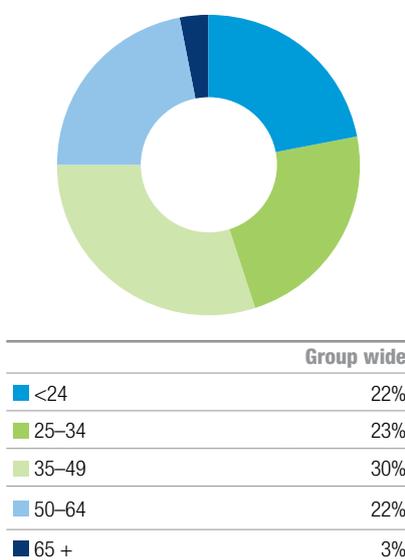


Age

Since 2006, we have not enforced a retirement age because we believe in maximising the opportunity of our people to fulfil their potential, and contribute to our business success.

We were recognised as an Age Positive Employer by the Department for Work and Pensions in 2012.

Proportion of employees in each age band



Disability

Since 2008, we have supported Mencap's Making Opportunities programme which has seen 148 people with learning disabilities being offered employment (page 10). We also continue to support Employ, who offer employment services for people with a disability.

Performance benchmark

Reaccredited as a Two Ticks employer, recognising our commitment to recruiting and developing people with a disability



Carers

In an internal survey, 10% of respondents said they cared for an adult or adults with long-term ill health or a disability. In 2012, we launched a Carers' Policy, with provisions to support employees who are also carers. It includes flexible working arrangements, training and assistance such as the NHS Caring with Confidence programme.

In 2013, our employees and members voted for The Carers' Trust as our Charity of the Year, which will help to support young carers in the UK with caring responsibilities (page 9).

Ethnicity

Within the Group, 3% of managers and 3% of employees identify as belonging to an ethnic minority group. Our Inclusion and Diversity Policy stipulates that we value our people for their contribution and will celebrate diversity in all aspects of our business.

Diversity training

In 2012, all Group Board members underwent diversity training. We also began the roll-out of Unconscious Bias training for resourcing staff to help them understand the nature and occurrences of bias. We plan to extend this to all managers involved in recruitment activity in 2013.

Across the Banking Group, diversity training is mandatory and all colleagues are required to complete online e-learning packages which are made available to all members of staff.

Members

Indicator: **Diversity of elected members**

Target 2012

Further improve diversity of elected membership in 2012 by increasing proportion of female elected members from 39% to 49%; increase proportion of younger elected members from 4% to 6%; and Black and Minority Ethnic (BAME) candidates from 2% to 5%

Progress



In 2012, 40% of elected members were female. The proportion of younger elected members remained at 4% and BAME candidates made up 3%. The Board Diversity Policy has set clear targets and a long-term vision to increase the diversity of our Boards and Committees

Targets 2013–2018

E.P. Our Group Board and Banking Group Boards will be a minimum of 40% female by 2018

E.P. By 2016, our Area Committee membership will be consistent with 75% of the proportion of the UK population that are from ethnic minorities¹²

E.P. By 2014, our Area Committee membership will be consistent with 50% of the proportion of the UK population that are carers, disabled, and lesbian, gay, bisexual and transgender¹³

Headline performance

Diversity of elected members (gender and ethnicity)	2009	2010	2011	2012
Total number of Area Committee members	556	587	593	582
Female elected members in Area Committees	35%	38%	39%	40%
BAME elected members in Area Committees	3%	2%	2%	3%

Diversity of elected members (age)	2009	2010	2011	2012 ¹⁴
Under 30	4%	5%	4%	4%
31–50	25%	26%	29%	26%
51–69	60%	59%	57%	58%
70+	7%	8%	8%	10%
Unknown	4%	2%	2%	2%

Women on The Co-operative Group Board

2009	2010	2011	2012
20%	20%	25%	25%

31% of our Specialist Businesses Board is female

2011: 31%



The Board Diversity Strategy Group oversees diversity and inclusion across the Co-operative Group. In 2012, the Board agreed a Board Diversity Policy that sets out targets for our democratically elected bodies to be reflective of the communities they serve by 2020. These targets are included in our Ethical Plan and are detailed above.

A Diversity Working Group (DWG) oversees efforts to improve membership diversity. Regional representatives are elected to the

DWG to include women, members with disabilities, BAME members, and lesbian, gay and transgender members. In 2011, the DWG developed a three-year strategy to improve membership diversity and inclusion, and in 2012, an implementation plan was agreed.

The Davies Report (page 41) includes a target of 25% female board members, which we first met in 2011, and continue to do so.

We have also signed up to the Co-operative Women's Challenge 2020¹⁵ with the aim of addressing the under-representation of women in the wider co-operative movement. It provides a platform to network, seek advice and respond to the 2020 challenge to increase the percentage of women in democratic structures, in senior management and in positions of authority in society.

Customers

Our stores and branches operate throughout the UK with a presence in every UK postal area and we offer goods and services to a diverse customer base. We aim to respond to customer needs, for example, developing services to support different cultural and faith groups (see box).

In focus

Extending our healthcare offering for Muslim customers

500 of our branches (2011: 400) offer a service to provide customers making a pilgrimage to Mecca with the Meningococcal vaccination (a visa requirement), in partnership with the Muslim Council of Britain and Novartis.

In addition, 84 of our pharmacy branches (2011: 84), located in areas with a large Muslim population, provide patients fasting during Ramadan with advice and help to manage their medicines, and to stop smoking.

Inspiring young people

Context

In 2012, the UK experienced the highest rate of youth unemployment in 18 years¹. In some areas of the UK one in four young people² were not in work, education or training and 16 to 25 year olds were the age group most likely to live in a disadvantaged area³. By 2020, there will be five million less low-skilled jobs in the UK and 40% of all jobs will require a graduate-level qualification⁴. Opportunities for young people to develop their skills, improve confidence and gain qualifications will be more important than ever.

Materiality and strategy

With more than a quarter of our employees aged 25 or under, we recognise the vital role young people play in our business. We make it a priority to motivate and inspire young people and to give them opportunities to gain skills, knowledge and experience. 'Inspiring young people' is a focus of our Ethical Plan (page 101) as we continue to work to bring about a cultural shift in the way that young people are viewed and treated in the UK. We invest in a diverse range of projects that offer young people opportunities to change their world.

Community investment

Indicator: **Investment in the Inspiring Young People programme**

Target 2012

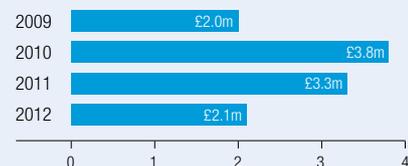
Progress

E.P. Inspiring Young People programme will benefit one million people by 2014

✓ During 2012, the Inspiring Young People programme benefited 1.2 million people, meeting our 2014 target two years early

Headline performance

Total cash investment for the Inspiring Young People programme



Top five cash investments for the Inspiring Young People programme in 2012

Green Schools Revolution (page 45)	£547,000
Co-operative Schools (page 44)	£318,000
The Co-operative StreetGames Young Volunteers (page 46)	£295,000
The Britannia Foundation (page 11)	£238,000
The Co-operative British Youth Film Academy (page 46)	£230,000
Total	£1,628,000

In 2012, 1.2 million young people benefited from our UK community investment activities (2011: 342,500) and a further 118,300 young people benefited from our international development community investments (page 17).

1.2 million young people benefited from our UK community investment activities

2011: 342,500

Best UK Community Investment for our Inspiring Young People programme in the Ethical Corporation Awards 2013



Membership

Target 2012	Progress	Target 2013
E.P. Create an advisory panel of young members who will inform a newly appointed Board Champion for young people by the end of 2013	= During 2012, the Group Values & Principles Committee agreed the plans for the advisory panel, which is to be called the Co-operative Young Members' Board (CYMB), and allocated a budget for 2013. The CYMB is on track for delivery by the end of 2013	E.P. Create an advisory panel of young members (the CYMB) that will inform a newly appointed Board Champion for young people by the end of 2013

Following a change in legislation, the 2012 Co-operative Group AGM approved extending eligibility for Co-operative membership to UK residents under the age of 16. As of February 2013, we had more than 52,000 members under the age of 16. The number of young members aged between 16 and 24 fell in 2012 to 248,000 (2011: 313,000)⁵.

52,000 members of The Co-operative under the age of 16

In order to ensure the views of young people are better represented, we're committed to creating a Co-operative Young Members' Board (CYMB). During

2012, the Group Values & Principles Committee agreed the detail of the CYMB plans and allocated a budget for 2013. A Group Board member has been nominated by the Board as its Champion for young people. At a local level, we continue to focus our efforts on increasing the number of younger candidates standing in membership area elections (page 75).

Education

Indicator: **Support for Co-operative Schools and education**

Targets 2012	Progress	Targets 2013–2014
E.P. Continue to promote the co-operative model in education and support the establishment of 200 Co-operative Schools by the end of 2012	✓ There are now over 300 Co-operative Schools embedding co-operative Values and Principles into their structures and culture	E.P. Continue to promote the co-operative model in education, supporting the establishment of Co-operative Schools and Academies
E.P. Increase the number of schools involved in Green Schools Revolution to 6,000 by 2014	= More than 5,300 schools had joined the Green Schools Revolution by December 2012	E.P. Increase the number of schools engaged in our Green Schools Revolution to 6,000 by 2014
Three Primary Schools to be brought into one Co-operative Academy by the end of 2012	= Agreement in principle by three schools in 2012. Paperwork for the third school to be completed in 2013	E.P. Launch a programme to improve the understanding and teaching of co-operative enterprise in schools by the end of 2013

Co-operative Schools

Our vision is to be the best values-led provider of education in the UK. We have committed £1m to support the expansion of Co-operative Schools, both Co-operative Trust Schools and Co-operative Academies. In 2012, we worked to improve the educational outcomes and skills of students, and to give communities a greater say in how their local schools are run.

Co-operative Trust Schools

By the end of 2012, more than 300 schools across England had elected to change their legal structures and become co-operatives. Under the new governance model, which we co-developed, schools are owned by their local communities. As a result, communities have a greater say in how their local schools are run.

We continue to provide support for these schools through the Schools Co-operative Society (SCS), which aims to raise the profile and capability of the Co-operative Schools sector. During 2012, we donated financial and in-kind support to enable the SCS to provide enhanced services to its member schools.

In Scotland, we support the Co-operative Educational Trust Scotland, which provides co-operative enterprise education and professional development programmes, and improves access to the Co-operative Movement across Scotland. Our involvement in 2012 included financial support of £19,100 (2011: £100,000), secretariat support and board representation. In Northern Ireland, we are working with a network of three schools to integrate co-operative values.

Co-operative Academies

In England, the term 'Academy' is used to describe a school that is directly funded by central government and operates outside local authority control. Some Academies receive additional support from a sponsor⁶.

We sponsor four Academies, including one that opened in Leeds in November 2012, supporting two primary schools. A further primary will join in April 2013 and a new build school is to be opened in September 2013. By Autumn 2013, we will directly sponsor seven schools. We work in partnership with local councils and educational institutions to provide an education programme based on co-operative values. Senior leaders from our businesses work closely with the Academies to provide support and scrutiny and to champion good governance⁷.

During 2012, 36 students from our Academies aged 15–19 completed long- and short-term work placements across our head office and banking business.

“The co-operative values that underpin the academy are apparent in relationships between adults and students. As a result, the academy is a calm, orderly, business-like and outward-facing place.”

Ofsted, The Co-operative Academy of Manchester, March 2013

Green Schools Revolution

Our sustainability education programme continued to attract support from schools across the UK, with more than 5,300 schools having joined the Green Schools Revolution by the end of the year (2,000 during 2012). New resources were developed for teachers on themes of biodiversity, fair enterprise and sustainable buildings. Schools celebrated Green Schools Revolution Week in March 2012 and took part in a competition to win funding to develop their Green Schools ideas. During the autumn term, we launched a partnership with Oxfam, enabling pupils to take part in a series of bespoke workshops to learn about fair enterprise and the role of smallholder farmers in the supply chain.

In focus



Green Schools Revolution Centre

In October 2012, we launched a flagship visitor centre at our newly extended wind farm in Coldham, Cambridgeshire. The Green Schools Revolution Centre enables young people to study a wide range of sustainability topics, including renewable energy, where pupils see an operational wind turbine up close; and arable farming, where pupils explore the farmland, learning about how food is grown and how to prepare a healthy meal.

Over 100 pupils visited the centre in December 2012. The day-long visits are free for schools and linked to Key Stages one and two of the curriculum. We plan to extend the centre's offering to Key Stage three during 2013.

From Farm to Fork

We have been running From Farm to Fork since 2005, inviting children from primary schools to visit The Co-operative's working farms. During the year, more than 17,000 pupils benefited from the project, which now operates across eight sites in the UK. In partnership with Lincolnshire Co-operative, a new From Farm to Fork centre on our farm in Louth is planned for launch in 2013.

Walking Buses

The proportion of British children aged five to 10 who walk to school has fallen from 61% to 50% in the last 20 years⁸. Our Walking Buses initiative encourages children to walk to school together. Since launching the programme in 2007, 583 Walking Buses have been set up, 121 of which were in 2012. More than 11,000 children and their parents have benefited, saving an estimated 1,119,000 car journeys a year – equivalent to 175.2 tonnes of carbon dioxide.

Brake initiatives

In 2012, we provided more than 4,500 teachers across the UK with advice on how to support suddenly bereaved children as part of our Amy & Tom project, a joint initiative with road safety charity, Brake. To date we have supported more than 11,100 teachers (2011: 6,900).

As part of our Be Safe, Be Seen initiative, another partnership with Brake, we have distributed reflective badges to infant and primary schools across the country, benefiting more than 60,000 children in 2012 (2011: 35,000).

Financial education

The Co-operative's Skills4Schools programme supports young people to improve numeracy, financial understanding and employability (page 39).

Opportunities

Indicator: **Provision of opportunities for young people**

Targets 2012	Progress	Target 2013
E.P. Progress our Co-operative Apprenticeship Academy and create 2,000 apprenticeships by the end of 2013	⇒ During 2012, 814 apprenticeship opportunities were created, bringing the total to 1,215	E.P. Progress our Co-operative Apprenticeship Academy and create 2,000 apprenticeships by the end of 2013
E.P. Broaden the work of the Co-operative Enterprise Hub and offer advice and training to support young people who wish to start up co-operative businesses, by launching resources to increase school pupils' understanding and experience of co-operative enterprise	⇒ The Enterprise Hub (page 80) has supported five new co-operative businesses being set up by young people in 2012. In addition, a range of curriculum materials have been developed to increase awareness of co-operative enterprise amongst pupils aged 11–19 years	

Employment

We directly employ over 26,000 people aged 16 to 25 across our family of businesses⁹. We also offer opportunities for young people to gain business skills and experience through work experience placements, internships and apprenticeships and we will launch a programme to improve the understanding and teaching of co-operative enterprise in schools during 2013.

The Co-operative Graduate programme and undergraduate placement programme continue to offer opportunities across the business. Further information can be found on page 89.

Skills for Work

In 2012, The Co-operative Food conducted skills workshops for an estimated 1,200 young people not in employment, education or training (NEET). Workshops were run across the UK on topics including behaviours in the workplace, presenting yourself at interview and customer service.

Apprenticeships

We launched our Apprenticeship Academy in 2011 to address growing unemployment and lack of training opportunities for young people, which will benefit at least 2,000 young people between 2011 and the end of 2013. Apprentices have the opportunity to study for a nationally recognised qualification while working in one of our businesses and earning a competitive salary. During 2012, we created 814 apprenticeship opportunities across the business. The Apprenticeship Academy is set to recruit a further 800 new apprentices during 2013.

Two nationally recognised qualification frameworks for Funeral Operations and Services were developed, which are now

available across the industry. From 2013, it is anticipated that all eligible new starters in the Funeralcare business will have the opportunity to complete the qualifications.

Youth-led initiatives

The Co-operative British Youth Film Academy (BYFA) enables students of all backgrounds to work with professional filmmakers to produce a full-length feature film. In 2012, The Co-operative funded four summer camps as well as workshops in colleges all year-round.

We also supported The Co-operative Film Festival, which has been supporting young people's film making for over 45 years, encouraging co-operation, creativity and self-expression.

The Co-operative StreetGames Young Volunteers (CSYV) programme uses sport to improve the lives of young people aged 16 to 25. A total of 2,332 young volunteers supported or ran sports sessions for other young people in 2012, making available 34,500 sports places. We provide volunteers with training, support and resources to improve their leadership skills and many have used this experience to pursue vocational qualifications and further training.

Our partnership with StreetGames was expanded into Scotland and Northern Ireland in 2012, and it is anticipated that future funding will focus primarily on developing the programme in Scotland and Northern Ireland.

StreetGames Young Volunteers

Volunteers since 2007	6,110
Hours donated by volunteers since 2007	145,000
Qualifications/accreditations achieved by volunteers since 2007	Over 5,000

Our Truth about Youth (TaY) programme funds charitable projects that challenge and change negative perceptions of young people. The scheme runs across seven UK cities, one in each democratic region. We are providing a share of £1m per year to seven charities – one in each city – to deliver a Truth about Youth programme. Read more online [↗](#).

In focus



'One Day' youth festivals

To counteract the negative portrayal of young people in the media following the 2011 summer riots, members of The Co-operative Foundation's Youth Advisory Panel developed and designed a national campaign to promote the positive contribution young people make to their communities.

Supported by the Co-operative Foundation, one year on from the riots, young people from TaY projects hosted 'One Day' youth festivals across seven UK cities. The campaign reached a potential audience of 41.5 million people through various broadcast opportunities.

Ecological sustainability

Our approach

There are physical limits to the resources of the earth, both in terms of generating materials and absorbing waste. Any business activity that exceeds these limits is, by definition, unsustainable in the long run. We take an evidence-based approach to policy making, and are committed to making absolute reductions in emissions, but never at the expense of the world's poorest.

Our Sustainable Development Policy guides our approach and can be found at www.co-operative.coop/sdpolicy

Image: In 2012, The Co-operative Pharmacy was the first UK pharmacy to become carbon neutral



©2008 James Balog/Extreme Ice Survey

Context

Climate change is widely regarded as humanity's greatest challenge¹. If left unchecked, global atmospheric temperature is forecast to rise between 1°C and 6.4°C by the end of this century², severely disrupting the economic and ecological systems on which we rely. December 2012 marked the 334th consecutive month with a global average temperature above the 20th century average; the last month with a below-average global temperature was February 1985³.

During 2012, members of the UN summit in Qatar continued negotiations to adopt a universal legal agreement on climate change by 2015⁴.

Materiality and strategy

We recognised the need to act on climate change long before most businesses. For example, since 1998, The Co-operative Bank has declined finance for the extraction or production of fossil fuels.

Our operations emit greenhouse gases (GHGs), the most significant contributor being the Food business. Additionally, as a business with a global supply chain, we are responsible for significant indirect emissions. Our overall strategy for addressing climate change includes energy efficiency, renewable energy, carbon offsetting, the provision of sustainable finance and lobbying to influence public policy.

Climate change is a major focus of our Ethical Plan (page 101). It was also identified as a priority in our latest ethical policy consultations for our Food and Banking businesses (page 104), in which over 100,000 co-operative members and over 80,000 Bank customers took part. Members endorsed our commitment to continue to be the UK's leading retailer on combating climate change, and in line with Banking customers' wishes, the Bank will not finance the extraction of fossil fuels or distribution of fuels with a higher global warming impact.

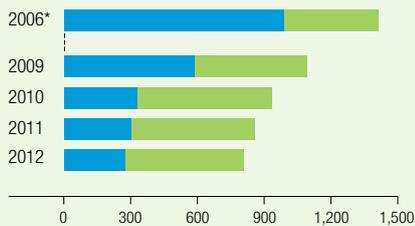
Direct greenhouse gas (GHG) emissions⁵

Indicator: **Direct GHG emissions (tonnes CO₂e⁶)**

Target 2012	Progress	Target 2013–2020
E.P. Reduce gross GHG emissions from operations by 50% by 2020, compared with 2006	E.P. During 2012, we reduced gross GHG emissions from operations by 6% compared with 2011 and by 43% compared with 2006	E.P. Reduce gross GHG emissions from operations by 50% by 2020, compared with 2006

Headline performance

Direct GHG emissions ('000 tonnes CO₂e)⁷



*Baseline year

43% reduction in direct gross GHG emissions (CO₂e) since 2006 (6% in 2012)

	Total net GHG emissions (tonnes CO ₂ e)	Total gross GHG emissions (tonnes CO ₂ e)
2006*	987,587	1,408,419
2009	583,097	1,088,730
2010	329,133	932,254
2011	300,230	853,575
2012	272,559	803,581

72% reduction in direct net GHG emissions (CO₂e) since 2006 (9% in 2012)

Winner

Green Business Awards Climate Change category and Green Business of the Year: recognising our approach to combating climate change



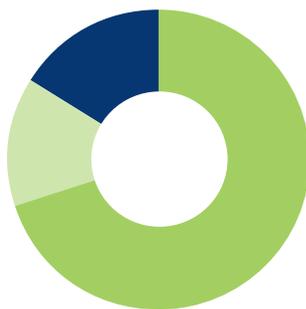
Direct GHG emissions

We measure direct greenhouse gas emissions in carbon dioxide equivalent (CO₂e), and update our carbon footprint calculations annually to reflect latest government guidance⁸.

To calculate our direct carbon footprint, we include emissions from operations including energy consumption, transport and refrigerant leakages from Food stores, distribution centres and distribution fleet, commonly referred to as Scope 1 and Scope 2 emissions. We report our GHG emissions as gross emissions, including treating electricity from renewables in the same way as 'brown' electricity; and as net emissions, which treats energy from renewables as zero carbon and allows for operational offsets (pages 54–55).

Gross greenhouse gas emissions have reduced by 6% in 2012⁹ and by 43% since 2006. Net emissions have reduced by 9% in 2012 and by 72% since 2006.

Direct greenhouse gas emissions by source, 2012



(tCO ₂ e)	2006	2012
Energy	932,255 (66%)	560,508 (70%)
Cooling	297,043 (21%)	113,652 (14%)
Transport	179,122 (13%)	129,421 (16%)

Since 2006, our gross energy-related emissions have reduced by 40%, refrigerant leakage emissions from Food stores and distribution centres by 62% and our transport-related emissions by 28%.

Like other major retailers and financial services providers, we do not yet have a complete accounting system to monitor our indirect emissions, also known as Scope 3 emissions. It is recognised that these are likely to be significantly larger than direct emissions and work is underway to develop accounting systems (page 53).

Performance recognition

Winner

Edie Sustainability Leaders Award for Carbon Management



Energy

Indicator: Energy consumption (MWh) and GHG emissions (tonnes CO₂e)

Targets 2012

E.P. Generate the equivalent of 25% of our electricity needs from renewable sources by 2017

E.P. Construct a new flagship building by 2012 that will set new standards in sustainable design, construction and operation in the UK

Progress

⇒ Output from our renewable energy installations in 2012 represented approximately 5% of our electricity requirements. Wind farms currently in operation or under construction will deliver over 18% of our requirements, putting us on track to achieve our target

↙ The design achieved BREEAM 'outstanding' and work continues to ensure it achieves this rating for 'in-use'

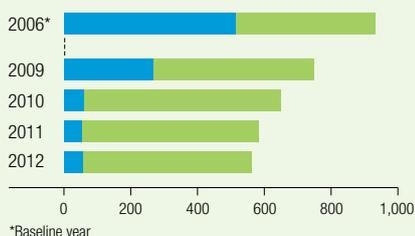
Targets 2013–2017

E.P. Generate the equivalent of 25% of our electricity needs from renewable sources by 2017

E.P. Achieve a BREEAM outstanding rating 'in use' for our new flagship building

Headline performance

Total GHG emissions ('000 tonnes CO₂e) from energy consumption¹⁰

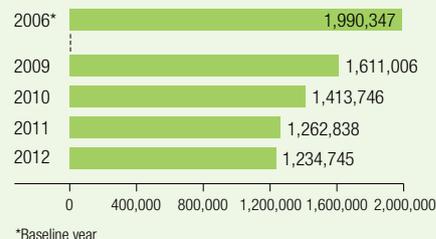


£62,900,000
cost savings from energy efficiency in 2012



	Net (tonnes CO ₂ e)	Gross (tonnes CO ₂ e)
2006*	511,480	932,255
2009	265,431	749,714
2010	58,876	648,918
2011	51,665	581,413
2012	54,380	560,508
Decrease 2006–2012:	89%	40%
Decrease/increase 2011–2012:	5% increase	4% decrease

Energy consumption (MWh)



38% reduction
in energy consumption (MWh) since 2006 (2% in 2012)

Energy

The energy used in our buildings is our biggest source of direct greenhouse gas emissions (70%). As a result, reducing energy consumption is a top priority for reducing our carbon footprint. Our strategy focuses mainly on Food stores, Food distribution and our head office operations as these account for almost 90% of total energy use. It focuses on three key areas:

- encouraging staff behavioural change and better housekeeping;
- greater efficiency through our standard ongoing refit programme; and
- a more targeted retrofit programme prioritising our most energy-intensive stores.

In 2012, we developed and rolled-out an online environmental training programme to over 13,000 store managers and supervisors. The programme focuses on energy management, waste reduction and awareness of environmental initiatives.

In 2012, we invested £7.3m in our Food store retrofit programme and prioritised inefficient stores. We carried out 375 projects to improve energy efficiency including the replacement of fluorescent lighting with energy efficient LEDs and increased the total number of stores with doors on fridges to 107 (2011: 18), potentially saving 20% of the energy used by each store. We plan to extend this to 2,000 stores by 2020.

The annual reduction in energy consumption was achieved through a 5% reduction in electricity usage, despite a small increase in gas consumption (8%) and equates to a £62,900,000 cost saving compared to 2006 consumption. Gross energy-related GHG emissions have fallen by 40% compared with 2006 and continued use of renewable electricity across our businesses saw our net energy-related GHG emissions decrease by 89% over the same period. The 5% increase in net energy emissions was in part due to a greater number of degree days in 2012 than 2011¹¹, increasing the combustion of gas for heating across much of our estate.

Renewable sources

During 2012, 98% of all the electricity we used (some 973GWh) came from renewable sources, mainly wind and hydro technologies. This makes us one of the largest purchasers of green electricity in the world. We also negotiated green energy contracts (301GWh) on behalf of 16 independent co-operative societies.

Performance benchmark

Highest ranked major food retailer 277th of 2,097 organisations under the Carbon Reduction Commitment in the Environment Agency's Energy Performance League Table for managing energy use



98% of our electricity from renewable sources

2011: 98%



On-site renewable energy

We aim to generate 25% of our electricity needs from our own renewable energy projects by 2017. In 2012, output from our on-site renewable energy installations was 48GWh (2011: 31GWh), meeting 5% of electricity requirements.

Since 2005, we've operated an eight turbine wind farm on Co-operative Farms' land at Coldham, Cambridgeshire and in July 2012, a seven-turbine extension, named Whitemill wind farm, began generating electricity. A 10-turbine wind farm on third-party-owned land in Biggleswade in Bedfordshire is under construction and will be fully operational by the end of 2013. We have also secured planning permission for a 14-turbine wind farm on Co-operative Farms' land in East Yorkshire. The Biggleswade project has been financed by The Co-operative Bank and The Co-operative Group will purchase all the electricity generated. In total, these projects will generate an estimated 184,000MWh a year, equivalent to over 18% of our electricity requirements, or enough electricity to power 45,000 homes.

We have supported micro-generation technologies for a number of years; on our own buildings, through our Green Schools Revolution programme (page 45) which included 189 installations, through support provided by The Co-operative Enterprise Hub (page 80) and through our Community Energy Challenge (page 55). Our commitment includes the £5.5m Solar Tower project in Manchester

In focus



Whitemill wind farm

Whitemill wind farm is the latest edition to our renewable energy portfolio. It is a brand new £18.5m 14MW wind farm, consisting of seven turbines adjacent to our existing eight turbines on The Co-operative Farms' land at Coldham.

The new turbines are a joint venture between The Co-operative Group and Ventus VCT plc, and together with Coldham wind farm, the turbines will generate in excess of 70GWh of electricity per year – enough to supply approximately 16,500 homes, and avoid 26,000 tonnes of carbon dioxide every year.

As part of our Green Schools Revolution campaign (page 45), school children will have the opportunity to visit the site and learn about an operational wind farm.

with over 7,000 photovoltaic panels, and the combined heat and power plant (CHP) in our flagship new building 1 Angel Square (page 51).

In addition, in 2011, The Co-operative Bank pledged to extend commercial lending for energy efficiency and renewables to £1bn (page 33). By the end of 2012, we had committed over £820m.

In focus



1 Angel Square: one of the world's most sustainable office buildings

Our new flagship building in Manchester has achieved the Building Research Establishment Environmental Assessment Method (BREEAM) 'Outstanding' rating at design stage and scored one of the highest ever number of BREEAM points, making it one of the most sustainable office buildings in the world¹². Our ambition is to achieve BREEAM outstanding for 'in use' also.

The building has been designed to maximise resource efficiency and to take into account the projected impacts of climate change on cooling systems and energy consumption. Design features include on-site combined heat and power

(CHP), fuelled by plant oil grown by The Co-operative Farms; natural refrigerants; and glass façades and orientation to maximise natural light.

Performance recognition

Winner

1 Angel Square won the Regeneration and Renewal Award for Sustainability. It also won the Property Week Sustainability Achievement Award.

Cooling systems

Indicator: Refrigerant gas leaks (tonnes CO₂e)

Headline performance

The Co-operative Food: refrigerant gas leaks (tonnes CO₂e)¹³



62% reduction in refrigerant gas leaks (CO₂e) since 2006 (19% in 2012)

Performance benchmark

Leading the way

We were recognised as one of four retailers leading the way in reducing the impact of refrigeration in the annual Environmental Investigation Agency (EIA) survey



Performance recognition

Winner

British Council of Shopping Centres Gold Award for Sustainability, recognising our commitment to sustainable development



Refrigeration and air conditioning systems are a significant source of GHG emissions and account for 14% of our direct carbon footprint. In 2012, we expanded the scope of refrigerant gas leaks reporting to include our Food distribution fleet and home delivery service. Most refrigerant leaks come from Food stores and the gases used in refrigeration equipment, predominantly hydrofluorocarbons (HFCs), have a very high global warming potential¹⁴.

From January 2010, the use of new hydrochlorofluorocarbons (HCFCs) was

banned in Europe, but recycled HCFCs can still be used until December 2014. Less than 7% of the cooling equipment across our Food stores and distribution centres now relies on HCFCs and we have introduced a reclaim and recycle system to maintain remaining equipment. Furthermore, all new installations will be HFC-free¹⁵ from 2015, and we will phase out HFCs across all our stores by 2030.

To enable this transition we are developing a range of innovative technologies for convenience stores, with the priority being

hydrocarbon fridge packs combined with glycol that are HFC-free and recover waste heat for use around the store. The installation of doors on refrigeration units was also extended in 2012 to 107 stores (page 50).

In 2012, a combination of new sites and retrofitting of existing sites resulted in 50% of our distribution centres having refrigerant systems that run on ammonia (2011: 19%) – a gas that does not contribute to climate change or ozone depletion.

Transport

Indicator: **Total mileage and GHG emissions (tonnes CO₂e)**

Headline performance

Transport GHG emissions (tonnes CO₂e)¹⁶

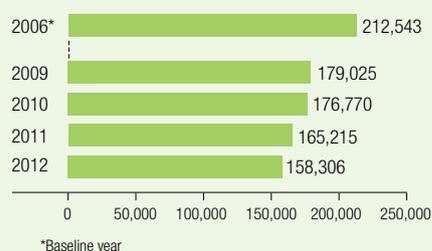


28% reduction in transport-related CO₂e emissions since 2006 (2% in 2012)



	Total business travel ¹⁷ (tonnes CO ₂ e)	Total distribution travel ¹⁸ (tonnes CO ₂ e)
2006*	25,295	153,827
2009	14,565	133,908
2010	14,071	134,272
2011	13,479	118,963
2012	10,826	118,595
Decrease 2006–2012:	57%	23%
Decrease 2011–2012:	20%	0.3%

Total mileage ('000 miles)



54 million miles (26%) less than 2006 (4% decrease in 2012)

Distribution and business travel accounts for 16% of our direct carbon footprint. During 2012, we reduced transport-related CO₂e emissions by 2% (28% since 2006) and reported mileage by 4% (26% since 2006). This was largely due to a six million mile reduction in business mileage (Green Travel initiatives, page 86, and business efficiencies¹⁹), and improved fuel efficiency of The Co-operative Food's road distribution fleet (see In focus box), equivalent to 3,021 tonnes CO₂e.

The Co-operative Food is a signatory to the British Retail Consortium's A Better Retailing Climate initiative, and has committed to a 15% reduction in CO₂e emissions from its distribution activities by 2013, based on 2005 levels. For the fourth year in a row we have exceeded this commitment²⁰.

Biofuels

Biofuel use is not actively pursued in our distribution activities due to the environmental impacts of some biofuel crops and the challenge of identifying biofuel feed stocks that are more sustainable.

The Co-operative Bank Ethical Policy (page 104) declines business related to the distribution of biofuels that fail to achieve a 60% carbon dioxide saving, effectively ruling out investment in biofuels derived from feed stocks that cause tropical deforestation.

The Co-operative Farms has committed over 2,100 hectares for oilseed rape production in 2012, none of which has been contracted for transport fuel production since 2010. In 2012, a proportion was used to produce the pure plant oil for the combined heat and power (CHP) system at 1 Angel Square (page 51). This supply chain – where we have a clear chain of accountability – will be used going forward.

As part of our Green Travel Plan (page 86), we progressed a number of initiatives during 2012 to encourage employees and visitors to use more sustainable travel options. Annual travel survey results showed a 6% reduction in lone car drivers and a 7% increase in cycling and walking compared to 2011²¹. This contributed to a 220kg CO₂e (20%) reduction in annual emissions per head office employee.

In focus



Improving Food distribution efficiency

In 2012, almost one million Food distribution fleet road miles were saved and emissions of 630 tonnes CO₂e avoided:

- We are using eight new 'longer semi-trailers' which have a capacity 18% greater than a standard trailer, reducing road miles and delivery emissions.

- We have retro-fitted roof deflectors on 195 fleet vehicles to improve aerodynamics and reduce fuel consumption.
- The Co-operative Food is the first business to trial an aerodynamic truck, the 'Dolphin' (pictured), designed to maximise fuel efficiency and reduce emissions.

In 2012, construction of two new distribution centres was completed²². Both achieved a BREEAM rating of 'Excellent', with features including highly efficient lighting, natural refrigerant systems and on-site water re-use.

Food miles and considered carbon

The term 'food miles' has been widely used in discussions about food sustainability, and is often assumed to be synonymous with total environmental impact. However, a wide range of research shows the importance of considering the whole product lifecycle of a food. For example, some foods grown in heated greenhouses in the UK often have a worse environmental impact than foods grown abroad and flown in²³. There are also wider ethical considerations: more than a million people in Africa rely on fruit and vegetable exports to British shops and many of these products have a relatively low carbon footprint.

We are committed to reducing the carbon footprint of our products, but never at the expense of the world's poorest. This will be achieved by:

- arguing against any unjustified focus on food miles or on a particular mode of travel, including labelling initiatives and reduction targets;
- supporting local sourcing, not due to food miles or carbon reduction, but to meet customer demand for local UK products; and
- accounting for, and reducing, carbon within our supply chain whilst also developing our understanding of human development accounting.

Performance recognition

Winner

Business Green Lifetime Achievement Award, recognising our efforts to reduce our environmental impacts through our Ethical Plan



Indirect emissions

Indicator: **Greenhouse gas emissions (tonnes CO₂e)**

Guidance for measuring and reporting indirect, or Scope 3, GHG emissions²⁴ is still at an early stage, but we are continuing with work started in 2010 to measure these emissions in a number of areas:

- production, use and disposal of our products and delivery of services. With the University of Manchester, we developed software that makes quick and accurate calculations of the climate change impacts of specific products. The tool has been used to analyse five food product areas;

- projects we finance, such as Bank-financed renewables (page 33) and funding for on-site renewables such as through Green Schools Revolution (page 45);
- waste disposal and recycling;
- employee travel to work and customer travel to store;
- indirect emissions associated with electricity, gas, fuel and water consumption;

- food product packaging; and
- business travel in vehicles not owned by our business²⁵.

The gross estimated indirect emissions that we currently measure total 0.93 million tonnes CO₂e, while 0.75 million tonnes CO₂e are avoided. Full details of calculations are available online . Total indirect emissions are likely to be far larger than this and we will continue to develop our accounting systems.

In focus



Dairy supply chain

In conjunction with Muller Wiseman Dairies, we have established a dedicated milk supply chain, The Co-operative Dairy Group (CDG). Working in partnership with over 220 dairy farms, with a total of around 40,000 cows, we are measuring the CDG's climate impacts.

Annual carbon assessments are undertaken on these farms in association with carbon monitoring and reduction business, The E-CO₂ Project. Results show that the participating farms have

reduced the climate impact of their milk production by 7% since 2009, to 1.15kg CO₂e per litre, facilitated by regular sharing of good practice at CDG meetings. The total footprint of our milk production amounts to approximately 400,000 tCO₂e, a significant proportion of which is due to emissions of methane from cows, a greenhouse gas over 20 times more potent than carbon dioxide. (Further information on the CDG is provided on pages 22 and 94–95.)

Carbon offsetting

Indicator: **Carbon offset: products and operations**

Target 2012

E.P. Make operations carbon neutral by 2014, with carbon offset solutions provided by a programme of international co-operative projects

Progress



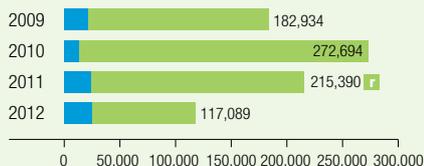
During 2012, work continued to develop international co-operative projects. However, the scale of ambition combined with long lead-in times for such projects make this target unachievable

Target 2013–2014

We will convert the carbon offset solutions of Banking Group, Funeralcare and Pharmacy to a portfolio including international co-operative projects by 2014

Headline performance

Carbon offset (tonnes)



	Operations (tonnes)	Customer products and services (tonnes)
2009	21,350	161,584
2010	13,080	259,614
2011	23,597	191,793
2012	24,894	92,195

Performance benchmark

The Co-operative Pharmacy became the UK's first carbon neutral pharmacy in 2012

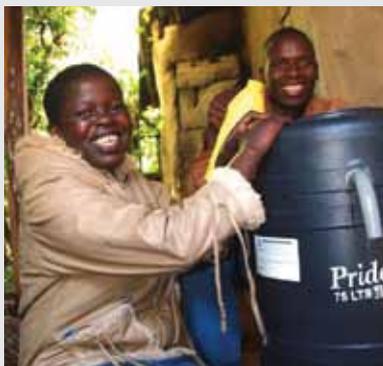
The Co-operative's carbon offsetting portfolio combines energy efficiency, renewable energy, forest maintenance and reforestation projects in developing countries around the world.

While parts of our business are already carbon neutral, by offsetting remaining operational and business travel emissions, last year we committed the whole family of businesses to become carbon neutral by 2014. During 2012, work was undertaken to assess the feasibility of offsetting our remaining emissions through working with co-operatively operated projects in the developing world, ideally in our Fairtrade supply chain. The scale of ambition combined with long lead-in times for such projects make this target unachievable. One project has been identified and work will continue in this area with the aim of converting the existing carbon offset portfolios of Banking Group, Funeralcare and Pharmacy to include these projects by 2014.

During 2012, we purchased a total of 117,089 tonnes of CO₂ offset (lower than previous years as no offset has been attached to Bank mortgages since October 2011) including the following:

- The Co-operative Insurance offset 20% of a typical car's CO₂ emissions for all ecoinsurance motor policies (78% of our total carbon offset);
- The Co-operative Banking Group maintained its policy of going 'beyond carbon neutral' for the sixth consecutive year by offsetting its emissions plus an extra 10% of emissions to cover legacy issues (8% of our total carbon offset);
- The Co-operative Funeralcare maintained its carbon neutral status in 2012, after becoming the first UK-wide carbon neutral funeral director in 2011 (10% of our total carbon offset);
- The Co-operative Pharmacy achieved carbon neutral status for the first time in 2012, becoming the first UK pharmacy to do so (2% of our total carbon offset);
- emissions from all business flights were offset for the sixth year running (1% of our total carbon offset); and
- The Co-operative Motor Group offset half a tonne of CO₂ for every Emissions Control Service undertaken in 2012 (1% of our total carbon offset).

In focus



The Co-operative Pharmacy goes carbon neutral in 2012

The Co-operative Pharmacy purchases 100% of its electricity from renewables and, in 2012, offset its remaining GHG emissions to become the first carbon neutral UK pharmacy.

It supports the AquaClara project, which distributes biosand water filters to households in the Eldoret area of Kenya and realises carbon savings by replacing the traditional method of water purification – burning wood to boil water.

Not only does this save households money purchasing fuel wood, and decreases demand for unsustainably harvested fuel wood, the filters are more effective than boiling at removing bacteria and contaminants from the water, and also help reduce indoor air pollution resulting from wood burning – a significant cause of health problems in Sub-Saharan Africa.

Projects supported

In 2012, we purchased verified offsets²⁶ through ClimateCare from the following projects:

- **Energy-efficient cooking stoves in Cambodia** – use of 2,700 stoves will save 4,000 tonnes of CO₂ over one year by reducing the amount of wood needed for cooking.
- **Treadle pumps in India** – use of 4,000 manual treadle pumps, used in place of diesel-powered pumps to irrigate fields outside the monsoon season, will save 4,000 tonnes of CO₂ over two years.
- **Energy efficient water purification in Kenya** – distributing AquaClara water filters (see In focus box). The use of over 15,300 water filters will save emissions of 36,300 tonnes of CO₂ over two years, and directly benefit around 107,000 people.
- **Reducing emissions from deforestation and degradation (REDD) in Kenya** – community engagement, education and alternative employment to reduce deforestation pressures from logging, agriculture and unsustainable charcoal-making, offsetting 10,000 tonnes of CO₂ in 2012 (page 65).
- **Reforestation in the Kibale Forest National Park, Uganda** – over 370 hectares of new rainforest planted since 2000 – equivalent to 519 football pitches. In 2012, we offset over 10,500 tonnes of CO₂ through this project.
- **Renewable energy in India** – a 28MW wind farm in the state of Tamil Nadu, supplying clean energy to India's coal-power-dominated national grid. The offsets we purchased in 2012 will save over 52,000 tonnes of CO₂ emissions over three years.

Responsible banking and finance

Indicator: **Consideration of climate change in provision of finance**

Since 1998 we have declined £284m finance to businesses in line with our Ethical Policy statements on climate change. During 2012, the Bank referred 93 (2011:93) finance opportunities related to climate change issues to the Ethical Policy Unit, of which 15 were declined (2011: nine) with an estimated cost of £3,021,000 gross income foregone.

Bank finance for renewable energy

The Co-operative Bank has a dedicated renewable energy team (page 33–34) and a commitment to lend £1bn to renewable energy and energy efficiency projects. In 2012, the Bank approved finance for 27 renewable and carbon reduction projects with a total value of £127.4m including:

Banking and finance declines, 2012

	Estimated income foregone 2012
Engineering and support services (nine instances) Lending and deposit facilities for businesses supplying equipment and specialist services considered strategic to the extraction of fossil fuels; including £3m lending to a sub-sea drilling contractor.	£2,363,500
Fossil fuel extraction and production (four instances) Lending and deposit facilities for businesses engaged in exploration, extraction and production of oil and gas; including £8m lending for a coal extraction project.	£653,000
Power station (one instance) Treasury deposits from a large coal-fired power station.	£3,500
National oil and gas company (one instance) Deposit facilities for a state-owned petroleum and natural gas production company in a country classified an oppressive regime.	£1,000
Total	£3,021,000

- £112.1m for 17 wind power schemes generating a total of 93MW and achieving 2.2 million tonnes lifetime CO₂ displacement (or 101,000 tCO₂e/year);
- £12.1m for three hydropower projects generating a total of 3.1MW and achieving 104,000 million tonnes lifetime CO₂ displacement (or 5,200 tCO₂e/year).

Community involvement

Indicator: **Support for climate change initiatives**

Target 2012

E.P. Continue our Clean Energy Revolution campaign which seeks to end the use of unconventional fossil fuels and inspire community energy growth

Progress

⇒ During 2012, we actively campaigned for co-operative and community-owned renewables and against the extraction of shale gas in the UK

Target 2013

E.P. Continue our Clean Energy Revolution campaign, which seeks to end the use of unconventional fossil fuels and inspire community energy growth

Supporting community renewable energy

We believe community-owned renewable energy can not only help the UK meet its climate change ambitions but also empowers communities to take control of their energy future.

In 2012, The Co-operative announced the winners of its Community Energy Challenge, a competition for community groups to

receive support from the Centre for Sustainable Energy, to set up and run their own renewable energy projects. The seven winners included hydro-electric schemes in Wales, wind turbines in Scotland, and an innovative scheme combining solar panels and noise reduction barriers along the M40 motorway.

Some of the projects are also receiving support from The Co-operative Enterprise Hub (page 80) to establish themselves as

co-operatives, with access to a £1 million community energy support package, including free expert panel advice on issues such as law and insurance, and a revolving fund to underwrite community share offers²⁷.

Green Schools Revolution

Green Schools Revolution, our new sustainability education programme, is reported on page 45.

Influence and action

Clean Energy Revolution

We are campaigning for a dramatic increase in the number of communities co-operatively controlling and benefiting from their own renewable energy projects. We are also continuing to campaign against the development of unconventional sources of fossil fuels, such as shale gas.

Feed-in Tariffs

In 2009 and 2010, we supported the Renewable Energy Association and Friends of the Earth to secure the introduction of Feed-in Tariffs (FiTs). In April 2012, we submitted a response to the Department for Energy and Climate Change (DECC) consultation on FiTs and helped secure the introduction of a 'community energy tariff' and measures that benefit community schemes²⁸.

APRIL 2012

Community Energy Coalition and Manifesto

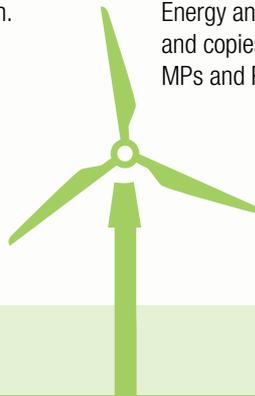
Working with Forum for the Future, we brought together some of the UK's most influential civil society organisations, representing over 16 million members, to form the Community Energy Coalition.

In October 2012, the Coalition launched the 'manifesto for a community energy revolution'²⁹, calling for a comprehensive framework of support, at a summit with the Secretary of State for Energy and Climate Change, and copies were sent to MPs and Peers.

In November 2012, The Co-operative arranged for Early Day Motion 684 (Community Energy)³⁰ to be tabled in Parliament, and called on our members to ask their MP to sign it. By February 2013, 97 MPs had signed, making it amongst the top 20 most supported EDMs.

We also submitted a response to DECC's consultation on onshore wind and community engagement and benefit.

NOVEMBER 2012



Campaigns and action

European Energy Policy

As a member of the Co-operatives Europe Energy and Environment Working Group, we have participated in events to influence the European Commission and have written to MEPs on the European Parliament Industrial, Research and Energy Committee, calling for EU targets for community-owned renewable energy.

Shale gas moratorium

We are concerned that shale gas exploitation risks: significantly reducing the chances of avoiding dangerous climate change and meeting UK climate targets; displacing investments in renewable energy; and the contamination of groundwater. Throughout 2012, we held nine screenings of the film *Gasland*, showing the impacts of shale gas in the US where the industry is more fully developed.

In June 2012, we arranged for Early Day Motion 181

JUNE 2012

OCTOBER 2012

(Hydraulic Fracturing/ Fracking)³¹ to be tabled in Parliament. It calls for an immediate moratorium until the risks have been properly identified and addressed. By February 2013, 25 MPs had signed.

In October 2012, we commissioned a report by The Tyndall Centre for Climate Change Research to further inform our position³². We also briefed MPs ahead of a Westminster Hall debate and submitted a planning objection to Stirling and Falkirk Councils against the development of coal bed methane fracking operations.

Electricity market reform

In 2012 and early 2013, we signed joint business and civil society letters to the Prime Minister calling for a legally binding renewable energy target and a 2030 decarbonisation target for the power sector to be introduced into the Energy Bill.

We also proposed amendments to the Energy Bill, endorsed by 16 other organisations, including: a duty on Government to promote community ownership; extend FiTs for community schemes; and establish a green power auction market.

FEBRUARY 2013

Mandatory carbon reporting See page 98.



Waste and packaging

Context

UK industry and commerce produces 67 million tonnes of waste annually¹. Each year, the retail sector contributes 4.9 million tonnes of packaging² to the 28 million tonnes of UK household waste³. Improving recycling rates reflect increasing levels of awareness – the national recycling rate is now 43%⁴.

Amid rapid population growth, food wastage is a major concern. Globally, poor harvesting practices, storage and transportation wastage, market failures and consumer wastage means 30–50% (1.2–2 billion tonnes) of all food is never eaten⁵. UK consumers discard 7.2 million tonnes of food annually, 4.4 million tonnes of which are avoidable⁶.

Materiality and strategy

The majority of our waste comes from The Co-operative Food and its 2,820 stores. Our head office complex is the main generator of office waste.

Sustainable waste management was identified as a priority in our latest Ethical Policy consultations for our Food and Banking businesses (page 104) in which over 100,000 co-operative members and over 80,000 bank customers took part. Waste and packaging is a major focus of our Ethical Plan (page 101).

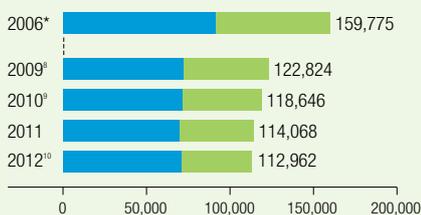
We follow the well-established waste hierarchy of reduce, reuse and recycle. Our Packaging Policy for own-brand products makes reducing packaging a priority, whilst ensuring this does not lead to an increase in other environmental impacts, such as product wastage⁷.

Total waste and packaging

Indicator: **Total waste arising (tonnes)**

Headline performance

Total waste arising (tonnes)



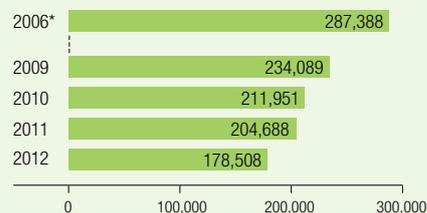
*Baseline year

38% reduction in total waste disposed since 2006

	Waste reused/recycled (tonnes)	General waste disposed (tonnes)
--	--------------------------------	---------------------------------

2006*	91,245	68,530
2009	72,038	50,786
2010	71,335	47,311
2011	69,771	44,297
2012	70,747	42,215

Total primary packaging¹¹ (own-brand and branded) (tonnes)



*Baseline year

Total waste¹²

In 2012, we reported 112,962 tonnes total waste arisings and 42,215 tonnes general waste disposed¹³ – 1% and 5% reductions respectively when compared to 2011, and 29% and 38% compared to 2006¹⁴.

Total primary packaging (own-brand and branded)

Total primary packaging¹⁵ for own-brand and branded products has reduced by 13% since 2011, and 38% since 2006.

Primary packaging refers to packaging that the consumer takes home; it does not include packaging used in transport or merchandising.

Reducing waste: packaging and food waste

Indicator: **Packaging reductions**

Targets 2012

E.P. Reduce the number of carrier bags used by The Co-operative Food by 75% by the end of 2013 compared with 2006

E.P. As our Food business grows, maintain a 10% reduction in the carbon impact of The Co-operative Food's own-brand packaging by the end of 2012 compared to 2009

E.P. Expand our work with Fareshare on food waste

Progress

← In 2012, the number of carrier bags used by The Co-operative Food increased by 2% compared to 2011, resulting in a 63% reduction compared to 2006

⇒ At the end of 2011 we had achieved a 17% reduction in the carbon impact of our packaging compared to 2009. 2012 data is not available until mid-2013

⇒ Our work with Fareshare was expanded to cover five distribution centres (2011: four)

Targets 2013

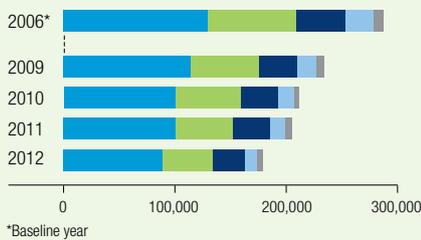
E.P. Reduce the number of carrier bags used by The Co-operative Food by 75% by the end of 2013 compared with 2006

E.P. Maintain at least a 15% reduction in the carbon impact of The Co-operative Food's own-brand packaging by the end of 2013 compared with 2009

E.P. Expand our work with Fareshare on food waste

Headline performance

Primary packaging by material (tonnes)



Year	Glass	Plastic	Paper	Steel	Aluminium	Total
2006*	129,368	79,082	44,026	25,626	8,994	287,096
2009	113,985	60,774	34,874	16,391	7,449	233,473
2010	100,075	58,676	34,034	13,582	5,327	211,694
2011	100,437	51,275	33,661	13,426	5,660	204,459
2012	88,666	45,053	28,966	10,749	4,912	178,346

Own-brand packaging

We work with suppliers of our own-brand products to minimise packaging by reducing packaging weight where it is possible without affecting product shelf life. We also aim to reduce the need for raw materials by maximising the recyclability and recycled content of packaging. In 2012, a 33% reduction in the weight of own-brand packaging was realised compared to 2009¹⁶.

As a signatory to the industry-wide Courtauld Commitment 2¹⁷ initiative, we set a target to reduce the carbon impact of packaging by 10% by 2012, based on 2009 levels. Between 2009 and 2011, the carbon impact of packaging declined by 17%, putting us on-track to meet this target, although the carbon impact data for 2012 will not be available until mid-2013.

In focus



Packaging reduction on whole chicken

Whole chicken was previously packed on a tray, overwrapped with thin plastic film. Working with our supplier, we identified the removal of the tray as a possible measure to minimise packaging and improve the seal of the packaging film.

Following feasibility tests and consumer opinion polls, a hermetically sealed plastic packaging was selected, negating the need for the plastic tray. The Elmwood whole chicken range has been converted to the new format.

As a result, we have achieved a weight reduction of 70 tonnes of plastic per year on top of the 17 tonnes previously achieved through lightweighting the trays. Additionally, this move has led to cleaner packs, increased food safety and the improved seal integrity allows the packaging to be gas flushed, prolonging shelf life and reducing food wastage.

Projected annual reductions in own-brand packaging in 2012 include:



96 tonnes

Reduction in weight of own-brand Côtes du Rhône wine bottles



73 tonnes

Reduction in weight of own-brand pasta sauce jars



70 tonnes

Removal of plastic packaging tray from whole chickens



54 tonnes

Removal of plastic packaging tray from stir-fry sauces

Food waste

Alongside extending product shelf-life, we help customers reduce food waste through support for the Love Food Hate Waste campaign – we print storage instructions for fruit and vegetables on fresh produce

bags; hold Watch Your Waste Membership events; and provide tips for utilising leftovers in our customer magazine.

We are committed to increasing our work with charities such as Fareshare, which distributes surplus food from retailers to

people and communities suffering from food poverty across the UK. During 2012, we redistributed an estimated 51 tonnes (2011: 29) of food via Fareshare from five depots.

Carrier bags

We have reduced the number of single-use carrier bags given out to customers by 63% compared to 2006, saving over one billion bags annually since 2009. However, 2% more carrier bags were distributed in 2012 than in the previous year (2011: 65% reduction). Our results follow the trend of increasing bag use nationally – the latest UK-wide research shows a 5.4% rise in bag use in 2011 compared to 2010¹⁸. However, significant reductions in use in Wales have been achieved as a result of the Welsh Carrier Bag Levy (page 67). We are behind schedule to reach our single-use carrier bag reduction target but work is ongoing to review our reusable bag range to support further reductions.

1 billion+ carrier bags saved annually since 2009



In focus



Reducing food waste in tomatoes

Perforations in plastic packaging are used to manage the levels of moisture in products, and their size and distribution can have a significant impact on product quality and shelf life. During 2012, we moved from

forming packaging perforations with mechanical punches to using computer-guided lasers which have greater control on hole size and placement, allowing greater perforation flexibility.

Trials of various perforations, under a variety of different commercial storage conditions for tomatoes, indicated a perforation specification which led to a 33–50% reduction in moisture, but no greater incidence of mould growth, and noticeably less dehydration, especially of the vine. The result is higher quality, fresher produce, a day's extension to shelf life and a reduction in product wastage.

Reusing and recycling waste

Indicator: **Proportion of waste reused/recycled**

Target 2012

Progress

Target 2013

E.P. Ensure that the vast majority of our operational waste is diverted away from landfill by the end of 2013

⇒ In 2012, 63% of waste was reused/recycled

E.P. Ensure that the vast majority of our operational waste is diverted away from landfill by the end of 2013

Headline performance

Proportion of waste reused/recycled (%)



*Baseline year

63% waste reused/recycled
2011: 61%



900 food stores segregate waste for backhauling. To be extended to all food stores in 2013

Beyond our initiatives to reduce waste, reuse is the next step in the waste hierarchy, reducing the environmental and economic cost of waste disposal and new raw materials. In 2012, the equivalent of 63% of total waste was reused or recycled (2011: 61%) – and we've seen a six

percentage point increase in our reuse/recycle rate since 2006.

Cardboard and polythene

Cardboard and polythene made up around 81% of the waste we reused/recycled in 2012, with some 57,550 tonnes

reused/recycled (2011: 56,637). By using reusable plastic crates for transporting and displaying fresh produce and meat products, we saved an estimated 13,400 tonnes of cardboard in 2012 (2011: 12,491 tonnes).

Packaging regulations

Under the Producer Responsibility Obligations (Packaging Waste) Regulations 2007¹⁹, we must determine how much packaging material we pass on to customers and produce evidence of a set amount of recycling and recovery²⁰. We maintain compliance with these regulations on behalf of the Co-operative Retail Trading Group.

In 2012, we were required to recover a total 87,342 tonnes of waste packaging across all six material categories covered by the Regulations: paper (13,190 tonnes), glass (45,409 tonnes), aluminium (1,461 tonnes), steel (4,979 tonnes), plastic (11,474 tonnes) and wood (one tonne), plus a balanced recycling and recovery obligation of 10,828 tonnes²¹. Recycling obligations were met by purchasing Packaging Recovery Notes, which prove that the packaging material has been recycled on our behalf.

Recycling batteries

As a distributor of batteries, The Co-operative Food has responsibilities under the Waste Batteries and Accumulators Regulations 2009. We provide a battery bin at every store to recycle customers' waste portable batteries of any brand and size. In 2012, we collected 28 tonnes of batteries for recycling (2011: 28 tonnes). As a small producer of batteries, The Co-operative Food is not required to join a Battery Compliance Scheme.

Recycling electricals

Under the Waste Electrical and Electronic Equipment (WEEE) Regulations²², producers and retailers in the UK are responsible for paying for the environmentally sound disposal of WEEE. The Co-operative is both a producer and a distributor of electrical and electronic equipment, and we are a member of the Valpak producer compliance scheme²³ and the Distributor Takeback Scheme.

The WEEE generated by The Co-operative's business activities is taken back for recovery, reuse or recycling by its suppliers. In 2012, we recycled 3,054 tonnes of WEEE (2011:

2,959 tonnes), including 3,032 tonnes (46,643 items) of electrical equipment taken back at its end of life from The Co-operative Electrical customers through the Distributor Takeback Scheme. Our head office complex also passed 35 tonnes of IT equipment (2010: seven tonnes) to our asset management contractor for reuse.

Other recycled waste and recycling facilities

Details of additional recycling in 2012 can be found online . Recycling facilities for a range of materials are available at most Co-operative Food stores. See online for further details .

In focus

Waste backhauling

During 2012, we initiated a project to backhaul waste from our food stores. At the year-end, over 900 Co-operative Food stores were segregating waste into four streams to be collected by our Logistics Service following a delivery, for return to distribution depots:

- segregated food waste – sent to anaerobic digestion facilities to generate energy;
- customer and general waste – sent to refuse-derived fuel facility to create heat and power;
- dry mixed items, such as empty milk bottles and office paper – sent to recycling facilities;

- cardboard and polythene – baled and sold for recycling.

Following this successful trial, we are on target to divert the majority of food store waste away from landfill. By the end of 2013, we aim to have expanded this project across our estate of food stores, boosting our recycling rate, and reducing road miles and waste management costs.



Waste disposal

Indicator: **Proportion of waste disposed**

Waste disposed as a proportion of total waste

	2006*	2009	2010	2011	2012
Waste disposed	43%	41%	40%	39%	37%

*Baseline year

In 2012, we disposed of 41,735 tonnes of waste to landfill, around 37% of our total waste. Our target is to divert the majority away from landfill by 2013.

In addition to waste disposed of directly to landfill, we produced 480 tonnes of clinical and hazardous waste which was either autoclaved (sterilised), rendered, or incinerated²⁴.

Degradable packaging

The Co-operative Food started working to make packaging more degradable in 2002 when we introduced Britain's first degradable plastic carrier bag. However, recent research²⁵ has shown that the use of the additives that make it possible for packaging to degrade has no environmental benefit. We have therefore stopped using these additives in carrier bags and have removed them from our fresh produce packaging. These now carry the 'recycle with carrier bags' label to promote reuse and recycling instead.

Waste disposed to landfill, 2012

	Tonnes
The Co-operative Food	36,021 ²⁶
The Co-operative Farms	1,989
The Co-operative Pharmacy	1,373 ²⁷
The Co-operative Funeralcare	1,097 ²⁸
The Co-operative Banking Group	850
Manchester head office complex	152
The Co-operative Motor Group	118
Other businesses	135 ²⁹

Water

Context

Water is critical for human development and environmental sustainability but, for nearly 80% of the world's population¹, water security is under threat. In 2002², the UN recognised the right to water and sanitation as a basic human right, but today over one billion people worldwide still do not have access to safe drinking water³.

Water stress – where demand exceeds supply – is a significant problem in the UK with 12 out of 22 water regions in England identified as water stressed⁴, and the impacts of climate change are set to increase the challenge.

Furthermore, 62% of the UK's water footprint for its food and fibre production, comes from overseas consumption⁵.

Materiality and strategy

We are a large, but non-intensive user of water across our estate of nearly 5,000 properties and the 18,657 hectares of land we manage through The Co-operative Farms. We also consume water indirectly through the production of the food we sell and indirect consumption across our supply chain is likely to be significantly higher than our direct consumption.

Our strategy focuses on the reduction of our direct water consumption as this is the area over which we have greatest control. We are focusing on building a full picture of our water use to help us manage and reduce direct consumption and our Ethical Plan (page 101) sets a target to reduce water consumption across our operations. We are also working to reduce water stress as a result of our indirect consumption across our supply chain and encourage our suppliers to practise good water stewardship. Water and sanitation are crucial components of our community investment through our Tackling Global Poverty programme (pages 17–19).

Water consumption

Indicator: **Water consumption across our estate**

Indicator: **Water reduction strategies across our supply chain**

Targets 2012	Progress	Target 2013
E.P. Reduce water consumption across our operations by 30% by 2014 based on 2008	✓ Our consumption increased by 3.1% in 2012, but is 38% lower than in 2008. A further target will be developed within the 2014–2016 Ethical Plan	
Improve our water consumption accounting and reporting	✓ We now report metered water consumption across 4,114 locations in our estate, compared to 4,067 locations in 2011	Further improve our water consumption accounting and reporting

Estimated water consumption: The Co-operative Estates

	2008*	2009	2010	2011	2012
Average water consumption per site (m ³) ⁶	443	390	394	324	322 ⁷
Total water consumption (million m ³)	2.6	2.2	1.78	1.53	1.58

*Baseline year

We continue to improve our water accounting systems. We have metered water bill data for 4,114 locations (2011: 4,067) which we use as the basis for reporting and setting targets.

Water data for 2010 and 2011 has been restated following improvements to our accounting systems⁸. We will develop a new water reduction target, resetting the baseline year as 2010, within the 2014–16 Ethical Plan.

Since 2010, our total estimated water consumption across the estate⁹ has reduced by 12%. Despite a 3.1% increase in consumption during 2012, our estimated average consumption per site has decreased slightly by 0.9%¹⁰.

Initiatives undertaken in 2012 to reduce water consumption include better housekeeping by employees and improved reporting of leaks on faulty taps and uncontrolled urinals as part of the six-monthly energy health check undertaken at each store. Additionally, 1,367 WC flush

controls and 222 water management systems were fitted across 519 food stores. We plan to extend this project across all food stores in 2013.

The Co-operative Farms

In 2012, The Co-operative Farms managed a total of 18,657 hectares (2011: 18,158 hectares) of land under a variety of different agreements. Of this, we owned or tenanted 11,384 hectares. Rainfall levels significantly affect the amount of water we use for irrigation on our farms, and therefore we need significantly less water from rivers and water bodies during wetter years, such as 2012¹¹. In addition, the crops

we grow change each year, further adding to annual fluctuations in water consumption.

The complex ownership, management and partnership agreements across The Co-operative Farms make monitoring exact water consumption a challenge. Our water consumption figures are based on spray records and irrigation figures provided by the farmers who manage The Co-operative Farms¹².

Supply chain

In 2010, in place of our existing water policy framework, The Co-operative Food adopted the Institute of Grocery Distribution's (IGD) guide to 'Understanding,

Assessing and Managing Water in Grocery Supply Chains'¹³. This move saw a more consistent, united message presented to suppliers about water conservation.

The IGD guide refers to work by The World Wildlife Fund and sets out a three-stage approach to water management that recognises the issue of water stress. We have promoted the guide to our major suppliers and added it to our online supplier management portal. In 2011, our own Agronomic Code of Practice was used to supplement the guide, including a specific set of measures on water in agriculture, irrigation and the use of water in processing.

As a member of the IGD's water stewardship council, in 2012, The Co-operative Food supported a workshop that explored severe drought scenarios affecting the whole food supply chain. Our aim is to better understand what is required to incentivise water users to embrace water stewardship and move to significantly improved water resource management.

Estimated water consumption: The Co-operative Farms

	2008*	2009	2010	2011	2012
Water consumption (m ³ per cropped hectare)	18	37	43	27	7
Total water consumption (million m ³)	0.3	0.6	0.7	0.5	0.1

*Baseline year

Community involvement

Indicator: **Support for overseas water-related community initiatives**

Headline performance

Carbon offset: support to provide treadle pumps

	2009	2010	2011	2012
Treadle pumps supported	16,871	3,333	3,333	4,000
Cumulative total pumping capacity of pumps supported (m ³)	177.6m	194.7m	211.9m	232.4m

388,000 people benefited from our water-related community initiatives in 2012



In 2012, a total of 388,000 people benefited from our water-related community initiatives – part of our work to tackle global poverty (pages 12–19).

Carbon offset

Two of our carbon offset projects (pages 54–55) provide access to clean water. In India, around 20,000 people will benefit from treadle pumps, a sustainable alternative to diesel-powered pumps, which provide irrigation water outside the monsoon season. In Kenya, we provide water filters which are effective at removing contaminants and reducing air pollution and carbon dioxide, with 2012 activity benefiting around 107,000 people.

Affinity products

Fairbourne Springs

Each sale of The Co-operative's own-brand bottled water, Fairbourne Springs, includes a donation to The One Foundation which generates funding towards clean water projects in Africa¹⁴ (page 18). In 2012, we sold 26,117m³ of Fairbourne Springs water, resulting in a total donation of £783,000 to fund water-related projects benefiting 33,500 people.

The Co-operative antibacterial handwash

The Co-operative Pharmacy launched an antibacterial handwash in early 2011 in partnership with UNICEF. In 2012, this partnership was extended until 2014. From every sale, 15 pence is donated to a project in Togo, which will provide basic sanitation for 177,500 people (page 19).

Beyond Fairtrade

We invest in a range of water-related projects that support Fairtrade producers with benefits beyond those delivered by the Fairtrade premium (page 18) benefiting a total of 50,500 people in 2012.

This included a project in Malawi supporting the Satemwa Tea Estate, where around 36,000 people have benefited from a two-year project, providing hygiene education and access to clean water and sanitation.



Biodiversity

Image: Nowakowski

Context

Biodiversity loss reduces ecosystem productivity. Ecosystem degradation is estimated to cost society between £1.2tr¹ and £4.2tr² annually.

Whilst biodiversity is being lost more rapidly than at any other time in human history, improvements to the management of certain ecosystems are being made. For example, in 2012, 47% of assessed North-East Atlantic fish stocks were overfished³ compared to 97% in 2004⁴ and it is estimated that fully rebuilding fish stocks in European and neighbouring waters would support an estimated 100,000 extra jobs⁵ whilst increasing ecosystem resilience.

Materiality and strategy

Across our family of businesses, we have a significant impact on biodiversity, for example, in our food supply chain and our Banking Group investments. Our approach to conserving biodiversity is five-fold – our Ethical Plan sets out market-leading commitments governing sustainable procurement of fish, palm oil, soya and timber products (page 101); our farmland is carefully managed to maintain its ecosystem services, we initiate community biodiversity projects to mitigate specific biodiversity concerns across the UK; our bank takes biodiversity issues into account in the provision of finance and banking, and we campaign for strong nature conservation legislation.

Marine stewardship

Indicator: **Marine Conservation Society's Supermarket Survey ranking**

Target 2012	Progress	Target 2013
E.P. Maintain our position as one of the UK's most responsible retailers of fish	✓ We were awarded joint first place in the most recent biannual MCS Supermarket Survey, conducted in 2011	E.P. Maintain our position as one of the UK's most responsible retailers of fish

Headline performance

Institute of Grocery Distribution: Environmental Sustainability Award

Awarded in 2012 for the broad scope and engaging nature of our work to conserve biodiversity



Performance benchmark

Joint first in Marine Conservation Society's biennial Supermarket Survey

We scored 84% and earned a gold award for sustainable seafood,

and a commendation for the best sustainability initiative for supporting UK fisheries



Globally, 85% of fisheries are fully or overexploited, and nearly 90% of large predatory fish have already disappeared. Our Responsible Fish Sourcing Policy⁶ is underpinned by a checklist, examining individual products based on fishery location and catch method; species' resilience to fishing; fishery by-catch estimates; and stock assessments by NGOs, such as the Marine Conservation Society (MCS). Our aim is to maintain

our position as one of the UK's most responsible retailers of fish. In 2012, the total number of products we sold containing only wild seafood declined slightly, but the proportion of products in our wild fish and seafood range from Marine Stewardship Council-certified fisheries increased to 55% (2011: 51%) and the number of products containing seafood rated as four by the MCS decreased from 13 to 11⁷.

We were awarded joint first place in the biennial MCS Supermarket Survey with praise for our product labelling and our Responsible Fish Sourcing Policy. Areas highlighted for further improvement include the strengthening of policies governing procurement of farmed fish, and extension of our sourcing policy to cover branded seafood.

We do not sell any products identified by the MCS as 'Fish to Avoid', and we have committed to the following:

Tuna

100% of our own-brand tuna products are pole and line caught, a selective way of catching tuna, which avoids the by-catch issues associated with other fishing methods.

Cod

All own-brand cod is sourced from MSC-certified fisheries.

Salmon

The Co-operative Food was an early promoter of humane stunning prior to killing farmed fish, a standard that is now widely accepted across the industry. In 2012, we converted all our fresh and smoked own-brand salmon to the Freedom Food standard (page 23).

Prawns

All own-brand warm-water prawns are sourced from well established Global Aquaculture Alliance (GAA) certified farms in Indonesia and Thailand⁸.

Haddock

All own-brand haddock is sourced from MSC-certified fisheries.

55% of own-brand wild fish and seafood is sourced from MSC-certified fisheries

2011: 51%



In focus



Image: Dave Peake

Encouraging sustainable shark fisheries in the northern English fleet

Globally, shark populations have declined rapidly since industrial fishing commenced and over half of British shark species are assessed as threatened with extinction by the International Union for Conservation of Nature (IUCN). Understanding of the number and type of sharks caught accidentally is poor, impeding efforts to give them the protection they require. As part of a suite of sustainable fishing projects developed to complement our Responsible

Fish Sourcing Policy, in 2012, The Co-operative Foundation (page 11) initiated a £48,000 project to improve the accuracy and recording of shark species in the North and Irish Seas. The project will provide fishermen with training and robust at-sea identification guides to aid species identification. The data gathered will support sustainable fisheries management in British waters.

Forest stewardship

Indicator: **FSC-certified products sold**

Targets 2012

E.P. Aim to be the UK's leading retailer on forest protection for our wood and paper-based products

Achieve FSC certification for The Co-operative Food's greaseproof paper in 2012

Progress

✓ We've maintained our market-leading sourcing policies and 99% of own-brand wood and paper products are FSC-certified, or recycled

✗ Despite our work with suppliers, we were unable to complete this in 2012

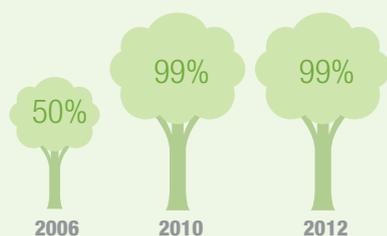
Targets 2013

E.P. Aim to be the UK's leading retailer on forest protection and maintain our leading-edge work on wood and paper

Achieve FSC certification for The Co-operative Food's greaseproof paper in 2013

Headline performance

Own-brand wood or paper products sold in The Co-operative Food from FSC-certified or recycled sources⁹



Performance benchmark

Graduate Status of the WWF-UK Forest & Trade Network (FTN) maintained by The Co-operative Food – we were the first retailer to achieve graduate status



Forests help to stabilise the world's climate, storing around 30% of anthropogenic carbon dioxide emissions¹⁰, provide habitats to over half of the planet's terrestrial species¹¹ and support the livelihoods of 1.4 billion people¹². We are committed to sourcing our wood and paper products from sustainable sources.

The Co-operative Food

We aim for Forest Stewardship Council® (FSC) certification, the most respected standard of sustainably harvested forest products, for all our wood products produced from virgin materials.

During 2012, we purchased 35,082m³ of wood and paper products (2011: 33,928m³). All were of known origin with credible evidence that they were harvested legally. 94% (2011: 94%) of wood and paper sold was FSC-certified, demonstrating a complete chain of custody from forests that demonstrate social, economic and environmental benefits. A further 2% (2011: 2%) was sourced from recycled post-consumer waste, 3% (2011: 3%) from recycled pre-consumer waste, and 1% (2011: 1%) from known, legal-source virgin material, such as that certified by the Programme for Endorsement of

Forest Certification Scheme (PEFC). The FSC products we sell include barbecue charcoal, wooden kitchenware, bagged growing media and household paper. Our own-brand greaseproof paper is PEFC-certified. There is currently no viable source for FSC-certified greaseproof paper, but we expect to make progress in this area in 2013, when we anticipate a source becoming available.

We maintained our Graduate Status of the WWF-UK Forest & Trade Network in 2012. This requires transparent reporting of paper and timber sourcing and a strong commitment to improving the sustainability of these sources.

The Co-operative Banking Group and Funeralcare

FSC-certified timber or high recycled content MDF was specified for all wood refurbishments in bank branches in 2012 (two branches).

Of the 92,500 solid wood coffins and caskets manufactured in 2012, 94% (2011: 83%) were FSC-certified. The remaining 6% (2011: 17%) were manufactured from legally sourced, non-certified solid wood.

In focus



Image: Wildlife on the Kasigau Corridor, Kenya

Carbon offset and forest protection

Forestry projects accounted for 18% of our carbon offset programme in 2012 (page 54). These included a £53,500 contribution towards a project in the Kasigau Corridor in Kenya, a wildlife corridor between two national parks that supports various endangered species. The project is helping to protect the area from deforestation, by reducing the pressures of logging, agriculture and unsustainable charcoal production through the provision of education and employment in conservation for local communities. Our 2012 contribution relates to a saving of 10,000 tonnes of CO₂.

Palm oil

Indicator: **Use of sustainable palm oil in own-brand products**

Target 2012

E.P. Ensure palm oil used in all own-brand products remains sustainable, and comes from a segregated Certified Sustainable Palm Oil (CSPO) source by 2015

Progress

= 49% of our palm oil is from segregated CSPO sources (2011: 25%) and the remainder is covered by GreenPalm Certificates

Target 2013–2015

E.P. Ensure palm oil used in all own-brand products remains sustainable, and comes from a segregated CSPO source by 2015

Performance benchmark

Top marks in WWF's Palm Oil Buyer's Scorecard

Of 45 European retailers, The Co-operative Food was one of 10 companies to attain 9 out of 9. The scorecard assesses the progress made towards achieving a sustainable palm oil supply chain¹³.

Palm oil is used as an ingredient in many foods and cleaning products. Its production is one of the primary causes of global deforestation¹⁴. It is the primary cause of biodiversity loss in Southeast Asia¹⁵ and is a significant and rapidly growing source of CO₂¹⁶.

The Co-operative Food works with the Roundtable on Sustainable Palm Oil (RSPO) to improve the sustainability of palm oil production and to strengthen supply chain sustainability. During 2012, we used 4,862 tonnes (2011: 4,729 tonnes) of palm oil in 616 (2011: 609) own-brand products. All the palm oil in

these products was certified as sustainable under one of the certification schemes developed by the RSPO¹⁷; 2,382 tonnes (2011: 1,229), representing 49% (2011: 26%) was obtained through segregated, traceable or identity preserved CSPO sources, and for the remaining palm oil we purchased GreenPalm Certificates which guarantee a price premium for CSPO producers, helping to support the sustainable development of the industry. By 2015, we aim to use segregated CSPO for all our own-brand requirements.

Soya

Indicator: **Use of sustainable soya in own-brand products**

Target 2012	Progress	Target 2013–2015
E.P. Source our soya sustainably by 2015	← We have developed accounting systems for soya used as meal for our own-brand higher welfare meat products but are behind schedule achieving our 2015 target. Availability of sustainable soya is projected to increase in the coming years, and we expect to move back on target	E.P. Source our soya sustainably by 2015

As a high-protein, low-fat and low-cost bean, soya is a versatile and common ingredient in many foods and is a major foodstuff for livestock and poultry. In 2011, half of all soya was produced in South America¹⁸ where its production is linked to deforestation of the Amazon and destruction of other ecosystems¹⁹.

Monitoring the soya used in our own-brand products is a challenge due to the wide range of soya uses across the

food chain. By far the most significant use of soya in our supply chain is to rear livestock for our own-brand meat products. In 2012, production of our own-brand range of higher welfare pork and chicken products (pages 22–23), our Truly Irresistible pork products and our shell eggs used 62,676 tonnes of soya meal. At present, none of this is from sources certified as sustainable. Sustainable soya is an emerging commodity and

certified produce from the most widely recognised certification scheme – the Roundtable on Responsible Soy – became available in relatively small quantities in mid-2011. Availability is projected to increase significantly in the coming years²⁰. By 2015, we aim to only use soya from sources we are confident avoid deforestation and other habitat destruction in the feed chain of all our own-brand meat products.

Peat

Indicator: **Reduction in use of peat in own-brand growing media**

Peat is the major constituent of most horticultural growing media in the UK. Its removal from peat bogs threatens wildlife habitats and releases carbon from a vital carbon sink. Losing just 5% of the 2.7 million hectares of peatland in Britain would be equal to the UK's entire carbon emissions for a year²¹.

Our long-term goal is to help preserve peatlands and our strategy is two-fold:

- **Phasing out peat from our products**

In 2012, bagged growing media and soil improvers sold in our stores contained 11% peat (2011: 28%). Of the 5,250m³ (2011: 19,522m³) bagged media and compost in potted and bedding plants sold in 2012, 22% was peat (2011: 31%).

11% peat in bagged growing media and soil improvers in 2012

2011: 28%

We support the Government's target to completely phase peat out of the amateur gardener market by 2020. During 2012, we used green waste from plant baskets and composted flower cuttings in growing media in place of peat, and conducted growing trials to research other ways to incorporate green waste into our composts. We have set annual goals for peat dilution and, from 2012, all bagged own-brand growing media sold in The Co-operative Food will contain no more than 20% peat.

- **Supporting research**
(see In focus box)

In focus



Moors for the Future

We funded a project with Moors for the Future to develop a method for large-scale cultivation and spreading of *Sphagnum* moss – a plant which is vital to the health of UK peatlands. In 2012, the research led to the distribution of 150 million *Sphagnum* spores on degraded parts of the Peak District and South Pennine moors – expected to deliver significant biodiversity and carbon sequestration benefits²².

Land stewardship: The Co-operative Farms

Indicator: **Land under Environmental Stewardship agreements**

Target 2012	Progress	Target 2013
E.P. Secure the future of priority species through our Habitat Heroes initiative	E Initiatives were progressed to improve habitats for priority species across seven Co-operative Farms' sites	E.P. Secure the future of priority species through our Habitat Heroes initiative

In 2012, The Co-operative Farms managed a total of 18,657 hectares (2011: 18,158 hectares) of land under a variety of different agreements, of which 10,758 hectares (2011: 10,225 hectares) was intensively cultivated by The Co-operative Farms. 620 hectares (2011: 602 hectares) was either less intensively cultivated or left fallow.

All our farms are audited annually to ensure compliance with legislation and to identify areas for environmental improvement. In 2012, 89% (2011: 90%) of our eligible owned/tenanted and intensively farmed land was managed in accordance with the Natural England 'Entry Level' Environmental Stewardship Scheme, and a 'Higher Level' Stewardship Scheme is in place on the Stoughton Estate²³. All our farms are compliant with the Good Agricultural and Environmental Condition standards and Statutory Management Requirements of the Single Farm payment scheme, ensuring a base level of protection for soils, habitats and landscape features.

We only cut hedges every second or third year, in winter. We have established and maintained grass margins, grassy field corners and other wildlife areas and, in 2012, these accounted for 400 hectares²⁴ (2011: 400 hectares) within intensively cultivated land. These measures provide improved nesting sites for birds and ideal habitats for insects and small mammals.

Additionally, the dairy farms within the Co-operative Dairy Group (pages 22, 53 and 94–95) are required to be in an environmental stewardship scheme.

The proposed badger cull

During 2012, the Government announced a badger cull to control the spread of bovine tuberculosis. None of the land owned or managed by The Co-operative Farms or farmed as part of the Co-operative Dairy Group was situated within the proposed cull zones.

In focus



Habitat Heroes

Habitat Heroes improves habitats for iconic species on seven of The Co-operative Farms' sites.

In 2012:

- we installed a third purpose-built otter holt on Coldham Farm, Cambridgeshire;
- surveys indicated presence of common pipistrelle, barbastelle and myotis bat species on Tillington Farm in Herefordshire;
- Habitat Heroes was extended to Highland Court, Kent, with a focus on promoting farmland birds.

Biodiversity initiatives

Target 2012	Progress	Target 2013
E.P. Continue our Plan Bee campaign, which seeks to address the decline of pollinators	✓ Initiatives such as a butterfly habitat restoration project and our wildflower seed giveaway have benefited a broad range of pollinators	E.P. Continue our Plan Bee campaign, which seeks to address the decline of pollinators

In focus



Image: Colin Smith

Pine martens in Wales

We are working in partnership with Wildlife Trusts Wales to utilise money raised through the Welsh Carrier Bag Levy to conserve and promote biodiversity across Wales. As part of this partnership, we are supporting a two-year project with the Vincent Wildlife Trust to improve our understanding of pine martens – one of the rarest mammals in the country, and encourage their recovery following significant declines in the 1800s due to deforestation, and in the early 20th

Century as a result of persecution by gamekeepers.

The project aims to determine factors preventing the species' recovery; install specially built den-boxes to encourage pine martens to breed; survey public opinion towards re-stocking the population; and, with Co-operative Members, carry out pine marten detection surveys.



Plan Bee aims to highlight the decline of the honeybee population and other 'at risk' pollinators, such as bumblebees, butterflies and moths.

Find out more at www.co-operative.co.uk/planbee

Some highlights in 2012 include:



Around 1.2 million packets of wild flower seeds

have been distributed by The Co-operative since 2009 which, once grown, will provide vital nutrition for bees and other pollinators.

We mapped the distribution of the British black honeybee, thought to be better adapted to our climate than foreign breeds. Next we will initiate a breeding programme to increase the availability of native queen bees to beekeepers.



340 new beekeepers

have been trained at Plan Bee urban beekeeping workshops in Sheffield, Mid Antrim, London, Inverness and Manchester, since 2009.

The very rare shrill carder bumblebee, thought to be confined to just seven areas of the UK, was spotted as part of our project to improve bumblebee habitats in the Thames Gateway.

We launched *Hive Talking*,

a website to connect would-be beekeepers with gardeners or landowners who would like to keep more bees on their land.

HONEY and *The Bee Cart*, street theatre productions, featured at 14 festivals and six school events in 2012, engaging with over 3,300 people.

1,200 hives

on land managed by The Co-operative Farms.

2011: 1,200



Image: Butterfly Conservation

Butterfly habitat restoration

We invested £50,000 to restore a unique habitat in the Morecambe Bay limestone hills area of North West England – one of the last refuges for several nationally rare butterflies including the fastest declining butterfly in Britain – the high brown fritillary. The project will also encourage a range of other wildlife. A carefully monitored captive breeding programme for the pearl-bordered fritillary will also be initiated to help increase their numbers.

Influence and action

Neonicotinoid pesticide impact on pollinators

See page 70 for details of our consultation/inquiry responses.

Responsible banking and finance

Indicator: **Consideration of biodiversity in provision of finance**

Screening of finance

Since 1998 we have declined £62m finance in line with our Ethical Policy statements on biodiversity. During 2012, 29 finance opportunities (2011: 52) were referred to the Ethical Policy Unit in connection with biodiversity, of which none were declined (2011: none). Additionally, one business was referred against the General Insurance portfolio and was declined based on its involvement in illegal deforestation.

Royal Society for the Protection of Birds credit cards

Between 1999 and 2012, our Royal Society for the Protection of Birds (RSPB) charity credit cards have raised nearly £6.5m

(£378,000 during 2012) to help protect Britain's threatened wetlands. These are increasingly under threat from demand for water, poor land management, agricultural drainage and housing development.

Almost £6.5m raised for the RSPB since 1999, and £378,000 raised in 2012

2011: £399,000



Woodland Trust credit cards

The UK is one of the least wooded countries in Europe, with just 12% woodland cover compared with a European average of 44%²⁵. The money raised through the Woodland Trust charity

credit card aims to help reverse this trend. The funding is supporting projects such as the Tree for All campaign, which aims to plant 12 million trees – that's one for every child in the UK. Since 2007, over £200,000 has been raised (£40,500 in 2012), enough to help the Woodland Trust plant nearly 23,000 trees.

Bonus Account

The Co-operative Bank offers a youth account that supports animal welfare and conservation. Since 2003, the Bonus Account, in partnership with the Born Free Foundation, has provided nearly £250,000 (£30,000 in 2012) towards projects such as anti-poaching units in Kenya and chimpanzee sanctuaries in Cameroon.

Chemicals

Context

Over 100,000 synthetic chemicals are registered for use in the EU¹, but many have never been adequately assessed for their human and environmental safety².

In the food retail and farming sectors, pesticide and fertiliser use is of material concern. Pesticides are substances which prevent, control or destroy pests, but can have potentially unintended consequences for human health and the environment³. While fertilisers added to the soil provide nutrients for plant growth, runoff into waterways can lead to excessive plant growth and oxygen depletion.

Materiality and strategy

The informed and safe use of chemicals of concern, pesticides and fertilisers is a priority in the manufacture and supply of own-brand food and household products and in the operations of The Co-operative Farms. This strategy is implemented through our market-leading policies on pesticides and chemicals for priority action, and our supplier Agronomic Code of Practice.

Substances of concern and persistent, bioaccumulative or toxic (PBT) chemicals were identified as priorities in our latest ethical policy consultations for our Food and Banking businesses (page 104), in which over 100,000 co-operative members and over 80,000 bank customers took part. Our Ethical Plan (page 101) commits us to improve our pesticides policy further and to ban certain chemicals from our business.

Pesticides

Indicator: **Reduced use of pesticides in food production**

Targets 2012	Progress	Targets 2013–2014
E.P. Enhance our market-leading Pesticides Policy, banning alachlor and aldicarb	= Alachlor was banned in 2012 and aldicarb is to be banned in 2014	E.P. Enhance our market-leading Pesticides Policy banning endosulfan, paraquat, alachlor and aldicarb by 2014
Relaunch the Co-operative Retail Online Pesticide Network (CROP) for all suppliers	← Problems with the system have prevented relaunch	Relaunch online pesticide monitoring for all suppliers
Identify key residue hotspots and establish a group of supplier-based experts to focus on routes and targets for reduction during 2012 and 2013	← Residue hotspots have been identified. Supplier groups will be established in 2013	Establish groups of supplier-based experts to determine routes and targets for residue hotspot reduction during 2013

Headline performance

Performance benchmark

1 of 2 retailers doing the most to address pesticide use and the contamination of food. The 2011 Pesticide Action Network study compared the policies and performance of nine UK supermarkets

The Co-operative Food pesticide residue analysis

	2009	2010 ⁴	2011	2012
Total number of samples tested	268	124	206	219
Banned pesticides detected	0	0	2	0
Derogations granted for prohibited pesticides	282	168	173	116
Number of residues in excess of MRL	0	1	7	1
Prohibited pesticides detected without derogation	8	4	12	10
Percentage of samples with no residues	56%	49%	35%	37%

The Co-operative Food Pesticides Policy

We have an industry-leading policy to reduce the use of pesticides in all our own-brand fresh, chilled, frozen and canned produce.

To date, a total of 449 pesticides are listed in the Policy as banned, prohibited or monitored:

 **34 banned** – those that should not be used under any circumstances.

 **90 prohibited** – those that should not be used, except following permission under exceptional circumstances.

 **325 monitored** – those where use is allowed but monitored; alternatives should be considered and a full justification for use made available.

34 pesticides banned from use in our own-brand produce

Fresh, chilled, frozen and canned



Our policy requires the use of pesticides to be considered by growers only as a last resort and other preventative measures should be fully explored first, eg, land choice, crop rotation and crop hygiene, and cultural and biological controls.

Since 2010, we have updated our list of banned pesticides with those listed by the Rotterdam Convention for Prior Informed Consent (PIC) and banned by the Stockholm Convention on Persistent Organic Pollutants (POPs). In 2011, their reviews of alachlor, aldicarb and endosulfan saw us move to ban these pesticides following a phase-out period agreed with suppliers⁵. Other pesticides we had previously banned but which were not on the PIC or POPs lists have been moved to our 'prohibited' list⁶.

Pesticides residue testing

Our Pesticides Policy requires regular compliance auditing across our supply chain, including desk-based traceability audits⁷, site audits, agronomic audits and pesticide analysis on a monthly basis by an independent laboratory. Where compliance with the policy is breached, we temporarily suspend sourcing from that supplier or grower until we have conducted a full investigation. We advise corrective action where appropriate and if this is not taken, we end our relationship with that supplier.

Our internet-based pesticides portal, the Co-operative Retail Online Pesticide Network (CROP) system, helps tier-one suppliers for fresh, chilled, frozen and canned produce comply with our Pesticide and Agronomic Policy requirements. The site was updated in 2012 to enable online requests to use prohibited pesticides. However, problems with CROP identified as a result of these updates have prevented roll-out to all our produce suppliers. Online pesticide monitoring may be relaunched in the future.

We have a pesticide residue testing programme that involves analysis of a representative sample of our products⁸ each month covering 449 residues. In 2012, one pesticide residue (0.3% of all residues detected⁹) was detected at levels that exceeded the Maximum Residue Limit (MRL)¹⁰ set for this product¹¹. Testing also detected 10 residues of prohibited pesticides where permission for use had not been granted; this is being followed up with the suppliers involved. The overall decrease in percentage of residue-free produce from 2009 to 2012 is thought to be a direct result of extended residue testing – over this period, we have increased the number of different residues tested from 90 to 449, and testing sensitivity has also increased. During 2012, analysis of historic testing results identified residue hotspots, highlighting product types where residues are most likely to occur¹². These products will be the focus for residue reduction plans and targets agreed with expert supplier groups.

During 2012, we allowed the use of prohibited pesticides in 116 cases, where the grower was able to demonstrate no reasonable alternative was available.

Neonicotinoid pesticide research

We've funded independent research to determine the effects of neonicotinoid pesticides on bees as part of our Plan Bee campaign (page 68).

Influence and action



Neonicotinoid pesticide impact on pollinators

In October, we submitted responses to the Environmental Audit Committee inquiry into insecticides and bees and to the Defra consultation on the UK National Action Plan (NAP) for the Sustainable Use of Pesticides. In both responses, we highlighted our concerns over the growing evidence base for the long-term, chronic impacts of neonicotinoid pesticides and called for an independent review of the science and further assessment of these pesticides.

Chemicals reduction

Indicator: **Removal of substances of concern**

Target 2012	Progress	Target 2013
Complete population of REACH ¹³ database and begin testing products to ensure compliance with REACH regulations	← The database is now fully populated. Testing agreements have been reviewed and testing will commence in 2013	Commence product surveillance testing to ensure compliance with REACH regulations and supplier CORE database declarations

The Co-operative Food's Policy on Chemicals for Priority Action

Our policy identifies 41 chemical types¹⁴ that we have banned or which we are planning to remove from our non-food own-brand products such as cleaning products. The policy applies to all parts of the product including internal components and packaging. We require that all our products meet safety standards set by relevant legislation and our own policies, which, in many cases, go above and beyond general legal requirements.

41 chemicals banned or planned for removal from own-brand non-food products

2011: 41

Chemicals listed in our policy include those defined by the Oslo–Paris Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR)¹⁵. For others, such as bisphenol A and PVC, we based our policy on emerging evidence of damaging impacts. We regularly review the list and add new chemicals as evidence becomes available.

A full list of the chemicals identified for removal is provided online .

Also described are examples of recent decisions taken where there is concern over a specific chemical but, as yet, no internationally established consensus.

REACH regulation

We support the European REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals)¹⁶ Regulation and campaigned for its introduction until it came into force in June 2007. Implementation is being phased in by 2018¹⁷. Our policy requires that all own-brand products comply with REACH Regulations, and prohibits all Substances of Very High Concern (SVHC) from use in our products and packaging above 0.1% by weight¹⁸. In some cases, such as cadmium, legislation has severely restricted the options for usage¹⁹.

In line with REACH, we have also committed to:

- notify the European Chemicals Agency should product surveillance testing identify any products containing 0.1% or more of SVHC. In 2012, none of our products were highlighted as containing over 0.1% SVHC;
- include REACH data in the Co-operative Online Resource Environment (CORE) database, supporting the exchange of information between the business and our supply chain. Addition of product information was completed in 2012; and

- in 2013, launch a new risk-based due diligence programme to test the safety of our products against the CORE declarations. Non-compliant products will be withdrawn from sale. This programme was delayed until all product information had been added to the CORE database.

Bank and membership plastic cards

Most credit and debit cards in the world are made of PVC²⁰. Since 2007, The Co-operative Bank has only issued PVC-free cards. We've issued some 3.7 million cards made from the plastic glycol-modified polyethylene terephthalate (PETG), which does not contain or use chlorine in its production. And, since their introduction, the approximately 11.7 million membership cards we've distributed have also been made from PETG.

Ecological cleaning range

Since 2008, we've produced our own-brand ecological cleaning range of seven products. This was the first range to be launched in the UK carrying both the EU's Eco Flower logo and a 'Cruelty-Free' logo from the British Union for the Abolition of Vivisection (BUAV).

The Co-operative Farms

Indicator: **Use of chemical inputs**

We minimise the use of pesticides on our farms through crop rotation and by choosing crop varieties that maintain soil health and limit the spread of pests and disease. To make the most efficient use of fertilisers, we take soil samples to determine nitrogen, phosphate and potash fertiliser requirements. We favour minimum tillage when we are preparing the soil for growing crops. This reduces

energy consumption, soil erosion and run-off, and maintains earthworm and soil microbe communities.

Fertiliser use

Fertilisers are applied either through the soil, for uptake by plant roots, or through leaves²¹. Small changes in the mix of crops grown each year will result in variations in the levels of fertiliser used. The significant

increase in phosphate and potash use in 2012 is due to a three-year application rotation for these fertilisers.

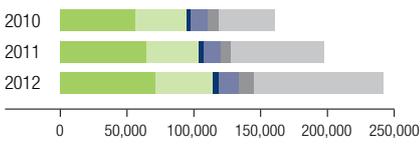
Co-operative Farms' fertiliser applications (kg/ha)²²

	2010	2011	2012
Nitrogen	143	163	161
Phosphate	25	22	40
Potash	21	25	36

Pesticide use

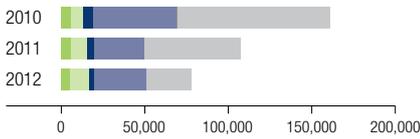
Pesticide, adjuvant, growth regulator²³ and trace element²⁴ applications

Liquid (litres)



	2010	2011	2012
Herbicide	55,720	64,180	70,833
Fungicide	38,538	39,334	43,127
Insecticide	2,905	3,211	4,359
Adjuvant	12,960	13,150	15,194
Growth regulator	7,966	7,420	10,898
Trace element	42,346	69,815	97,339
Total	160,435	197,110	241,750

Solid (kg)



	2010	2011	2012
Herbicide	5,804	5,912	5,199
Fungicide	6,869	9,338	11,396
Insecticide	6,048	3,779	2,974
Molluscicides	50,337	30,112	31,092
Growth regulator	105	342	291
Trace element	91,646	57,661	26,729
Total	160,809	107,144	77,681

Our use of pesticides in 2012 changed significantly as a result of the high level of rainfall experienced by all our farms in one of the wettest years on record. More specifically:

- Soil tests have been used on one farm to identify the level of need for nematicides, enabling minimum applications to be used.
- Additional applications of liquid insecticides were required to control aphids on arable and fruit farms.

- Increased use of growth regulators was required to control cereal crop growth resulting from high rainfall.
- Drought conditions on some farms in the first three months of 2012 and increased crop sampling resulted in greater application of trace elements.

In addition, our farms used 70 litres of spray tank cleaner and 1,950 litres of desiccants, used to prepare crops for harvest.

In focus



Biological pest control on strawberries

The Co-operative Farms grows over 120 hectares of strawberries each year on our farm in Blairgowrie, Perthshire. Strawberries are particularly vulnerable to disease and pests, so as part of an integrated crop management system we have been trialling the use of a range of natural predators to help control mite, aphid and weevil infestations. Successful use of parasitic wasps means these will be used to help control aphids in the 2012/2013 growing season.



Reducing use of pesticides on potatoes

The Co-operative Farms in the Scottish Borders, East Yorkshire and Cambridgeshire grow over 500 hectares of potatoes each year. As part of our efforts to reduce the use of pesticides, our Borders Farm has started using a new soil test to target the use of the oxamyl, a pesticide used to prevent potatoes becoming infected with the Spraing virus. This reduced the quantity of oxamyl used by over 42% in 2012 and will be rolled out to farms where Spraing is a problem in 2013.

Responsible banking and finance

Responsible banking

Bank screening of finance

Since 1998 we have declined £81m finance to businesses in line with our Ethical Policy statements on chemicals.

During 2012, 12 finance opportunities (2011: 11) were referred to the Ethical Policy Unit in connection with chemicals of concern, of which two were declined (2011: none) with an estimated cost of £5,000 in terms of gross income foregone.

Banking and finance declines, 2012

Estimated income foregone 2012

Business involved in the manufacture of chemicals which are considered to be persistent in the environment and harmful to health (two instances).	£5,000
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Delivering value

Our approach

In pursuit of sustainable development, we seek to deliver value to our stakeholders in an ecologically sustainable and socially responsible manner. Our purpose is to serve our members by carrying on business as a co-operative in accordance with co-operative Values and Principles.

Our Sustainable Development Policy guides our approach and can be found at www.co-operative.coop/sdpolicy

Image: The Co-operative Funeralcare launched a range of fairly traded bamboo and willow coffins in 2012

Membership and democratic control

Context

A co-operative is a group of people acting together to meet the common needs and aspirations of its members, sharing ownership and making decisions democratically¹. Democratic control is key to how a co-operative operates and is one of the fundamental aspects setting co-operatives apart from other businesses. It enables a focus beyond profits alone, and allows a co-operative to be run by and for the benefit of its members.

Materiality and strategy

The Co-operative stands apart from most major UK businesses as we are owned by 7.6 million individual members and some 80 independent co-operative societies². One of our strategic aims is to respond to our members and share our profits, and forms one of our business Key Performance Indicators (KPIs).

Our structure is such that individuals can progress from being an ordinary member to a Board Director. Members' views help shape our business activities, including our sustainability agenda.

Our Membership Engagement Strategy guides our member relationships, and a new strategy is to be launched in 2013. Our aim is to grow total membership and improve the level of spend, cross-trade, and non-trading engagement of our members.

Democratic control

Indicator: **Member democratic participation**

Targets 2012	Progress	Targets 2013
E.P. Build membership to 20 million by 2020, with an interim target of 7.5 million by the end of 2012	= Membership was 7.6 million at the end of 2012. We aim to increase membership to 20 million in coming years. However, the quality of relationship with our members, rather than purely membership numbers, will be key	E.P. Encourage 500,000 new members to join us each year
E.P. Subject to change in legislation, extend membership to include under 16s	✓ Following legislation changes ³ and member approval, we opened our membership to those under the age of 16 in 2012	E.P. Encourage a new generation of co-operators through extension of membership to under 16s
Increase attendance at regional members' meetings by a further 5%	✗ Attendance at regional members' meetings decreased slightly to 4,717 (2011: 4,795), despite activity to promote attendance. However, online members' meeting pages received 10,900 views (2011: 7,000) ⁴	Increase attendance at regional members' meetings by 5%
Increase proportion of area committee elections that are contested to 90%	✗ 88% of elections (42 out of 48) were contested in 2012 (2011: 88%)	Increase proportion of area committee elections that are contested to 90%
Increase proportion of targeted members ⁵ voting to 13%	✓ The number of targeted members decreased, but the proportion that voted increased from 10% to 13%	Increase proportion of targeted members voting to 15%

Headline performance

Number of Co-operative Group members (millions)⁶



Contested area committee elections

2009	2010	2011	2012
57%	81%	88%	88%

Attendance at regional AGMs and HYGMs

2009	2010	2011	2012
4,386	4,640	4,795	4,717

7.6 million members

2011: 7.2 million

The degree to which members are active in our ethical and democratic affairs is a key indicator of co-operative well-being, and is measured via participation in events and activities; participation in elections (including the number of elections that are contested); attendance at members' meetings; and the flow of motions and questions to the Group Annual General Meeting and Half-Yearly Meeting.

Area committee elections

Our members have the opportunity to influence how we do business, by standing for, or voting in, our annual area committee elections.

During the election process, targeted members⁷ receive a voting booklet detailing members standing for election in their local area. In 2012, 222,221 members voted, equating to 13% of those targeted (2011: 351,685; 10%). The number of contested elections stood at 88% in 2012, with 42 out of 48 elections contested; the same as in 2011. In total, 382 candidates stood for 225 vacancies. Of the 223 successful candidates, 161 (72%) were sitting members and 62 (28%) were newly elected.

88% of membership elections were contested

2011: 88%

Members' meetings

Members' meetings are a key part of our democratic process, at which members can table motions. In 2012, 4,717 members attended regional members' meetings, which were held in May and October in each region (2011: 4,795).

4,717 members attended regional members' meetings

2011: 4,795

In 2011, we held online members' meetings for the first time between 1 May and 30 June. These meetings allowed members to view presentations, access other key documents and information, and ask questions. In 2012, we extended the online members' meetings from 1 April to 31 December⁸, during which they received 10,900 views (2011: 7,000).

Democratic structure

We are owned and democratically controlled by our members, who elect representatives to oversee the business.

Group Board

Principal subsidiary boards

- Banking Group Board
- Food Board
- Specialist Businesses Board

Additional Group committees

- Audit & Risk Committee
- Remuneration & Appointments Committee
- Governance Committee
- Chair's Committee
- Values & Principles Committee (page 103)

Other boards and committees

- 7 regional boards
- 48 area committees
- 7 regional Values & Principles Committees

Our governance structure consists of a Group Board⁹, seven regional boards and 48 area committees, including a members' council for Northern Ireland¹⁰. A member who wishes to be involved in governance can stand for election to their local area committee and, if successful, can progress through each tier, with the possibility of ultimately becoming a Board Director.

Regional boards have a broad remit¹¹ including reviewing management proposals for regional expenditure and monitoring sales and profitability of the core trading operations. Each region has a Regional Values & Principles (V&P) Committee, tasked with ensuring our Co-operative Principles are pursued at a regional level.

Area committees¹² monitor local trading performance and make recommendations to develop local business. They work with Membership teams to develop membership and community initiatives and allocate Community Fund awards (page 11).

Member training and education

We provide a varied training programme for elected members. From induction training, which introduces newly elected members and directors to their role and the skills and knowledge required, to studying for a Certificate or Diploma in Co-operation. Elected members receive training and education at all stages of their position. In 2012, our inductions were attended by 66 members and 713 people attended Certificate and Diploma workshops, with a further 224 completing these units as distance learning.

Annual General Meetings

Regional Boards and Independent Society members can put motions to our General Meetings, of which there are two a year, the Annual General Meeting (AGM) and the Half Yearly General Meeting (HYGM). Delegated members attending the meetings can also ask questions they wish the business to respond to. Examples of motions put to General Meetings in 2012 are listed below. The number of delegates appointed to attend the meetings from each region is determined by the amount of trade undertaken in the region in the previous financial year. At least one representative of each area committee is invited as part of the regional delegation.

Although motions approved by the AGM are not binding upon management, the Board and/or management consider issues raised, providing a response on the day and an update at the next general meeting.

In focus

Being an elected member

Name: Julia Tickridge

Age: 52

Membership region: North West and North Midlands

Position: Area committee member

Elected: 2011

Reason for standing: To increase female participation in my area committee and encourage under-represented groups to get involved



Image: Julia (centre) at a Co-operative membership product tasting evening in Knutsford

“Helping to ensure that members’ voices are heard and any issues they raise are acted upon is the most satisfying part of being an elected member and ensures that members feel part of The Co-operative. When a member raises an issue with me I raise this with the area committee or membership officers and then

relay a response. My role typically involves a monthly two-hour committee meeting and half yearly members’ meetings, as well as conferences and membership events (particularly throughout the summer, around Christmas and during Fairtrade Fortnight).”

AGM (May 2012) resolutions

Region	Motion	Response
Central and Eastern	Called for a report to be commissioned looking at pay levels across the Group relative to the Living Wage. Also to examine the costs and benefits to the Society of paying at least the Living Wage to all employees, with a view to developing a roadmap to move towards this goal in a sustainable fashion.	The Board supported the motion to commission a report and reiterated its belief that continuing with – and further developing – its current approach will serve the long-term interest of employees effectively and sustainably.

HYGM (November 2012) resolutions

Region	Motion	Response
South and West	Asked that regional Public Relations be given a higher priority to help communicate our position as a community retailer in local communities where we trade.	The Board noted that some regional Public Relations presence already exists, with each membership region having a dedicated Public Relations Officer to work on local and regionally driven initiatives.

Member economic involvement

Indicator: **Dividend payment to members**

Indicator: **Proportion of members cross-trading**

Targets 2012	Progress	Targets 2013
E.P. Continue a member profit-sharing scheme that is among the broadest and most generous ¹³ of any major UK business	↔ We are the only major UK business that provides a profit-sharing scheme payout in cash. In respect of trade undertaken during 2012, the dividend payment totalled £37.2m (2011: £61.9m) ¹⁴ . The payment depends on our financial performance and in light of the challenging economic climate, the target going forward has been revised	E.P. Continue to share our profits with members
E.P. Encourage ethical consumerism through engagement with members and extra share of profit from 2012	✓ During Fairtrade Fortnight 2012, we awarded 50 bonus membership points for spending £5 or more on Fairtrade products in The Co-operative Food	E.P. Continue to encourage ethical consumerism through engagement with members and extra share of profit

Headline performance

Members earning a share of profits¹⁵

2009	2010	2011	2012
3.3m	4.6m	5.5m	5.5m

Members trading with more than one business

2009	2010	2011	2012
0.8m	1.3m	1.4m	1.4m



Share of profits

We pay out a share of our profits to members twice a year – as an interim dividend payment in November and a final dividend payment in June. Members earn points when they purchase goods and services from the Group’s family of businesses. The more business they do with us, the greater their share of the profits. Uniquely among UK high street retailers, our members can receive their reward in cash, paid in-store, or directly into their bank account. Members can also opt to donate some, or all, of their share of profits to The Co-operative Membership Community Fund (page 11). Our card is accepted in over 5,000 outlets across the UK; more than any other high street retailer.

Typically, our members will receive one point for each pound they spend, plus additional points for other co-operative services. In 2012, the total number of points earned across our family of businesses was 3,326 million (2011: 3,385 million). At the end of 2012, we announced a new reward structure for members using our banking and insurance services¹⁶.

Of the £37.2m earned by members during 2012, £2.6m (2011: £3.2m) was donated by members to The Co-operative Membership Community Fund (page 11).

Proposed payments to and on behalf of members in respect of 2012 profits are: an employee-member dividend of £12.6m (2011: £24.4m); an independent society dividend of £10.2m (2011: £17.3m); and a community dividend of £7.7m (2011: £10.0m).

Cross-trading

In 2012, we maintained a solid base of 1.4 million members that trade with more than one business, which has significantly increased since the re-launch of the membership scheme in 2006 (0.2 million).

Independent co-operative business

Five independent co-operative businesses currently accept The Co-operative membership scheme cards within their stores: Anglia; Chelmsford Star; Midcounties; Midlands; and Southern¹⁷.

Member engagement

Indicator: **Member engagement on co-operative and ethical issues**

Target 2012	Progress	Target 2013
E.P. Engage with at least 500,000 members and customers a year on social goals and campaigning	✓ In 2012, we engaged over 500,000 members in our campaigns	E.P. Engage members and customers in our social goals and campaigning

Engagement includes communications and regional events and activities that have a co-operative or ethical focus. This activity is directed by a Membership Engagement Strategy and during 2012 a total of £3.1m (2011: £4.8m) was made available for member engagement.

We measure member engagement through our annual Membership Engagement Index, compiled through member telephone interviews. It includes: perceptions and understanding of membership; membership rewards; and membership communications, activities and events.

In 2012, Engagement Index scores for members who have been with us for over one year, and employee members, increased slightly. Those who have been members for less than a year showed a slight score decrease.

Membership Engagement Index

	2010	2011	2012
Non-employee members (over one year)	6.99	7.0	7.03
Non-employee members (under one year)	6.53	7.18	7.0
Employee members	8.28	8.45	8.64

In Engagement Index interviews, members identified member rewards and benefits as key priorities, and expressed a desire to engage with our community work, in particular the Community Fund (page 11).

In 2013, we will aim to improve members' understanding of the membership process and the ways in which they can engage in campaigns and our democratic structure.

A consultation with members, to inform a new Member Engagement Strategy, is underway, with final sign-off by the Group V&P Committee planned for late July 2013. The new Strategy will be introduced in 2013.

Membership communications and education

We use a variety of channels to communicate with members including our website, social networking channels, online discussions and webcasts.

Up to two million targeted members receive *Your membership* magazine approximately every quarter.

Members also benefit from learning opportunities delivered online, via printed materials and at events organised by regional membership teams across the UK.

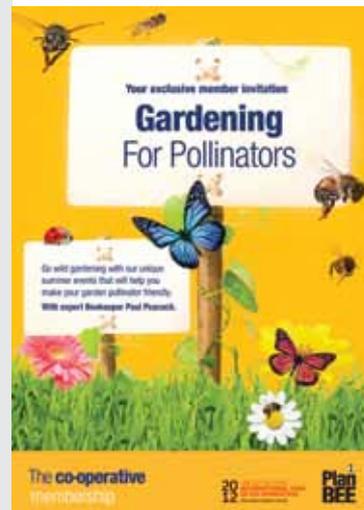
Ethical campaigning and members

In 2012, we ran three campaigns: Plan Bee (page 68), Clean Energy Revolution (page 56) and Grow co-operatives (page 19). Our campaigns and community activities are designed to reach and engage members and customers through a wide variety of programmes, channels and publications. For instance, *Your membership* magazine carries regular features on our campaigns and provides members with numerous engagement opportunities, such as recommending schools to take advantage of our Green Schools Revolution programme (page 45), or making a loan via our lendwithcare.org scheme (page 17). Our Grow co-operatives campaign has seen over 75,000 co-operative members and Oxfam supporters add their name to our call for the UK Government to unlock greater support for smallholder farmers and co-operatives to help feed the world fairly and sustainably.

In focus

Gardening for Pollinators membership events

Every year our membership regions run some 250 member events, from wine tasting to film screenings and more. In 2012, as part of our Plan Bee campaign (page 68) to address the decline in pollinators such as bees and butterflies, we ran a series of free Gardening for Pollinators family events across all membership regions. Around 300 members attended these workshops.





Supporting co-operatives

Context

Against the backdrop of a sustained global economic downturn, the UK co-operative sector has remained resilient¹. There are now almost 6,000 co-operatives nationwide, involved in everything from farming to finance, education to energy and housing to healthcare². Worldwide, there are nearly one billion individual co-operators; and, when taken together, the turnover of the top 300 co-operatives equates to that of the world's ninth largest economy³.

We believe that strong public and co-operative sectors are essential for the sustained progression of equality and quality of life.

Materiality and strategy

In common with co-operatives across the world, the principle of 'co-operation among co-operatives' is one of seven that guide our business approach (inside front cover). 'Supporting co-operatives' is a key priority of our Ethical Plan (page 101) and one of our business aims is to inspire others through co-operation (inside front cover). We are supporting developments in the sector, promoting the co-operative model within business and education sectors, and working with local people to help them find community-led solutions to local challenges.

2012 was designated the United Nations International Year of Co-operatives and provided us with unprecedented opportunities to help increase understanding of the co-operative difference and raise awareness of the contribution made by co-operatives towards reducing global poverty, creating employment and supporting social development.

Co-operative development and support

Indicator: **Support for the growth and development of co-operatives**

Targets 2012	Progress	Targets 2013
E.P. Act as the primary funder of co-operative encouragement bodies, such as The Co-operative College, investing £9m by 2014	= In 2012, we invested £2.7m in co-operative encouragement bodies, such as The Co-operative College, Co-operatives UK and the ICA	E.P. Act as the primary funder of co-operative encouragement bodies, such as The Co-operative College, investing £3m in 2013
E.P. Invest £6m to support co-operative enterprise by 2014	= In 2012, we invested £1.9m in The Co-operative Enterprise Hub, which supports new and growing co-operatives	E.P. Provide an additional £1m of support to co-operative enterprise in 2013 and maintain a £500,000 Community Shares Fund
E.P. Launch a facility enabling small co-operatives to access low-cost, green electricity on the back of The Co-operative's bulk purchase arrangements	← We made limited progress on extending the Hub's green energy purchasing offer to small co-operatives, developing a communications strategy to enable it to be rolled out to credit unions in 2013	E.P. Launch a facility enabling small co-operatives to access low-cost, green electricity on the back of The Co-operative's bulk purchase arrangements
E.P. Invest £2m to celebrate 2012 as the United Nations International Year of Co-operatives	✓ Over £2m was invested to ensure that the opportunities presented by the IYC were maximised, including £310,000 to the Global Development Co-operative, £700,000 to Co-operatives United and £990,000 on promotional activities	

Headline performance

The Co-operative Enterprise Hub

	Number of co-operatives supported				Financial contribution ⁵			
	2009	2010	2011	2012	2009	2010	2011	2012
Co-operative development	107	252	588	531	£163,500	£422,200	£1,024,500	£1,479,200
Renewable energy co-operatives	2	2	2	11	£98,000	£100,000	£63,500	£39,100
Overseas co-operative development	3	2	1	1	£101,000	£61,000	£140,200	£154,300
Running costs					£216,800	£173,000	£288,900	£232,900
Total	112	256	591	532⁴	£579,300	£756,200	£1,517,100	£1,905,500

1,000+
co-operatives supported by
The Co-operative Enterprise
Hub since 2009

Almost 1,300
days of free advice and training
provided to co-operatives in 2012
2011: 1,200

£4.6m
invested in co-operative growth
and development in 2012
2011: £4.2m

In 2012 we invested £4.6m in the growth and development of co-operatives (2011: £4.2m). In 2013, we will invest a further £4m (£3m in support of co-operative development bodies and £1m in support of co-operative enterprise). Our investment is mainly channelled through The Co-operative Enterprise Hub, and through our work with a number of key bodies such as The Co-operative College, Co-operatives UK, The Co-operative Party and the Association of British Credit Unions. More detail on our partnerships is provided on page 82, and further information on our support for credit unions can be found on page 38.

The Co-operative Enterprise Hub

The Co-operative Enterprise Hub⁶ is our flagship programme to promote the co-operative business model in the UK. Throughout 2012, the Hub's offer shifted away from a programme of business development to a holistic package of support that is better geared towards meeting the needs of community-led regeneration. New and existing co-operatives can now obtain from the Hub:

- free **advice and training** from a network of co-operative development advisers;
- **collective purchasing arrangements** to enable them to benefit from The Co-operative's bulk purchasing power;
- free **PR support** from a dedicated Co-operative Press Officer;

- **access to finance** via The Co-operative Loan Fund (page 81) and other sources;
- **community share issues support** via The Co-operative Community Shares Fund (page 81); and
- **funded access to expert support for renewable energy co-operatives** (page 55).

Additionally, in line with our Ethical Plan commitments, the Hub is investing in the promotion of co-operative development in the developing world (page 81).

In 2012, the majority of our investment in the Hub continued to be directed towards providing free advice and training to new and existing co-operatives. We received 695 applications for advice and training, of which 519 (75%) were approved. Almost 1,300 consultancy days were delivered by Hub advisers to the value of £572,000, supporting a rich diversity of co-operative businesses. Support is tailored to an individual co-operative's needs and typically includes business planning, financial, staffing, legal and governance matters – whatever is needed to ensure the long-term success of the enterprise.

Once accepted onto the advice and training programme, co-operatives have the opportunity to access other services offered by the Hub.

Professional training and development

Throughout 2012, we made significant progress towards delivering a national continuing professional development programme for co-operative development advisers, with the intention of raising standards in the advice and training offered through the Hub, and more widely. A survey was undertaken with all advisers to better understand their existing qualifications, skills and experience. Agreement was reached with the Hub's Advisory Group that, from 2014, all practitioners will need to meet key criteria in order to be registered to deliver advice and training on behalf of the Hub. Hub advisers who currently do not meet the new criteria will have the opportunity to attend training arranged for 2013.



New Pioneers

The Co-operative Enterprise Hub's 2012 Annual Review was published in October 2012⁷. It provides details of how the Hub is performing against its objective of advancing, strengthening and increasing the sustainability of the UK co-operative economy, along with a selection of case studies and plans for 2013.

Co-operative financial support

Indicator: **Provision of finance for co-operatives**

Target 2012	Progress	Targets 2013
E.P. Build a £20m Global Development Co-operative (GDC) Loan Fund	E Nine organisations from across the world, including The Co-operative, have provided financial support to the GDC, and other funding avenues are being actively explored	E.P. Build an international Global Development Co-operative Loan Fund
		E.P. Continue to maintain and develop our Public Service Mutuals initiative, a one-stop shop offering advice and assistance to those looking to establish alternative ways of delivering public sector services

Accessing finance can be a key barrier for both the start-up and growth of existing co-operative businesses. As part of our commitment to co-operation with other co-operatives, we provide financial support to co-operative businesses through a variety of channels, to help build a strong and sustainable co-operative economy.

The Co-operative Loan Fund

The Co-operative Loan Fund⁸ is funded by The Co-operative with Midcounties, East of England and Chelmsford Star co-operative societies. It supports co-operatives throughout the UK with accessible, ethical loan finance.

No investment was made by The Co-operative Enterprise Hub in the Loan Fund during 2012 (2011: £25,000), as East of England and Chelmsford Star societies both made investments, leading to the fund being sufficiently capitalised for the year. At the end of 2012, total funds stood at £1.53m (2011: £1.64m).

The Co-operative Community Shares Fund

In 2012, The Co-operative Enterprise Hub teamed up with The Co-operative Loan Fund to launch a new co-operative that aims to help communities to mount successful community shares offers. The Co-operative Community Shares Fund⁹ has been established to support communities to raise the money they need to save or create a local asset, such as a pub, cinema, or renewable energy scheme. The Fund undertakes due diligence checks on the co-operative and, subject to these, will underwrite the share offer. This 'stamp of approval' is intended to reassure potential investors of the strength of the co-operative's business plans. The Fund can also support projects to proceed, even if their share offer falls short, by buying up the remaining equity.



Community-led regeneration

St John's Sunshine (SJS) co-operative in Trafford, Manchester, has installed solar panels on a local church roof and is reinvesting the savings and income to benefit the local community. With support from The Co-operative Community Shares Fund, SJS launched a successful shares issue. Advice and training and legal support has also been provided to the group through the Enterprise Hub.

The Global Development Co-operative Loan Fund

We continue to spearhead the new Global Development Co-operative (GDC), which will be one of the most significant and lasting legacies to the international co-operative sector of the UN International Year of Co-operatives. This global initiative is seeking to unlock \$50m of funding to provide loans at affordable rates for capital and infrastructure projects around the world, targeting those that will generate positive social impacts and extend the reach of the co-operative model. Nine organisations from across

the world, including The Co-operative, are providing financial support to the GDC, and conversations with a number of development agencies to secure additional funding are ongoing. A Board has been appointed and it is anticipated that lending to co-operatives will commence in mid-2013.

Public Service Mutuals

In 2011, The Co-operative joined with legal firm, Cobbetts, and Westminster Bridge Partnership to create a new business – Public Service Mutuals (PSM)¹⁰ – with the intention of providing a one-stop shop for those looking to establish alternative ways of delivering public sector services. With local authority finances being increasingly squeezed, the option to 'spin out' services is one that many are being forced to consider. PSM has assisted a number of local authorities to work up proposals that transfer services from the public to the mutual sector in a way that protects the interests of communities. Throughout 2012, PSM worked with Rochdale Borough Housing – the first tenant and employee owned housing association – to recruit Non-Executive Directors to its Board and to support the newly elected body.

Banking support

In 2012, The Co-operative Bank's free, bespoke banking package, Co-operatives Directplus, was relaunched and, for the first time, made available to all co-operatives in the UK. The Bank additionally offers a bespoke savings account and credit card for Co-operative members.

Total bank lending to co-operatives averaged £121m in 2012

2011: £142m



In focus

United Nations International Year of Co-operatives 2012

The UN International Year of Co-operatives 2012 presented us with a unique opportunity to improve understanding of and engagement with the co-operative model and we invested over £2m in activities that supported these aims. As the largest co-operative in the UK, we were at the forefront of national activity to mark the year. We sought to leverage our position as a multiple, member-owned retailer, engaging our members and the public alike through a dedicated programme of outreach activities, which was estimated to have actively engaged over 785,000 people in the UK.



Some highlights of the International Year of Co-operatives include:

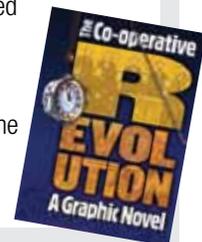
Co-operatives United – a global co-operatives exposition held in Manchester that we hosted in partnership with Co-operatives UK and the ICA. Over 12,500 people and 750 co-operatives participated in the event, which included an array of co-operative fayre and a series of workshops and seminars on all matters co-operative. Visitor satisfaction topped 90%.

We brought co-operation to the streets with a 'street gallery' that features engaging images and stories of co-operation. Between July 2012 and early 2014, it will visit 21 cities across the UK and, by the end of 2012 it had already reached over 3.4 million people.



We commissioned a film, *The Rochdale Pioneers*¹¹, which was produced by The Co-operative British Youth Film Academy (page 46) and featured well-known British actor, John Henshaw. It details the radical beginnings in Rochdale of the international co-operative movement. The film was previewed at events in each of the seven regions and premiered at the Co-operatives United expo. It was also broadcast in a special season of British-made films on Film4, where it was watched by almost half a million people.

...and a graphic novel. *The Co-operative Revolution*¹² was developed to celebrate the International Year. It explores the history of the co-operative movement, examines examples of co-operation in nature and offers a glimpse of what co-operation could achieve in the future.



123 Global Poverty Ambassadors were recruited to become leading voices in their communities on issues related to extreme poverty and the International Year. We also campaigned alongside Oxfam to call for increased international investment to help smallholder farmers and co-operatives to feed the world fairly and sustainably (page 19).

The legacy We also sought to ensure that there was a lasting legacy to the International Year, leading the formation of the Global Development Co-operative (page 81), which will provide affordable finance for co-operatives in the developing world.

Co-operation between co-operatives

Indicator: **Collaboration and provision of support**

UK Co-operative Retail Trading Group (CRTG)

CRTG was set up in 1993 to centralise the buying power of member co-operative societies in the UK. The CRTG controls buying for retail co-operative societies, including The Co-operative Food, and represents £9.8bn of buying power (2011: £9.7bn). There are currently 20 society members of the CRTG, with The Co-operative Group accounting for approximately 74% of turnover. All products procured on behalf of member societies through CRTG are sourced in line with relevant Co-operative Group policies.

Representation

We actively promote national and international co-operation by working with representative bodies such as International Co-operative Alliance (ICA), Co-operatives UK and The Co-operative College.

Further details of the organisations we provided financial support to in 2012 are included on page 98.

ICA

The Co-operative is a board member of the ICA, the world's largest non-governmental organisation representing and supporting co-operatives and mutuals. In 2012, we contributed £186,000, which included funding for the post of the ICA Global President, Dame Pauline Green.

Co-operatives UK

Our aspirations for co-operative development are closely aligned with those of Co-operatives UK. Each year, we report on our performance against the Co-operatives UK Co-operative, Environmental and Social Performance Indicators¹³. In 2012, seven representatives of The Co-operative served on the Co-operatives UK Board. We worked collaboratively throughout the year on a number of initiatives, notably, the Co-operatives United exposition (above); and the development of national standards and continuing professional development for co-operative development advisers (page 80).

Economic impact

Context

Already described as “the longest and deepest” recession in a century, forecasts for the UK economy have deteriorated and significant recovery is not expected until 2018.

This prolonged economic downturn has impacted heavily on younger generations and consumer confidence remains low as households face added pressures from the rising cost of living, job insecurity and austerity measures.

At the same time, the UK ranks amongst the top countries for ‘life satisfaction’ in the OECD Better Life Index, and in particular for having a strong sense of community and sense of civic engagement.

Materiality and strategy

As a co-operative, we operate for the benefit of our members. The ability to run our business for our members depends on our financial success and stability.

Being a commercially successful business is one of our strategic aims. Progress is measured through a Key Performance Indicator, underlying operating profit. In addition, we aim for our business to deliver an acceptable Return on Capital Employed (ROCE).

A full account of our financial performance is presented in our Annual Report and Accounts¹.

Sustainable financial performance

Indicator: **Underlying profit – Trading Group and Banking Group**

Indicator: **Return on Capital Employed – Trading Group**

Target 2012	Progress	Target 2013
Achieve a Trading Group Return on Capital Employed (ROCE) of 9% in 2012	✘ We achieved a Trading Group ROCE of 8.5%	Achieve a Trading Group ROCE of 7.9% in 2013

Headline performance

Gross sales (Group)		Underlying operating profit (Group)	
2009	£12,043m	2009	£464m
2010	£13,144m	2010	£602m
2011	£13,267m ■	2011	£526m
2012	£13,475m	2012	£54m

In exceptionally difficult trading conditions we reported gross sales of £13.5bn (2011: £13.3bn) and underlying Group operating profits² of £54m (2011: £526m). The fall in profits reflects unprecedented levels of corporate impairments in our banking business and a number of large one-off items in the Banking Group.

Trading Group – underlying profit

In 2012, due to the extremely difficult market conditions, we saw a decline in Trading Group underlying operating profit to £311m (2011: £350m ■).

Trading Group – Return on Capital Employed

Return on Capital Employed (ROCE) measures how well the Trading Group has generated profit from the capital invested in the business. In 2012, ROCE was 8.5% (2011: 10.5%). Difficult economic conditions meant that the 2012 target was not achieved and we have set a minimum 7.9% ROCE target for 2013 to reflect the continuing economic challenges.

Banking Group – financial performance

The Banking Group's financial performance is measured through three key financial performance measures – operating result, liquidity and capital.

The core business, reflecting the current strategy and risk appetite of the Banking Group, delivered an operating profit of £119.8m (2011: £173m). The non-core business, those activities not congruent with the current strategy, which are

managed for value and targeted for rundown or exit, generated an operating loss of £377.3m (2011: profit of £2.8m)³.

The Banking Group has maintained a strong liquidity position, with a loans to deposits ratio of 92% (2011: 94%). As a result of the financial performance, the Bank's core tier one ratio has reduced to 8.8% (2011: 9.6%). Strategic focus is directed at implementing measures to enhance the strength of our capital ratios.

Value added

Indicator: **Distribution of economic value added**

Economic value added is the contribution of commercial organisations to national wealth and the benefits delivered to stakeholders⁴. Economic value can be distributed as salaries to employees, as taxes to Government, as donations to charitable causes and as profit, dividend and reserves to owners. In 2012, we contributed £2.2bn to national wealth (2011: £2.7bn).

In 2012, we contributed £2.2bn to national wealth

2011: £2.7bn

Distribution of value added⁵ 2012

	2009	2010 ⁶	2011 ⁷	2012 ⁸
Employee wages and pension benefits	£1,560m	£1,625m	£1,577m	£1,618m
Payments to government	£381m	£330m	£363m	£328m
Distribution to members	£97m	£94m	£132m	£94m
Paid to the community	£11m	£12m	£14m	£10m ⁹
Paid to providers of capital	£116m	£89m	£88m	£114m
Set aside for capital maintenance and future growth	£439m	£581m	£520m	£22m
Total	£2,604m	£2,731m	£2,694m	£2,186m

Tax

Indicator: **Tax paid to government**

The Co-operative's Tax Strategy defines our approach to tax compliance, planning and risk management. In accordance with this strategy, tax planning transactions with no commercial purpose other than the avoidance of tax will not be undertaken. In 2010, we adopted the Code of Practice on Taxation for Banks in respect of our banking business, which requires banks to comply with the spirit, as well as the letter, of tax law.

Our 2012 tax payments and credits are detailed in the Annual Report and Accounts. In 2012, the accounts include a £174m credit (2011: £49m charge) in respect of tax on continuing businesses, at an effective tax rate of 24.7% (2011: 21%) compared to a standard blended rate of tax of 24.5% (2011: 26.5%). The Group does not expect to pay any corporation tax in respect of 2012 as a result of the loss arising in this period.

The Co-operative Bank Ethical Policy contains a policy position on corporate payment of tax, and as such, the Bank does not finance organisations that take an irresponsible approach to the payment of tax in the least developed countries.

Tax planning transactions with no commercial purpose other than tax avoidance will not be undertaken



Context

An inclusive, safe work environment, where everyone's contribution is recognised and valued, and where employees feel supported, developed and motivated, is key to increasing employee satisfaction, productivity and creativity. Highly engaged staff are more likely to offer higher levels of discretionary effort, voluntarily act as advocates for the business they work for and deliver high levels of customer service of their own free will. At the same time they are more likely to find satisfaction and enjoyment in their work, and feel that their employer values their contribution and is committed to their development.

Materiality and strategy

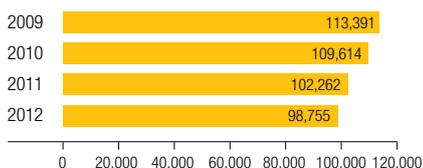
With a workforce of almost 100,000, we're one of the largest private employers in the UK. Our employees are vital for business success and the co-operative Values and Principles (inside front cover) guide and strengthen our commitment to employees.

One of our strategic business aims is to be an exemplary employer, performance against which is measured through our Employee Engagement score, one of the business's Key Performance Indicators (KPIs), which influence executive remuneration (page 4). Industry best practice and research informs our approach to engagement. This is particularly important in light of the significant organisational change we have experienced through Project Unity – the business transformation programme aligning our brand and businesses to benefit our employees and customers over the last few years (page 87).

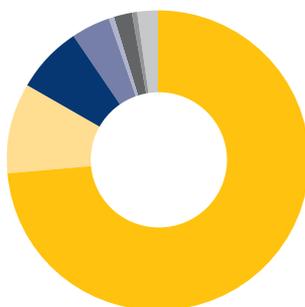
Headcount

Overall staff headcount decreased in 2012 (see graph below), due largely to organisational change (page 87).

Total employees¹



Employee headcount by business, 2012



	Headcount
Food Retail Division	72,806
Banking Group	9,728
Healthcare Division	7,062
Funerals Division	4,139
Specialist Businesses	598
Specialist Commercial Businesses	1,909
Corporate Estates	549
Corporate Functions	1,964

Employee engagement

Indicator: **Employee Engagement Index scores**

Targets 2012	Progress	Targets 2013
Develop an environmental advice centre to help our employees reduce their environmental impact	✓ We launched eSteps, an energy-saving advice centre to engage employees and to help them reduce their environmental impact	E.P. Continue to provide an environmental advice centre to help our employees reduce their environmental impact
Align the Banking Group and Trading Group measurements of employee engagement	✓ We aligned Trading Group and Banking Group engagement measurements	E.P. Continue to build a fairer and more inclusive workplace, evidencing by 2016 that 85% of staff agree that their manager treats everyone fairly and that colleagues treat each other with respect – with the colleague engagement levels of core diversity groups not being significantly different from the norm
Maintain the 2011 Trading Group employee engagement score in 2012	✗ The engagement score showed a small decline to 70 (2011: 72) due largely to organisational change	Increase the engagement score to 71

Headline performance

Employee engagement score

2010	2011	2012
71	72	70

Performance benchmark

1 of 67

businesses certified as a Top Employer by the Corporate Research Foundation Institute

The co-operative
talkback

Employee engagement is a broad measure of commitment and motivation at work. High levels of engagement help us to attract and retain talent, promote our reputation and improve the products and services we offer.

In 2012, we aligned the measurements for engagement across the Trading Group and Banking Group, giving an overview of engagement levels across the whole of our business.

Engagement Index

Our employee engagement score is calculated using 10 survey questions that focus on: emotional commitment to The Co-operative; pride; advocacy of employer; products and services; staff retention; and discretionary effort².

70: our 2012 employee engagement score

2011: 72

The survey, talkback, received responses from 83% (2011: 86%) of staff. In light of organisational changes over the last

few years, the engagement score of 70, slightly lower than in the previous year, was not unexpected. In 2013, employee engagement will be a key area of focus, with the close involvement of the Group Executive in developing recommendations, as part of overall business plans.

Talkback results showed that staff continued to show awareness of our sustainability activities:

- 87% (2011: 87%) of respondents believed that we source products responsibly;
- 86% (2011: 87%) believed that we are working to reduce our environmental impact; and
- 87% (2011: 88%) believed that we support the local community.

Acting on results

Managers receive survey results, which are shared and discussed in teams to plan improvement actions. High-level targets to improve engagement scores are incorporated into the performance appraisal and remuneration process for all managers.

Employee communications

We engage in open dialogue with our employees through a variety of channels including face-to-face briefings, intranet, magazines, email and social media such as Facebook and Twitter. As well as supporting organisational change projects across the Group (page 87), our communications aim to improve engagement and understanding of our values and social campaigns.

In focus



Employee energy-saving advice centre – eSteps

In 2012 we launched eSteps³, an interactive employee advice website, designed to engage employees on energy saving. Operated under licence from the Energy Saving Trust, eSteps generates a personalised action plan demonstrating both the cost and carbon savings of actions employees can take at home – from laying insulation and upgrading to the most efficient white goods, to utilising greener travel options.

To date, our employees have committed to save £79,000 and avoid 290 tonnes of carbon dioxide emissions by undertaking actions from the site⁴.

Green Travel initiatives

As part of our Green Travel Plan we have established a Green Travel website that encourages employees and visitors to use more sustainable travel options.

2012 initiatives include:

Car share

Carbon Heroes car share scheme, with dedicated free city centre parking spaces resulting in over 42,000 shared miles in 2012.

Public transport

344 interest-free public transport season ticket loans worth £379,000 (2011: 406 worth £361,000) for employees.

Cycle to Work

Launch of a new Cycle to Work scheme, including cycle training events.

National initiatives

Supporting national initiatives such as Walk to Work Week and Living Streets.

Business change

Indicator: **Avoidable employee turnover**

Our business has undergone significant organisational change over recent years⁵, and this continued in 2012.

Project Unity

2012 saw the final phase of Project Unity, a programme of business transformation bringing together the Trading Group and Banking Group businesses. It has delivered crucial savings to the Group at a time when the economic climate remains challenging and competition in all our markets continues to intensify.

Every effort has been made to minimise the impact to individuals and keep the number of redundancies to a minimum. Colleagues directly affected by the change programme were offered a wide range of outplacement services, and the opportunity to discuss personal circumstances during individual consultations with line management.

Project Unity led to in excess of 500 redundancies, however there were a number of roles removed through vacancy deletions and people either moving to existing roles internally or transferred as

part of TUPE (Transfer of Undertakings: Protection of Employment) arrangements. Some 125 new roles were created that enabled some impacted colleagues to stay within the business.

Avoidable employee turnover⁶
(historic data available online )

	2012
The Co-operative Food	19%
Banking Group	12%
The Co-operative Funeralcare	7%
The Co-operative Pharmacy	13%
Specialist Commercial Businesses	18%
Specialist Retail Businesses	11%
The Co-operative Estates	10%
Corporate Functions	6%

Co-operative Banking Group

In 2013, the Banking Group announced the signing of agreements for Royal London to acquire The Co-operative Insurance Ltd and The Co-operative Asset Management (TCAM). 170 colleagues are expected to transfer to Royal London (inside back cover).

Avoidable employee turnover

We seek to retain talent and minimise 'avoidable' turnover where possible (unplanned employee departures – excluding redundancies, retirement etc). In 2012, avoidable turnover remained largely stable. A full definition of avoidable turnover, as well as data for each business, is available online .

Trades union recognition

We believe that effective industrial relations depend upon representation of employees by trades unions. They play an important role in helping us to support staff impacted by organisational changes. We work in consultation to ensure that change programmes are managed fairly and consistently. We encourage employees to become members of one of the trades unions recognised by the Group. The right of employees not to join a trades union is also respected.

During 2012, we worked with five trades unions⁷ covering the range of employee roles across the business.

Reward

Indicator: **Chief Executive total pay as a multiple of the lowest full-time pay**

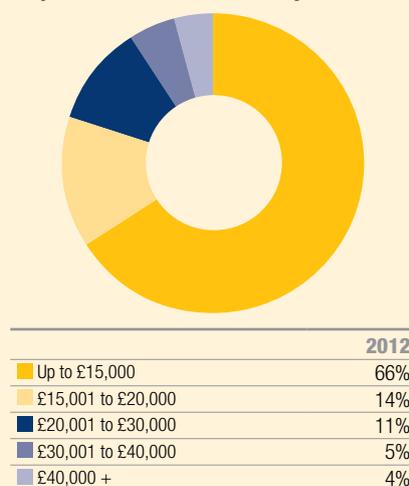
Headline performance

Performance benchmark

Chief Executive total pay as a multiple of the lowest pay (full time)⁸



Proportion of staff in each salary band⁹



Staff who are members of a pension scheme

	2009	2010	2011	2012
Trading Group	15%	14%	13%	14%
Banking Group	72%	66%	68%	64%
All businesses	21%	19%	18%	18%

Salary and benefits

We operate performance-based bonus schemes in a number of areas in the Trading Group and for the majority of

Banking Group employees¹⁰. In respect of performance in 2012, 1,562 employees, of those who were eligible, in the Trading Group¹¹ received a bonus. Bonus payments were not made to Banking Group

employees, which reflected 2012 financial performance (page 84).

We offer the same range of benefits to part- and full-time staff, and the majority of benefits are also available to

temporary employees. See a full list of benefits online .

In 2012, 93% of colleagues were employee-members¹². Subject to business performance, employee-members receive a dividend to reflect their contribution, which was a maximum of £300¹³ for the 2011/12 financial year and paid in July 2012.

Executive remuneration

Members of the Group Executive are eligible to participate in an annual incentive plan and a long-term incentive plan, which is determined by the Remuneration & Appointments Committee. The committee does not consider it appropriate to adhere to the size of incentive pay typically available in public limited companies (plcs)

and accordingly the amounts payable under these plans are around half the market level in comparable plcs. The highest to lowest total pay ratio in The Co-operative Group is consequently significantly lower than the norm for plc retailers.

Pensions

Every employee is offered the opportunity to join a pension scheme. In October 2012 the Group's core pension scheme, Pace, re-launched as a single pension offer for all employees, following extensive consultation and engagement. It contains both defined contribution and defined benefit sections.

New legislation in November 2012 means that all employees, who meet certain age

and earnings criteria, will be automatically enrolled into the Pace scheme, with contributions starting in 2013. The Group's contribution on behalf of employees is considerably greater than Government requirements¹⁴.

In 2012, employees contributing to a pension scheme totalled 18,500 with 64,000 deferred pensioners and 51,000 pensioners and widows. The relatively low proportion of employees within the scheme was partly due to the high proportion of part-time staff and high turnover levels within the retail sector. From 2013, it is anticipated that automatic enrolment will substantially increase the proportion of employees in a pension scheme.

Health, safety and well-being

Indicator: **Accident rates**

Indicator: **Absence rates**

Target 2012

Progress

Complete roll-out of flexible working for Trading Group head office employees



Flexible working was rolled out across the Trading Group head office

Headline performance

Performance benchmark

3.7% absence rate across our businesses
2012 average UK absence rate: 3.4%¹⁵

2011: 4%

Trading Group accident rates¹⁶

Accidents per 100,000 employees	2009	2010	2011	2012 ¹⁷
Reportable	423.08 	593.00 	509.11 	374.82
Non-reportable	4,646.96 	7,035.42 	7,118.87 	5,831.26

Banking Group accident rates¹⁸

Accidents per 100,000 employees	2009	2010	2011	2012
Reportable	n/a	n/a	0.74 	0.45
Non-reportable	n/a	n/a	15.40 	11.65

The health and safety of colleagues is of paramount importance and we aim to promote staff well-being and access to support services. We signed up to the Public Health Responsibility Deal in 2011, committing to four health at work pledges, further details are available online .

Health and safety

A new Group Risk Services structure was established in 2012. All Group premises are now supported by a team of Area Risk Managers who will carry out a pro-active, annual business evaluation of each premises (almost 6,000 evaluations annually). They focus on a range of risks, including health and safety, and are

expected to deliver a renewed approach to understanding and improving standards and compliance across the Group.

30% reduction in Group-wide reportable accidents since 2010

We've seen a year-on-year reduction in reportable accidents since 2010, with a 30% reduction between 2010 and 2012 across the Group. The Health and Safety Executive changed the employee absence criteria for reportable accidents in April 2012, which will have contributed to the fall in those accidents reported in 2012.

No fatal injuries were reported across the business during 2012.

Well-being

The Co-operative's Employee Assistance programme is a 24-hour service operated by AXA ICAS in 2012¹⁹, with fully trained counsellors, available 365 days per year. During 2012, 1% (2011: 1%) of employees from the Trading Group and 2% (2011: 2%) of employees from the Banking Group used these services.

We believe that violence is unacceptable. We are a member of the Corporate Alliance against Domestic Violence and have a Trading Group policy to support employees experiencing domestic violence.

Work/life balance

During 2012, we enabled our head office colleagues to take up flexible working.

It is hoped that flexible working will enable colleagues to have a better work/life balance, feel engaged and perform at their best. An internal survey found that as a result of flexible working: 89% of employees reported the same or improved levels of productivity; and 60% of employees felt better about their job.

89% of employees report same or improved productivity with flexible working

2011: 85%

Absence

We seek to minimise absenteeism by supporting employees and managers in dealing with absence and return to work. Guidance on working with a long-

term medical condition is available for employees. Within both the Trading and Banking Groups we have a sickness absence management policy to further support colleagues in this area.

In the Trading Group, the main known cause of absence²⁰ was general sickness. Stress is the most common cause of absence in the Banking Group and one of the biggest drivers of absence in the UK among non-manual workers²¹.

Occupational Health Scheme provider

Our previous Occupational Health Scheme provider attracted criticism for its administration of a government scheme, testing the fitness for work of long-term sick and disabled people.

In February 2013, the provider's contract came to an end and we commenced a robust procurement process considering, amongst other factors, cost, operational

efficiency and geographical capability. Consequently, we appointed a new occupational health services provider in early 2013.

Whistle-blowing

As part of our Code of Business Conduct, we have a whistle-blowing policy and an independent, impartial service called Speak Up for colleagues and suppliers. All calls are reported annually to the Audit and Risk Committee (page 103). During 2012 this service was extended to cover all Group Businesses²².

During 2012, 105 (2011: 339) correspondences were received; the majority were of a low level of concern. A benchmarking exercise, completed by the independent service provider, showed that overall the Group received lower levels of calls, compared to similar sized organisations.

Personal development and training

Performance benchmarks

58th in *The Times* 2012 Top 100 Graduate Employers



Top retailer (5th in overall rankings) in The JobCrowd Top Companies Graduates Want To Work 2012

2011: 29th

86% of Food business survey respondents had received the training they needed to do their job properly, compared to a benchmark of 75% in the UK retail sector

We offer a wide range of training and development opportunities and have an Education and Vocational Qualifications Policy to promote further study.

In 2012, the number of training days provided slightly declined compared to that provided in 2011, and a breakdown for the four largest Group businesses (Food, Bank, Pharmacy and Funeralcare) can be found online .

The Trading Group Leadership Development Zone is an online portal providing senior managers with access to a wide range of development resources. 75% of senior managers have used the site since its launch in 2011, and it was nominated for an e-learning age award in 2012.

Within the Banking Group a management, leadership and coaching zone, an intranet

resource, provided Banking Group colleagues with access to development resources.

In 2012, an in-house pre-retirement course was launched, following a successful pilot in 2011.

Graduate and undergraduate programmes

Our Graduate programme offers opportunities across our businesses. In 2012, 20 new graduates joined Business Management, Finance, HR and Retail Operations programmes. In 2013 we will expand the programme with a further 10 places and a new programme in IT Leadership.

Our Undergraduate Placement programme offers students the opportunity to undertake one-year work placements

across the business, and the number of placements will also be expanded in 2013.

Apprenticeship Academy

A Group-wide Apprenticeship Academy provides a range of apprenticeship opportunities for 16–24 year olds (page 46).

Performance recognition

Investors in People accreditation: recognises our aim to improve performance by developing our employees



Customers

Context

Today's consumers have more choice than ever before, with faster access to higher-quality, good-value products and services. Yet despite this, at the end of 2011, the confidence of UK consumers reached its lowest point in three years¹, amid continued economic uncertainty. A slight increase of confidence through 2012² has not altered the general consensus that economic recovery remains poor. With this in mind, to achieve sustainable commercial success, it is vital to nurture customer loyalty and support through excellent customer care, service and offering, whilst recognising the importance of emotional attachment to a brand.

Materiality and strategy

The Co-operative Food has approximately 14.5 million customers³ each week and the Banking Group has approximately eight million customers⁴ in total. Customer satisfaction is a strategic priority and one of the aims underpinning our business vision is 'to meet the needs of our customers and the communities we serve'. Customer satisfaction is measured primarily through customer surveys and customer satisfaction scores for one of our business Key Performance Indicators (KPIs), to which Executive remuneration is linked.

In addition to these customer surveys, we increasingly use a range of other engagement channels, such as social media, consumer panels and online communities to ensure that our products and services meet and ideally exceed the needs of our customers.

Customer satisfaction

Indicator: **Customer Satisfaction Index scores**

Targets 2012	Progress	Targets 2013
Achieve a Customer Satisfaction Index score of 80.6% for The Co-operative Food	← The Co-operative Food achieved a Customer Satisfaction Index score of 78.3%	Achieve a Customer Satisfaction Score of 7.4 out of 10 for The Co-operative Food
Maintain a minimum Customer Satisfaction Index score of 90% for The Co-operative Pharmacy	✓ The Co-operative Pharmacy achieved a Customer Satisfaction Index score of 93.2%	Maintain a minimum Customer Satisfaction Index score of 90% for The Co-operative Pharmacy
Maintain a Funeral Excellence Score of 90	✓ Funeralcare achieved a Funeral Excellence Score of 93.3	Maintain a Funeral Excellence Score of at least 91
Maintain a customer advocacy score for The Co-operative Banking Group that is at least 8.5% ahead of our peer group	✓ The Co-operative Banking Group averaged 9.7% above the 'top five' peer group across the year	Maintain a customer satisfaction score of 81% for the Co-operative Banking Group ⁵

Headline performance



Performance benchmarks

Top high street bank

for customer satisfaction according to Institute of Customer Service UK Customer Satisfaction Index. Also number one high street bank for customer satisfaction according to *Which?* research⁶

Ahead of peer group

The Co-operative Banking Group averaged 9.7% above its 'top five' peer group⁷ average for customer advocacy

Customer satisfaction is tracked across The Co-operative Food, Pharmacy, Funeralcare, Legal Services and Life Planning, using the Customer Satisfaction Index (CSI) as our key measure of satisfaction. Introduced at the beginning of 2010, the CSI assesses how we are 'doing best what matters most to customers'⁸. In addition to postal surveys issued to customers of Funeralcare and Legal Services, we contact well over 500 customers from our Food, Pharmacy and Life Planning businesses every month⁹ and ask them to register satisfaction on a 10-point scale¹⁰. Due to the sensitive nature of their business, The Co-operative Legal Services and Funeralcare use postal surveys to track customer satisfaction¹¹.

Satisfaction scores vary across our businesses, reflecting the different market sectors and the methods of measurement used.

The Co-operative Food

A new methodology for measuring customer satisfaction in the food business will be adopted from 2013.

Customer satisfaction: The Co-operative Food

	2010	2011	2012
	77.2%	79.1%	78.3%

A CSI of 78.3% did not match our 2012 target of 80.6%, and areas identified for improvement within the survey include value for money and product availability/range.

14.5 million Co-operative Food customers each week

2011: 14.5 million



The Co-operative Pharmacy

Customer satisfaction: The Co-operative Pharmacy

	2010	2011	2012
	91.3%	91.7%	93.2%

Exceeding our 2012 target of 90%, we achieved a CSI of 93.2% (2011: 91.7%) with an annual improvement across all elements. Priorities identified by customers as being most important include the availability of prescriptions and having understanding, professional and helpful staff.

The Co-operative Funeralcare

Customer satisfaction: The Co-operative Funeralcare

	2009	2010	2011	2012
	98.0%	98.2%	98.5%	98.6%

Satisfaction results remained extremely high, with 98.6% (2011: 98.5%) of customers reporting they were either 'very satisfied' or 'fairly satisfied' with their overall experience.

Additionally, customer service questionnaires are used to calculate a Funeral Excellence Score (FES), based on the quality of customer service. The 2012 FES was 93.3 (2011: 92.4), exceeding our target of 90. Priorities for improvement, identified within the surveys, were: fully explaining to all clients exactly what will happen on the day of the funeral; and ensuring continued contact between the time of arranging the funeral and the day of the funeral.

The Co-operative Legal Services

Customer satisfaction: The Co-operative Legal Services

	2009	2010	2011	2012
	74%	75%	72%	75%

Customer satisfaction remains relatively stable with 75% of respondents rating their satisfaction with the overall experience as nine or 10 out of 10. Priorities for improvement, as identified by customers, include speed of answering calls, duration of appointments/claims and regularity of updates.

The Co-operative Banking Group

The Banking Group focuses on customer advocacy¹² to monitor satisfaction, using the GfK NOP Financial Research Survey¹³ – a financial sector survey to effectively measure advocacy and benchmark performance against a peer group¹⁴. This results in better understanding of performance in critical areas and can drive higher levels of advocacy among our customers¹⁵ and lead to business growth.

The Banking Group exceeded its 2012 target to perform at least 8.5% above its 'top five' peer group average for customer advocacy, averaging 9.7% above the group across the year.

8 million bank customers

2011: 8 million



The Banking Group also carries out satisfaction surveys among corporate and business customers, weighting survey results according to the stated importance of attributes¹⁶, such as the accuracy of banking transactions and data.

Customer satisfaction: Corporate banking customers

	2009	2010	2011	2012
	84.0%	84.9%	86.2%	86.4%

Customer satisfaction: Business banking customers

	2009	2010	2011	2012
	82.7%	80.3%	84.4%	85.0%

We achieved a Satisfaction Index of 86.4% among our corporate banking customers¹⁷.

Among our business banking customers, we achieved a satisfaction index of 85%. The three most important issues for business customers were: accuracy of banking transactions, keeping promises and initiatives, and accuracy of customer details held.

Customer relations

Indicator: **Customer complaints**

Target 2012	Progress	Target 2013
Maintain complaints received by The Co-operative Banking Group to less than two per 1,000 accounts, policies and portfolios in each half year ¹⁸	 Overall, The Co-operative Banking Group reported 4.67 complaints per 1,000 accounts, policies and portfolios. For the second half of 2012 ¹⁹ , there were 2.94 complaints per 1,000 accounts, policies and portfolios. Excluding PPI cases, this represents 2.33 complaints per 1,000 accounts, policies and portfolios in the first half of 2012 and 1.67 per 1,000 in the second	Ensure complaints (excluding those relating to PPI) received by The Co-operative Banking Group are less than two per 1,000 accounts, policies and portfolios in each half year ²⁰

Headline performance

Complaints received

	2009	2010	2011	2012
Customer relations ²¹ (largely food related)	n/a	31,437	29,135 	27,007
The Co-operative Pharmacy	1,552	1,210	970	1,168
The Co-operative Banking Group	42,588	47,883	58,714	98,118

Performance benchmark

98% of Banking Group customer complaints were resolved within eight weeks compared to an average of 85% across the financial services industry²²

2011: 95% against an industry average of 86%

Customer complaints

Customer Relations (primarily The Co-operative Food)

Complaints to our Customer Relations department are largely related to our Food business; The Co-operative Banking Group and Pharmacy each operate their own customer contact centres to handle customer queries and complaints.

The Customer Relations department is the first point of escalated complaint contact for customers who wish to comment on our products, policies and operations, or to find out about the source of own-brand products. It generates information that helps us to understand and respond to emerging consumer issues. In 2012, the Customer Relations department received 301,184 calls, emails and letters from customers (2011: 303,340), the majority of which related to The Co-operative Food.

The Co-operative Pharmacy

Pharmacy complaints increased by 20% during 2012. This is believed to be largely due to a continuing NHS focus on encouraging patients to raise concerns and give feedback, and is mirrored by anecdotal feedback from other pharmacy multiples. Additionally, as part of our customer care commitment, our customer care policy openly states how to raise a complaint²³.

However, following our commitment to focus on patient confidentiality and prescription availability in 2012, complaints in these areas have decreased by 19% and 42% respectively. Compliments made directly to head office by Pharmacy customers have increased by 54%²⁴ compared to 2011.

The Co-operative Banking Group

The Co-operative Banking Group received 4.67 regulated complaints²⁵ per thousand live accounts, products or portfolios in the first half of 2012 and 2.94 in the second half. Further data on bank complaints are reported in accordance with FCA (previously FSA) requirements²⁶ and are available on the Co-operative Banking Group website²⁷.

Payment protection insurance (PPI) sales complaints are a significant proportion of overall banking complaints. We experienced a rapid increase in PPI complaints in the first half of 2012, and a slow decline in the second half of the year. In total, over 23,000 PPI complaints were paid out in 2012. We continue to focus on dealing with these complaints in a timely and transparent manner. We have also started to communicate with those customers who have not complained but which we have identified may be at risk of having had an inappropriate sale of PPI; these proactive customer contact exercises will continue through 2013.

Performance benchmark

Best customer resolution of complaints and lowest incidence of complaints: 2012, GfK NOP customer satisfaction research amongst high street bank current account holders

Customer engagement

Target 2012

Seek to utilise new technology to enhance consumers' abilities to make ethical choices

Progress

☰ We launched 'The Pollinator', as part of Plan Bee (page 68). This is an iPhone, iPad and iPod Touch platform game that gives tips on how to help address the decline in pollinators

Target 2013

E.P. Seek to utilise new technology to enhance consumers' abilities to make ethical choices

In addition to customer satisfaction surveys, we engage with our customers in a variety of ways to improve engagement and insight, and encourage customers and members to get involved in issues and campaigns.

Consumer panels and online communities

• The Taste Team – The Co-operative Food

Consumer panel made up of over 2,000 employee-customers, who sampled at home, and fed back on 374 new products in 2012 (2011: 312).

• Up for Discussion – The Co-operative Group

Online community aimed at improving our understanding of consumer attitudes and behaviours. Over 2,000 new participants joined the community in 2012 and over 17,000 contributions were received.

• Talking Shop – The Co-operative Food

Private online community to engage with consumers and provide daily insight into issues relating to the food business. There are currently 1,700 members (2011: 1,800) with more recruitment planned.

Social media

We are increasingly utilising social media to drive customer and member engagement.

In focus

Social media and campaigns

During 2012, we ran three campaigns: Plan Bee (page 68), Clean Energy Revolution (page 56) and Grow co-operatives (page 19). As of December 2012, more than 168,000 people liked or followed one or more of our social media pages; a 65% increase on the previous year (2011: 101,737 ☑). In 2012, we engaged members and customers further through social media, with campaigning messages being posted on the main Co-operative Facebook and Twitter pages as well as on campaign-specific pages. Many more people are now engaging in these sites, with 'Fans' and 'Followers' of Plan Bee's Facebook and Twitter pages, for instance, more than

doubling in 2012. In 2012, we had more than 20,000 'Take action' eNewsletter subscriptions.



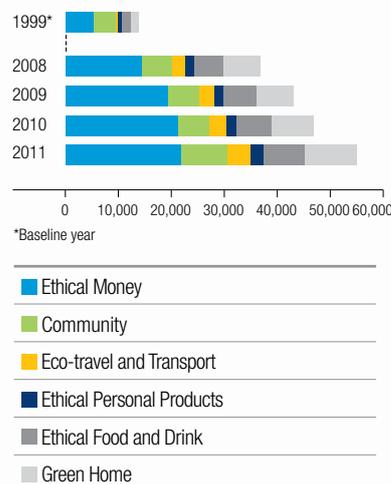
In focus



Ethical consumerism

Our *Ethical Consumerism Report* has been produced since 1999 and acts as a barometer of green spending. The report analyses sales data for various sectors including food, household goods, eco travel and ethical finance, providing insight into ethical choices provided by businesses, consumer responses to these choices and opportunities for intervention to drive growth in ethical sales. Our 2012 report showed that markets for ethical goods and services have remained resilient throughout the economic downturn, as a progressive core of retailers and producers continue to factor sustainability into their products and services (eg, Fairtrade ingredients) and to sell sustainable produce.

Ethical spending in the UK 1999–2011 (£bn)



Suppliers and sourcing

Context

Mutually beneficial supply arrangements are core to sustainable business. Through equitable supplier relationships businesses can reduce environmental impacts or deliver environmental solutions, improve social impacts and measure and account for development. Investment in long-term supply arrangements, such as producer groups, are increasingly seen as a practical way to address a range of sustainability issues within supply chains.

Materiality and strategy

As a responsible retailer, we are committed to building fair and sustainable relationships with our suppliers across our supply chain. Our Food Ethical Policy, endorsed by over 100,000 members, commits us to source regionally, where there are proven sustainability benefits. The Co-operative Bank's Ethical Policy, the most recent update of which 80,000 customers voted on, informs our choice of partners and suppliers.

Securing decent working conditions for everybody involved in the production of our products is a priority, as set out in our Sound Sourcing Code of Conduct. We work with our suppliers to help develop more sustainable product offerings, for example, addressing packaging reduction, sustainable product sourcing and animal welfare. We also work to strengthen supplier relationships and develop mutually beneficial partnerships, such as our work to assist suppliers and potential suppliers to achieve Fairtrade status. We are developing farming groups for producers of own-brand meat and poultry, strengthening supplier relationships and reducing supply chain complexity. Our 'supplier performance matrix', which was piloted in 2011 and measures suppliers' performance in areas including ethics and environmental impact, has now been applied to all tier-one own-brand food suppliers.

We have 1,750 suppliers of goods for resale, with whom we have an annual spend over £50,000; and 2,330 suppliers of goods not for resale, with whom we have an annual spend over £50,000.

Target 2012

E.P. Grow the UK farming business and aim to supply a quarter of all fresh produce sold in Co-operative Food stores by 2015

Progress

X Data was not available to report progress against this target

Target 2013–2015

E.P. Aim to supply a quarter of all fresh produce sold in our stores by 2015

Goods for resale

Local sourcing

Local sourcing can have a range of positive impacts; from supporting local economies, to meeting increasing customer demand for seasonal and locally sourced products. The related subjects of food miles and considered carbon are discussed on page 53.

The Co-operative is one of the UK's largest farmers and we aim to source 25% of all fresh produce from our farms by 2015¹. We already offer a wide range of products grown on or sourced from our farms, including vegetables, fruit, honey, porridge oats and Tillington 1000 apple juice.

In 2012, all our own-brand eggs, milk, fresh and frozen chicken, fresh and frozen turkey, fresh and frozen bacon, fresh and frozen pork, fresh and frozen sausage, and fresh and frozen beef was UK-sourced. In each country we offer locally produced meat and, where possible, in Scotland, Wales and Northern Ireland we only sell beef, chicken and milk sourced from the respective country².

100% of our own-brand eggs, milk, fresh and frozen chicken, turkey, pork, sausage, beef and bacon is UK-sourced

Producer Groups

The Co-operative Dairy Group (CDG) was set up in 2011 as a long-term dedicated supply chain of British dairy farmers (pages 22 and 53). In 2012, we increased the price paid for milk to dairy farmers within the CDG. This followed a review of market conditions and our renewed commitment to working with dairy farmers in the CDG to provide not only a sustainable milk price but a package of benefits designed to help them improve profitability.

We will introduce a further five UK farming groups for producers of own-brand British meat and poultry products in 2013, to strengthen relationships with farmers, improve the visibility and accountability

of suppliers and reduce the complexity of the supply chain. The groups are intended to help maintain our strict animal welfare policies and encourage long-term investment and improvements to farm efficiencies, training and sustainability.

Supplier Performance Matrix

In 2012, our Supplier Performance Matrix, which monitors performance in areas such as ethics, environment and product development, was rolled out to all tier-one own-brand suppliers to The Co-operative Food. The information collated will be used in conjunction with buying teams to encourage supplier improvements and to assess future supplier relationships.

Engaging suppliers on social and ethical issues

Performance against our Sound Sourcing Code of Conduct and details of supplier capacity building, relating to the management and improvement of labour standards, are reported on page 15.

Few take the stand we do with regards to the protection of human rights in their supply chain. Details of our Human Rights and Trade policy implementation are set out on page 16.

Animal welfare is an issue of significant public interest and an issue that our members care about. Details of our work with our suppliers to improve baseline production standards for the most intensively farmed animals are reported on page 21.

Engaging suppliers on environmental issues

Our work with suppliers to reduce the carbon footprint of products is reported on page 53. We have also worked with around 100 suppliers since 2006 to reduce the environmental impact of own-brand packaging, by reducing packaging weight and maximising recyclability and recycled content – further details are reported on page 57–60.

We continue to work closely with our supply chain to source our products sustainably, and have made particular progress on wood and paper products and fish (pages 63–68). Details of our market-leading Pesticides Policy, and chemicals that we ban from our non-food own-brand products are reported on page 70.

In focus



Support for UK fisheries

We have committed over £200,000 to support 12 UK fisheries through their Marine Stewardship Council (MSC) assessment. The Shetland and Scottish mainland mussel fishery achieved full MSC certification in 2012 and produce from that fishery – Cooked Scottish Mussels in a White Wine Sauce – is now on sale in our food stores.

Goods not for resale

Sustainable procurement

Our Sustainable Procurement and Supplier Policy (SPSP) was implemented in 2004 and applies to all Co-operative Banking Group departments and all joint Group and Banking Group procurement activities. It applies to goods and services of high or medium ethical risk, according to an established risk matrix. Current and continued compliance with the SPSP is a condition of all contracts with high or medium risk spend. In 2012, 38 suppliers were referred for screening against the SPSP (including a paper and print supplier and supplier of cars to the Banking Group fleet) and 48 companies were screened or partnership and sponsorship relationships.

Supplier Gateway

In 2012, we introduced an online sourcing system, incorporating diversity, environment and other sustainability-related questions to support the selection process. Development of a web-based Supplier Gateway as part of a pre-screening process will be completed during 2013.

Supplier payment policy and practice

We have negotiated payment terms with each of our suppliers individually, and endeavour to pay them in accordance with their specific payment terms. As at 5 January 2013, trade creditors expressed as number of days outstanding was 39 days (2011: 44 days ■). In 2013, we plan to report the average percentage of

suppliers who are paid on time according to their agreed terms of payment.

Supply chain challenges

Along with other retailers, we have faced a number of supply chain challenges in early 2013.

Horsemeat

In 2013, the Food Safety Authority of Ireland announced that sampling had revealed the presence of horse and pig DNA in certain beef products.

In response, we immediately removed from sale and tested a number of own-brand items that came from the same supplier. Two lines of frozen own-brand beef burgers tested positive for containing horse DNA. As a result, we delisted the supplier and initiated testing of further own-brand beef products. These tests confirmed that none contained any trace of horse DNA. Separately, five third-party branded products were also withdrawn from sale in our food stores. We have reassured our customers that going forward quality checks will be tightened even further to ensure our products meet the high specifications they expect.

Animal feed

The quantity of Genetically Modified (GM) crops grown across the globe has increased rapidly and it's becoming increasingly difficult to ensure a continuous supply of guaranteed non-GM soya for animal feed.

Working with our suppliers, we have maintained a ban on GM crops, ingredients or additives in our own-brand food products since 1999. However, in early 2013, our own-brand chicken, turkey and shell egg suppliers informed us that they were no longer able to guarantee that their animal feed was non-GM³. Given limited supplies of non-GM animal feed and anticipation that this will continue, the sourcing of non-GM feed is set to remain challenging.

Prawn feed

Television series *Hugh's Fish Fight*, broadcast in February 2013, highlighted problems in the management and capture of wild fish, which is used as a proportion of feedmeal for prawn farming in Thailand. We were made aware that a Co-operative Food supplier was identified as being involved in this practice and began working with the supplier to resolve the issue within their own supply chain. We recognise there are wider issues with the capture of fish for use in feed in the South East Asian aquaculture industry and are investigating ways to work to improve the situation.



Public policy

Context

All too often, proposals for progressive ethical and sustainability legislation are blocked, or delayed, by the resistance of certain businesses and trade associations. As Kofi Annan said, when he was United Nations Secretary General, "Business must restrain itself from taking away, by its lobbying activities, what it offers through corporate responsibility and philanthropy".

Materiality and strategy

We believe that businesses wishing to stake a claim to leadership on sustainability issues must demonstrate that their public affairs activities are aligned with their publicly stated sustainability claims and objectives.

As a leading advocate of responsible business, we actively engage on public policy matters. We are committed to always being open about this activity and its outcomes, as well as making a full annual disclosure relating to membership and financial support for trade associations and political parties.

Public policy engagement

Indicator: **Impact of public policy interventions**

Targets 2012	Progress	Targets 2013
<p>E.P. Uniquely in the UK, we will continue to use our influence to campaign for a more equitable and sustainable world, and will always be open about such lobbying and its outcome</p>	<p>✓ In 2012, our campaign priorities were community-owned renewable energy, smallholder farmers and co-operatives, and reversing pollinator decline</p>	<p>E.P. Uniquely in the UK, we will continue to use our influence to campaign for a more equitable and sustainable world, and will always be open about such lobbying and its outcome</p>
<p>Finalise a new strategy for public policy engagement, with consideration of co-operative Values and Principles</p>	<p>← In 2012, no progress was made on the further development of a strategic political engagement policy</p>	<p>Finalise a new strategy for public policy engagement, with consideration of co-operative Values and Principles</p>

Our Political Strategy Working Group met in November 2010 to consider the purpose of the strategy and define goals, and to discuss transparency of process and ownership of a strategic political engagement policy. No further progress was made in 2011 or 2012. A draft policy will be presented to the working group in 2013 for agreement, with a view to the final policy being discussed and agreed at a Group Board strategy meeting by year end. It would then become part of the regular cycle of business planning.

Influencing public policy

For reporting purposes, 'engagement' is restricted to instances where we have pressed a point of difference or where we have lent weight to a significant positive initiative on those issues already designated as material for broader disclosure in the Sustainability Report. Disclosure encompasses active lobbying with, and of, trade and business associations, as well as direct lobbying of Government at the UK and EU levels.

Public policy engagement in 2012

Issue	Audience	Influence and action	Page
International development			
Grow co-operatives	Deputy Prime Minister, Secretary of State for International Development, Environmental Audit and International Development Committees, Members of Parliament (MPs)	Called on UK Government to increase the proportion of the aid budget supporting smallholder farmers and co-operatives, including: petition with 18,000 signatories to Deputy Prime Minister; letter to Secretary of State; submissions to parliamentary committee inquiries; and submission to All Party Parliamentary Group on International Development.	19
Scotland and international debt arbitration	Scottish Government	Funded the development of proposals by a third party for Scotland to become a centre for international debt arbitration.	
Social inclusion			
Fuel poverty	Prime Minister, UK Government	Supported the Energy Bill Revolution campaign calling on the UK Government to use the revenue from the European Emissions Trading Scheme and the Carbon Floor Price to improve the energy efficiency of UK homes. Funded research and signed joint letter to Prime Minister.	
Financial inclusion	Treasury Select Committee	Called for improved access to banking by making basic bank accounts and services more widely available and accessible in the banking sector.	38
Climate change			
Community energy	Secretary of State for Energy and Climate Change, Department for Energy and Climate Change (DECC), UK Government, MPs, and Scottish Government	Formed a civil society coalition to call on the UK Government to dramatically increase the number of community-owned renewable energy projects. In support of this we: held a Community Energy Summit with the Secretary of State for Energy and Climate Change; published a manifesto containing policy recommendations and sent to relevant Ministers and Peers and over 120 MPs; mobilised members and customers to contact their MP in support of Early Day Motion (EDM) 684 (community energy), which 97 MPs had signed by the end of February 2013; submitted a response to DECC's consultation on onshore wind and community engagement; and held several meetings with UK and Scottish civil servants.	56
Feed-in Tariffs (FITs)	DECC	Submitted a DECC consultation response on its comprehensive review of FITs, calling for the introduction of a 'community energy tariff' and additional support. In August 2012, DECC announced the introduction of a community FIT and other beneficial measures.	56
Electricity market reform	Prime Minister, DECC and Public Bill Committee for the Energy Bill	Proposed amendments to the Energy Bill to introduce measures that would benefit community energy and submitted to the Public Bill Committee and DECC with the endorsement of 16 civil society organisations. We also signed joint letters to the Prime Minister calling for legally binding renewable energy targets and a 2030 decarbonisation target for the power sector.	56
European Energy Policy	European Commission and European Parliament	Participated in events to influence the European Commission and wrote to MEPs on the Industrial, Research and Energy Committee calling for EU targets for community energy.	56
Shale gas moratorium	UK Government, MPs, Energy and Climate Change Committee, Local councils	Called on the UK Government to impose a moratorium on shale gas extraction and mobilised members to contact their MP in support of Early Day Motion 181, which 25 MPs had signed by the end of February 2013. We also screened the film <i>Gasland</i> for Parliament's Energy and Climate Change Committee, briefed MPs ahead of a Westminster Hall debate, and submitted a planning objection to Stirling and Falkirk Councils.	56

Chemicals

Neonicotinoid pesticides	Department for Environment, Food and Rural Affairs (Defra), Environmental Audit Committee	Submitted responses to Defra's consultation on pesticides and the Environmental Audit Committee inquiry into insecticides and bees, to raise concerns about neonicotinoid impacts on pollinators.	70
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Managing sustainability

Narrative reporting	Department for Business, Innovation and Skills (BIS)	Responded to a BIS consultation on the future of narrative reporting. Called for the development of a core set of mandatory sustainability indicators, and urged the extension of proposed requirements to all large businesses.	104
Mandatory greenhouse gas (GHG) reporting	Defra	Responded to a Defra consultation on GHG reporting. Welcomed the Government's commitment to implement mandatory GHG reporting by listed companies and urged extension of the requirement to all large businesses at the earliest opportunity.	104

Trade and business association memberships

We are members of a number of trade and business associations. In taking the broadest view of transparency in respect of public policy activities, all principal memberships, subscription fees and donations to trade and business associations are disclosed together with involvements in other organisations that seek to influence public policy or business practices.

Trade and business association membership fees and donations, 2012

Name	2012
Co-operatives UK	£1,013,402
Building Societies Association	£229,004
Council of Mortgage Lenders	£214,950
National Association of Funeral Directors	£181,999
Association of British Insurers (ABI)	£176,276
British Retail Consortium (BRC)	£170,172
Company Chemists Association	£167,000
Co-operative Employers Association	£162,000
Law Society	£135,095
Federation of Small Businesses	£124,285
Forum for the Future	£117,100
Business in the Community (BTC)	£110,077
International Co-operative Alliance	£83,900
European Community of Consumer Co-operatives (Euro Co-op)	£71,162
IGD Services (Institute of Grocery Distribution)	£57,650
British Banking Association (BBA)	£55,928

Ethical Trading Initiative (ETI)	£33,900
UK Sustainable Investment and Finance	£31,500
Social Enterprise UK	£30,700
Corporate IT Forum	£30,347
European Association of Co-operative Banks (EACB)	£27,340
Downstream Fuel Association	£26,108
International Co-operative and Mutual Insurance Federation (ICMIF)	£20,945
The Wine & Spirit Trade Association	£20,400
Investment Management Association	£16,684
Combined Heat and Power Association	£15,696
National Association of Local Councils	£15,044
British Institute of Embalmers	£14,655
Association of Mutual Insurers and Insurance Co-operatives (AMICE)	£13,798
National Farmers Union (England)	£12,192
Scottish Renewables Forum	£12,060
Association of Convenience Stores	£11,845
Institute of Customer Service	£10,176
Finance and Leasing Association	£9,590
Renewable Energy Association (REA)	£8,319
Investment and Life Assurance Group	£8,200
PRI Association (Principles for Responsible Investment)	£7,920
The Fairtrade Foundation	£7,300
The Climate Change Organisation	£6,600
Institute of Customer Service	£6,500
British Nutrition Foundation	£5,455
National Association of Memorial Masons	£5,145
British Retail Consortium Palm Oil	£5,000

Association of Mortgage Intermediaries	£5,000
Aldersgate Group	£5,000
Environmental Industries Commission	£4,995
Fresh Potato Suppliers Association	£4,357
Federation of Burial and Cremation Authority	£4,234
Association of Charitable Foundations	£4,125
London Benchmarking Group	£3,750
Scottish Council for Voluntary Organisations (SCVO)	£3,186
BOND	£3,000
Country Land and Business Association	£2,689
Institute of Cemetery and Crematorium Management	£2,450
Scottish Rural Property and Business Association	£2,145
Scottish Federation of Housing Associations	£1,884
British Institute of Funeral Directors	£1,850
British Food Importers and Distributors Associations	£1,732
Roundtable on Sustainable Palm Oil	£1,718
Council of Institutional Investors	£1,637
SAC Association of Potato Producers	£1,600
European Sponsorship Association	£1,440
Pharmaceutical Society of Northern Ireland	£1,395
National Farmers Union (Scotland)	£1,298
International Chamber of Commerce	£1,260
European Mentoring & Coaching Council	£1,224
Forum of Insurance Lawyers	£1,000
Total	£3,546,388

Political donations

We are a significant supporter of The Co-operative Party (The Party), which was created in 1917 by the UK Co-operative Movement in order to promote its Values and Principles. The Party works to raise awareness of the benefits of the co-operative and mutual models, and to influence Government towards support for more co-operative action. The Party has 32 Members of Parliament in the House of Commons, 17 Members of the House

of Lords, five Members of the Scottish Parliament, nine Members of the National Assembly of Wales and eight Members of the London Assembly, and, additionally, has over 350 local councillors¹.

In 2012, an overall financial contribution of £805,000 (2011: £767,000) was made to The Party in respect of the annual subscription and support for Party Councils. An additional donation of £10,000 was made to The Party to support activities in advance of Greater London

Authority and London Mayoral elections. In addition, a number of donations totalling £28,500 (including in-kind contributions, 2011: £28,500) were made to The Party to support a range of activities including party conferences. Furthermore, £50,000 was also donated to the Labour Party to support the Shadow Chancellor's office and a number of donations with a total value of no more than £11,550 were made to support various national and local Labour Party events.

The Co-operative at a glance

Total Gross sales:
£13.5bn

Underlying operating profit:
£54m

Food

Revenue: £7,442m

2011: £7,348m



The fifth largest food retailer in the UK, operating across the whole country, selling food and family consumables through local stores. The food business includes The Co-operative Farms, one of the UK's largest farmers.

2,820

local stores – one in every postal area

72,800¹

employees

Banking

Revenue: £2,211m

2011: £2,214m

Banking and insurance services for personal and business customers. Comprises The Co-operative Bank, the internet bank *smile*, Britannia and The Co-operative Insurance.

342
branches

9,700²
employees



Estates

Revenue: £36m

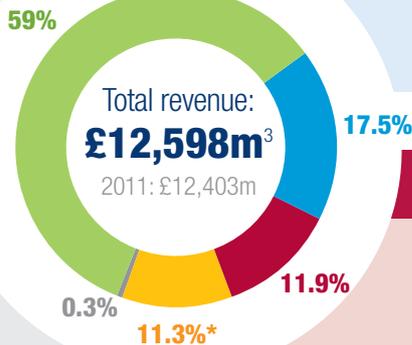
2011: £36m

Operates a large and diverse portfolio including retail, property investments, and land developments. Also provides energy purchasing services, internally (within the Group) and externally.



***Federal (sales to other co-operatives)**

£1,421m 2011: £1,314m



Specialist businesses

Revenue: £1,506m

2011: £1,518m



Pharmacy

The third largest pharmacy chain in the UK, operating over 750 branches.

Funeralcare

The UK's leading funeral director, carrying out over 100,000 funerals each year.

Life Planning

Funeral planning and will-writing services.

Legal Services

At the forefront of regulatory changes, with the aim of becoming the preferred provider of UK consumer legal services.

Electrical

Online electrical store: The Co-operative Electricals.

We are registered in the UK under the Industrial and Provident Societies Act. We operate only in the UK and our headquarters are in Manchester.

Managing sustainability

Sustainability sits at the heart of our approach, as articulated through our vision and aims (inside front cover). We have five business Key Performance Indicators, which reflect our co-operative Values and Principles and link directly to executive remuneration (page 103) – these include our performance in the Business in the Community (BITC) Corporate Responsibility (CR) Index. We are owned and democratically controlled by our members and they are firmly embedded in policy formulation (pages 74–78). This level of responsiveness is considered unique among large businesses in the UK.

Targets 2012	Progress	Targets 2013
E.P. The remuneration of senior staff will be influenced by the degree to which The Co-operative is viewed as a leading champion of corporate social responsibility in the UK	✓ In 2012, remuneration of senior staff was linked to performance in the Business in the Community Corporate Responsibility Index	E.P. The remuneration of senior staff is influenced by the degree to which The Co-operative is viewed as a leading champion of corporate social responsibility in the UK
E.P. Continue to set new standards for openness and honesty globally	✓ We won the Relevance and Materiality Award at the global 2013 Corporate Register Reporting Awards	E.P. Continue to set new standards for openness and honesty globally

Headline performance

Performance benchmark

Highest rank in the BITC CR Index. The Index challenges businesses to demonstrate the degree to which CR is embedded in business strategy

Index launch date	Score	Rank
2010	98%	Platinum+
2011	98%	Platinum+
2012	98%	Platinum+
2013	97%	Platinum Big Tick

Performance benchmark

Number 1 in UK general public's ranking of UK businesses considered to be the leader in social responsibility¹

Rank	Company
1	The Co-operative
2	Marks & Spencer
3	Tesco
4=	Virgin
4=	Asda

Queen's Award for Enterprise in Sustainable Development – runs for five years and recognises progress made since we achieved the award in 2007



Our Ethical Plan

Our Ethical Plan sets out our commitments to social responsibility and sustainability to help realise our ambition to be recognised as the UK's most socially responsible business.

The Plan is rooted in our heritage and its focus reflects our community origins and belief that a strong co-operative sector is essential for the sustained progression of equality and quality of life.

Priorities and targets are set in eight key areas, which are detailed throughout this Report, along with a summary of our progress.

We review and update the Plan annually to ensure that it continues to deliver its aim. The review and management process is illustrated in the diagram below.

Elected members

feed in to new target development via Regional Values & Principles (V&P) Committees to ensure Plan is responsive to members. The Group V&P Committee signs the Plan off prior to Board approval.

Group Board

The Plan is structured around a three-year rolling programme of targets. This is in line with our commercial operating plans. The Board is responsible for Ethical Plan sign-off.



Plan re-launch March 2013

Targets for 2013–15

Sustainability principles

Materiality

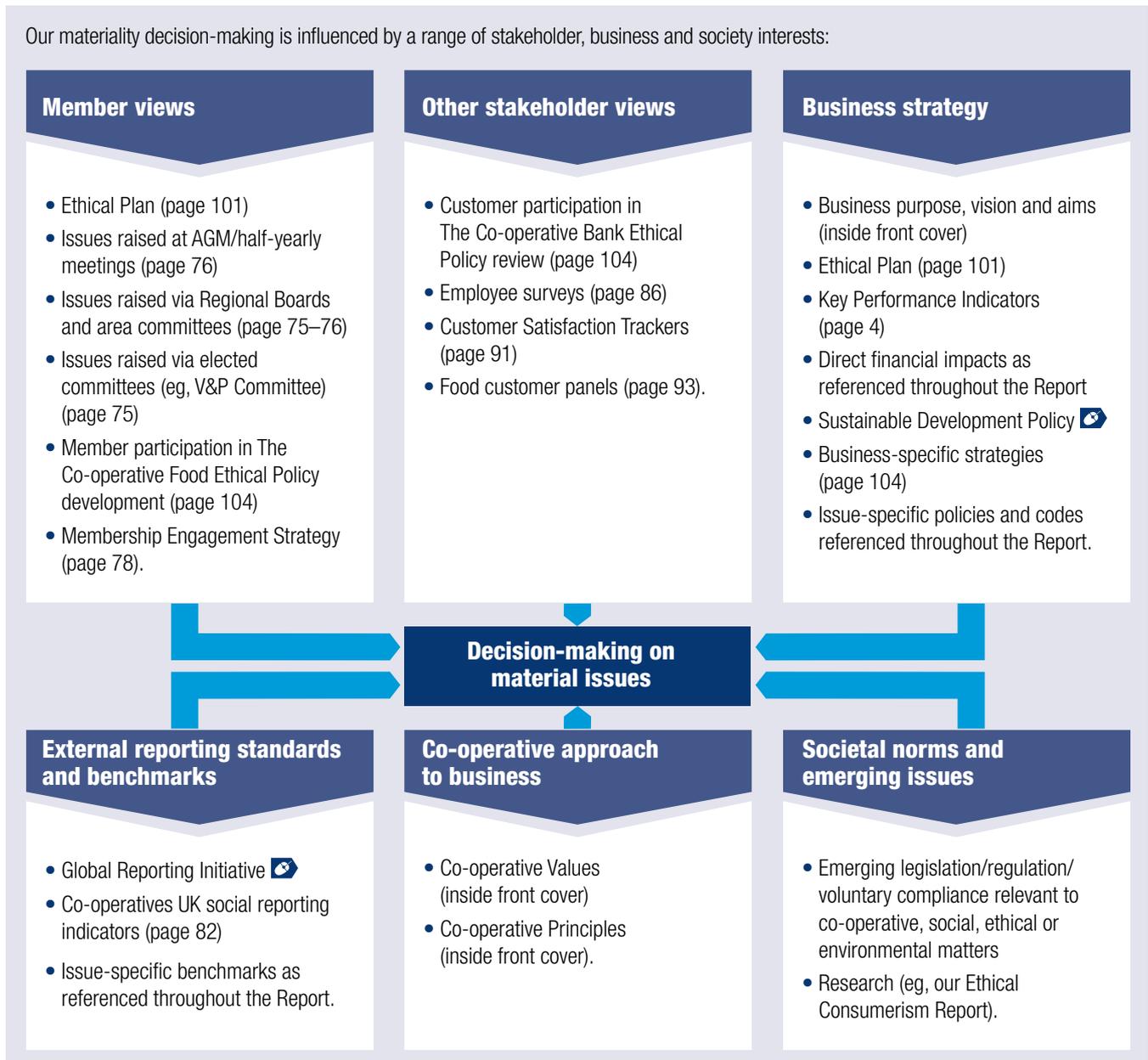
Recognising that no business can lead on every aspect of sustainable development, we focus on the issues that matter most to stakeholders and the business.

Whilst many businesses produce materiality matrices, our 20 years' experience of delivering and reporting on sustainability, has led us to conclude that approach is

not appropriate for us. The range and complexity of inputs to any particular issue can make it, at times, overly simplified and detached from the daily reality of evaluating and responding to ethical and sustainability challenges. Not least the speed with which social media can today lend a voice to stakeholder concerns. As such, we feel that a more honest approach is to detail the range of inputs (below) and then detail the material importance of each issue in the relevant Report sections.

The annual review process for Our Ethical Plan (page 101), alongside review processes for our ethical policies and ethical strategies (page 104) is central to our materiality decision-making. Our Sustainable Development Policy  guides our overall approach.

Our materiality decision-making is influenced by a range of stakeholder, business and society interests:



Inclusivity and responsiveness

Our continued business is dependent on six identified stakeholder groups. Engagement with these stakeholders is important for achieving an accountable and strategic response to sustainability.

Elected area committees and regional boards are drawn from our membership and consider issues as diverse as store performance, developments and closures and the allocation of Community Fund donations. Our democratic structure helps to ensure our strategies, policies and performance respond to members' concerns. Our Ethical Plan, Food Ethical Policy, Bank Ethical Policy and AGM motions exemplify our responsiveness to members.

Stakeholders

Members (key stakeholder group): We have over 7.6 million members (pages 74–78), as represented via elected area committees, Regional Boards and the Group Board.

Customers: The Co-operative Food has approximately 14.5 million customers each week and the Banking Group has approximately 8 million customers.

Employees: We have almost 100,000 employees (page 85).

Co-operative Movement: The UK and international Co-operative Movement has almost a billion co-operators worldwide (page 79).

Suppliers: We have 1,750 suppliers of goods for resale with whom we have an annual spend over £50,000 (page 94).

Wider society: Includes the communities where we operate; online communities; local and national government; NGOs; industry organisations; multi-stakeholder groups; charities; and expert organisations.

Governance

Alongside our democratic governance structure, we also operate more traditional governance structures, which include managing and overseeing our approach to sustainability².

Group Board

The Group Board³, comprising elected members, formally considers and signs off our annual Sustainability Report. Matters of ethics and sustainability are regularly considered by the Board.

Values & Principles Committee

Our Group V&P Committee⁴ oversees our sustainability, community and membership engagement strategies⁵. The Committee is accountable to the Group Board and comprises: four Group Board directors; one Banking Group Board director; an elected representative from each of the seven Regional V&P Committees; one representative of the Diversity Working Group; and one representative of the Independent Society members.

Each of our seven regions has a V&P Committee ensuring that co-operative principles and social goals are considered effectively at a regional level. Regional V&P Committee members are elected by area committees and the regional board, and have the authority to escalate issues for the consideration of the Group V&P Committee.

Management

The Social Responsibility Executive Committee oversees our positioning, strategy, performance and the ongoing review of our Ethical Plan. Chaired by the Group Chief Executive, it includes members of the Management Executive and meets three times a year.

A Social Goals department of 38 employees⁶ is responsible for the day-to-day management of sustainability performance across the business. The Head of Social Goals reports to the Executive Director of Corporate Affairs, a member of the Group Executive⁷. A dedicated team within The Co-operative Food oversees responsible retailing, supported by a Food Policy Group, chaired by the Chief Executive of Food Retail.

Progress reports on ethics and sustainability matters are provided for the Group Executive and Banking Group Executive on a monthly basis.

Sustainability performance and executive remuneration

Each member of the Group Executive is eligible to participate in an annual incentive plan⁸, with payment of up to 60% of base salary. The annual incentive is based on a mixture of financial and non-financial measures and weightings which vary between roles, but all include a corporate responsibility measure. Executives also participate in a long-term incentive plan (LTIP), using cumulative targets over a three-year period. The maximum LTIP payment is 100% of base salary for the Chief Executive and between 75% and 100% for other Group Executives. Metrics and weightings applicable to all members of the Executive are detailed in the table below. A performance range is set for each metric, determining the proportion of maximum bonus payable. The corporate responsibility metric is determined by the Group's performance in the Business in the Community (BITC) Corporate Responsibility (CR) Index⁹.

Long-term incentive plan metrics and targets for the 2012–14 plan cycle

Metric	Weighting
Cumulative Group profit	70%
Group corporate responsibility	10%
Colleague engagement	10%
Customer satisfaction	10%

Risk management

The Group Board has overall responsibility for risk management across all businesses. We provide a statement on the main risks and uncertainties we face, including specific risks to financial services and risks linked to sustainability and ethics, including ethical sourcing, and brand and reputation in our Annual Report and Accounts¹⁰.

Each business operates a risk register which is regularly reviewed by senior management teams and updates reported to the Management Executive and Board through the Audit and Risk Committee¹¹. A Risk Management Committee, chaired by the Group Chief Executive, manages and records significant risks for the whole business, including damage to reputation and ethics, through a Group Risk Report. The Committee reports four times a year to the Audit and Risk Committee.

Performance benchmark

The Co-operative Banking Group's environmental management systems were re-certified to the ISO 14001 standard

The Bank was the first financial services organisation in the world to secure certification for all its business activities¹²

Policy

Our Sustainable Development Policy  sets out how we seek to deliver value to our stakeholders in an ecologically sustainable and socially responsible manner. It guides the approach to sustainability of all our businesses.

The Policy is delivered, in the main, through the targets in the Ethical Plan (page 101) and underpinned by a suite of supporting policies and strategies¹³.

- The Co-operative Bank operates a customer-mandated Ethical Policy launched in 1992, which governs who it will and will not finance and the investments underpinning our key insurance products. Over 80,000 customers participated in the most recent consultation in 2009.
- The Co-operative Food has a member-mandated Ethical Policy, setting out its commitments to responsible retailing. The Policy was launched in 2008, based on responses from over 100,000 co-operative members¹⁴.
- The Co-operative Pharmacy and The Co-operative Funeralcare have ethical strategies, developed by management and approved by the Group V&P Committee.

In addition, we have in place a range of other policies and codes of conduct including; Sound Sourcing Code of Conduct (page 14); Sustainable Procurement and Supplier Policy; Human Rights and Trade Policy (page 16); Trading and Banking Group Codes of Business Conduct; and a number of specific policies, developed in relation to issues such as diversity, health and safety, packaging and pesticides, and these are detailed in relevant sections throughout this Report.

Accounting and reporting

Performance recognition

Number one in the Relevance and materiality category at the Global Corporate Register Reporting Awards 2013



Performance recognition

Number one in the world in the Ethical Corporation Awards 2013 'Best Sustainability Report' category



The process of accounting, auditing and reporting on our material social, ethical and environmental impacts helps us to drive our performance and provides crucial information to our stakeholders.

This Report is aligned with the Global Reporting Initiative's G3.1 Sustainability Reporting Guidelines¹⁵, achieving application level A+. An index, detailing the G3.1 indicators we have reported against, is available online .

In addition, our internal audit programme reviews our sustainability-related processes, supporting the business and external assurance procedures.

Assurance

We appointed Two Tomorrows to independently assure key performance data and claims made within this Report and to evaluate our adherence to the AA1000¹⁶ principles (type 2 assurance). Two Tomorrows was appointed primarily on the basis of the high standing in which the principal auditors are held. The assurance statement can be found on page 105.

Influence and action

Mandatory sustainability reporting

We have lobbied for more mandatory sustainability reporting since 1998, in the belief that a voluntary approach to measuring and reporting on sustainability matters does not provide the quality, comparability and consistency needed for informed stakeholder decision-making. Lobbying activity has ranged from The Co-operative Bank's membership of the UK Company Law Review's consultative committee in the early 2000s, to the Group's more recent lobbying for mandatory greenhouse gas reporting¹⁷.

In 2012, we responded to a Department of Business, Innovation and Skills (BIS) consultation on the future of narrative reporting. We called for the development of a core set of mandatory sustainability indicators, and urged the extension of proposed requirements to all large businesses. We also responded to a Department for Environment, Food and Rural Affairs (Defra) consultation on greenhouse gas reporting, welcoming the Government's commitment to implement mandatory greenhouse gas reporting by listed companies and urging the extension of the requirement to all large businesses at the earliest opportunity.

Independent assurance statement



Scope and objectives

DNV Two Tomorrows Limited (Two Tomorrows) has undertaken independent assurance of The Co-operative Group (The Co-operative) Sustainability Report 2012 (the Report).

The assurance process was conducted in accordance with AA1000AS (2008). We were engaged to provide moderate level Type 2 assurance, covering:

- evaluation of adherence to the AA1000APS (2008) principles of inclusivity, materiality and responsiveness (the Principles); and
- the reliability of specified sustainability performance information.

The performance information included in scope was all key data and claims in the printed Report. We have not checked the collation of data for the financial information taken from The Co-operative's audited annual report and accounts. We did not review the GRI table or GRI application level in the Report.

We were also engaged to provide high level assurance on the data and claims regarding the screening of potential business customers referred to the Ethical Policy Unit in the Responsible banking and finance section (pages 30–35).

We used the Global Reporting Initiative (GRI) Quality of Information Principles as criteria for evaluating performance information.

Responsibilities of the directors of The Co-operative Group and of the assurance providers

The directors of The Co-operative have sole responsibility for the preparation of the Report. Our statement represents our independent opinion and is intended to inform all of The Co-operative's stakeholders in a balanced way.

We were not involved in the preparation of any part of the Report. However, having reviewed and provided feedback on drafts of the Report, in a number of instances changes were made to the final version.

This is the seventh year that we have provided assurance for The Co-operative. Some members of our team have acted as assurance providers to Co-operative Financial Services for the previous three years and to the Co-operative Bank for its Partnership Report for the six years prior to that.

Our team comprised Rachell Evans, Richard Evans, Adrian Henriques, Mark Line, Kate Martin, Anne Euler and Elvin Ozensoy. Further information, including individual competencies relating to the team can be found at: www.twotomorrows.com

Basis of our opinion

In our work, designed to gather evidence with the objective of providing the agreed level of assurance as defined in AA1000AS (2008), we undertook the following activities:

- Materiality review of sustainability issues that are of interest to stakeholders, could affect The Co-operative or were discussed with its management.
- Interviews with members of the Social Goals team and selected managers in the businesses responsible for sustainability issues.
- Review of The Co-operative's approach to stakeholder engagement and the outputs of recent stakeholder engagement. We had no direct engagement with stakeholders other than staff.
- Assessment of information provided to us by The Co-operative on its reporting and management processes relating to the Principles and the Ethical Plan.
- Assessment of supporting evidence for key claims in the Report, working at Manchester headquarters.
- Review of the processes for gathering and consolidating data using the GRI Quality of Information Principles and, for selected samples, checking the data consolidation.
- Review of referrals to the Bank Ethical Policy Unit to support a high level of assurance that the data presented in the Report are accurate.

Findings and opinion

We have reviewed and provided feedback on drafts of the Report and where necessary changes were made. On the basis of the work undertaken, nothing came to our attention to suggest that the Report does not properly describe The Co-operative's adherence to the Principles or its performance.

We believe the claims in the Responsible Banking section, on which we are providing high level assurance, are reliable.

In terms of data accuracy, nothing came to our attention to suggest that data have not been properly collated from information reported at operational level, or that the assumptions used were inappropriate. We are not aware of any errors that would materially affect the data reported.

Observations

The Co-operative has again maintained good levels of performance in many areas, commendable in the continuing difficult economic and trading conditions. The overall accessibility of the Report has also been improved.

Without affecting our assurance opinion we also provide the following observations.

Performance information

Overall we have confidence in the level of accuracy demonstrated by the information in the Report. It is welcome to see the integration of the various systems within The Co-operative now bearing fruit.

The last few years have seen a continuing improvement in the quality of data available in a number of environmental areas, including waste and water. Environmental data collection processes and the comparability of data across years would be improved if the reporting protocols used were better documented. We have noted improvements in the methodology and calculation for the Fairtrade premium paid.

Inclusivity concerns the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability

The Co-operative has pioneered extensive and appropriate member and customer consultation and involvement. One of the results has been the clearly focused Ethical Plan. However, to determine its approach for some non-member stakeholders, The Co-operative relies on its Values and informal stakeholder contacts, rather than formal direct consultations.

Material issues are those which are necessary for stakeholders to make informed judgements concerning The Co-operative and its impacts

We believe the Report describes the great majority of The Co-operative's material impacts and, as a whole, provides greater transparency than most other reports. For example, it is welcome to see content on the horsemeat issue that has been prominent even since the end of the reporting year. There are however some areas for potential improvement such as the provision of additional detail on payments to suppliers.

We found the Responsible Banking assessment of potential new business, for which we provided high level assurance, to be thorough. This is an area in which The Co-operative leads the market.

In terms of campaigning, The Co-operative is far ahead of most of its competitors. The past year, for example, has seen continuing impressive work to promote the role of smallholder farmers overseas and to ban neonicotinamide pesticides. However there is still no strategy for the overall approach to public policy in general.

Responsiveness concerns the extent to which an organisation responds to stakeholder issues

The Co-operative has made progress on the vast majority of its targets, which is welcome. The work done on certifying the sustainability of fresh seafood products in its own-brand ranges is notable. Similarly significant reductions have been achieved in salt levels for some ranges. We recommend that future Reports describe plans for the extension of sustainable fish certification for frozen and other relevant own-brand ranges.

The Report covers progress on all Ethical Plan targets and whilst many of them are stretching, some could be better defined or more challenging.

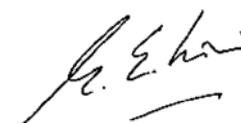
We welcome the improved presentation of the complex area of Animal Welfare. We also understand that The Co-operative is preparing to report on the actual results of adhering to the various animal welfare standards. This will be a major step forward.

This continues to be a time of major change for The Co-operative and many of the industries in which it works. It is a credit to The Co-operative that it has maintained its excellent performance in so many areas.

for DNV Two Tomorrows Limited

London

June 2013



Mark Line
Director

DNV Two Tomorrows Limited is part of DNV, a global provider of services for managing risk, helping clients to achieve sustainable business performance
www.twotomorrow.com



AA1000

Licensed Assurance Provider
000-2

End notes

Page 1

- 1 A longer data record is available via previous Reports, which can be downloaded www.co-operative.coop/sustainabilityreport

Performance overview

- 1 Based on 2011 trade with the Group and 2011 profitability.

Social responsibility

UK communities

- 1 Refers to investment in the community according to the LBG analysis, plus support for the Co-operative Movement.
- 2 Includes donations of products, equipment, facilities or other non-cash items, including the use of premises for events, donations of electrical products for fundraising prizes, and donations of fruit and vegetables to promote the Group's healthy living agenda.
- 3 In 2012, 895 Salvation Army Charity clothing banks were located on our store carparks, with profits divided between The Co-operative and The Salvation Army, and £342,000 donated to The Salvation Army as part of the scheme.
- 4 Figure is rounded to the nearest thousand. It includes support for: RSPB £375,274; Friends of the Earth £8,733; Help the Aged £6,325; Greenpeace £84,814; Help the Hospices £12,126; Shelter £6,916; and Woodland Trust £38,266.
- 5 For the purpose of accounting for Charity of the Year monies within the annual community investment calculation, £3m has been allocated to 2011, with the remaining balance to 2012, to reflect the timeframes over which money was distributed.
- 6 Total contribution relating to support provided by The Co-operative Enterprise Hub excludes investment activities that support Credit Unions and overseas projects.
- 7 Includes our employee payroll giving scheme, local fundraising and contributions to The Co-operative Booster Fund, which supplements employees' fundraising activities.
- 8 http://inspireme.mencap.org.uk/map#map_top
- 9 Based on 2011 performance data supplied to the London Benchmarking Group (LBG).
- 10 The merger of The Co-operative Foundation into The Co-operative Community Investment Foundation commenced in 2011, and was completed in 2012. The operations and objectives of the foundations have not changed; the purpose of the merger was to reduce overheads and streamline resources in the administration of the two foundations.
- 11 Of this, £9.6m has been invested in endowment funds that generate income for future disbursement, and £5.1m of which has been made available for distribution. £237,555 was earned in interest in 2012.
- 12 The Co-operative Foundation is a trading name of The Co-operative Community Investment Foundation, a registered charity, which is governed by an independent Board of Trustees.
- 13 The Britannia Foundation is an independent registered charity, which is governed by a Board of Trustees.

International development

- 1 www.ilo.org/empent/units/cooperatives/lang--en/index.htm; www.un.org/News/Press/docs/2009/dev2784.doc.htm
- 2 When we say 'if it can be, it will be' we mean that 90% (by sales value) of the products that can be labelled as Fairtrade will be converted to Fairtrade.
- 3 Data from Kantar World Panel. A supermarket with an index over 100 is considered to overtrade and a supermarket with a value of less than 100 is seen to undertrade in that product category. The chart shows the top five UK supermarkets in 2012.
- 4 The number of Fairtrade products reduced slightly in 2012 due to a rationalisation of low-selling own-brand products.
- 5 The value of Fairtrade premiums paid to producers in 2012 is based on 91% of The Co-operative's Fairtrade sales. The remaining 9% includes composite products where a breakdown of Fairtrade ingredients could not be attained. To be conservative we have not extrapolated the figure to 100%.
- 6 Fairtrade Foundation 2010.

- 7 Our Fairtrade sales in 2011 accounted for 2.63% of global sales, so it is estimated that 2.63% of people benefiting from Fairtrade sales globally (7.5 million), benefited from our sales (around 200,000). Figures for 2012 were not available at the time of publication, but our Fairtrade sales value increased in 2012, so we expect there to have been at least the same number of beneficiaries as in the previous year. This calculation is distinct from numbers calculated for our 'beyond Fairtrade' projects.
- 8 www.co-operative.co.uk/fairtrade
- 9 Data from Kantar World Panel.
- 10 With the exception of the Valentines Truly Irresistible Grand Prix Variety, from Colombia, which is not currently available from Fairtrade origin.
- 11 We no longer expect to reach 800 sites by end 2013, as we have focused on engaging a smaller group of key suppliers on a range of issues on multiple occasions. Of the UK sites reached in our supplier training programme, 39% have attended two or more events.
- 12 The Co-operative was a founding member of the Ethical Trading Initiative (ETI) – an alliance of companies, non-governmental organisations (NGOs) and trades unions who work together with the aim of improving working conditions in supply chains.
- 13 The Sound Sourcing Code is based on the Ethical Trading Initiative Base Code and International Labour Organization standards, and has been endorsed by all Trading Group businesses www.co-operative.co.uk/soundsourcingcode
- 14 Through Sedex, companies are able to share the results of audits, thus reducing the need for duplication. The Co-operative Food is actively engaged in a number of Sedex working groups, for example the Sedex Associate Auditor Group, which works to improve the quality of social audits.
- 15 A tier-one site is a production site at which goods are finished ready for supply to, or sale by, the end company.
- 16 A tier-two site is a production site that supplies goods or materials to a tier-one site for incorporation into the finished product.
- 17 The remaining 2% represents 12 tier-one suppliers who had not completed self-assessment by the end of 2012 due to new self-assessment requirements on Sedex. Of these, 11 are above 90% complete.
- 18 The Co-operative Food will only accept site assessments conducted by approved third-party auditors and undertaken to a recognised, robust format. We undertake further due diligence tests by way of verification. In 2012, 12 such tests were undertaken (2011: 11).
- 19 As in previous years, the majority (92%) of the sites assessed were involved in supplying food and fresh produce (2011: 81%).
- 20 High-risk suppliers' risk status is further reviewed by appropriate employees in the Food business.
- 21 The remaining 2% represents one high-risk site that had not uploaded its audit by the deadline agreed.
- 22 The figures represent all tier-one and tier-two sites registered on Sedex. Of these, 12 tier-one and 82 tier-two sites have not yet completed self-assessment.
- 23 Country locations of supplier site assessments are listed online [▶](#)
- 24 The table of improvement actions covers all non-conformances identified across the period of valid audits (in the last two years).
- 25 Major non-conformance: a breach that represents a danger to workers/those on site; a material breach of a code requirement/law; or a systematic breaking of a code requirement/law. Minor non-conformance: an occasional or isolated problem; an issue that represents low risk to workers/those on site; or a policy issue or misunderstanding where there is no evidence of a material breach.

- 26 This included the launch of a toolkit on Effective Communication with a Multi Language Workforce, the pilot of two worker survey tools; a training session for suppliers on grievance processes and a survey of suppliers on current mechanisms in place for worker communication.
- 27 The Co-operative Group was awarded the highest rating of all seven UK supermarkets covered in the study, including: Marks & Spencer (John Lewis Partnership), Morrisons, Tesco, Sainsbury's and Asda (Wal-Mart Stores Inc). Nimmo, L. (2013) Seven Supermarkets. *Ethical Consumer*, 141, 20–25.
- 28 www.co-operative.co.uk/humanrights
- 29 The five suppliers are Agrexco, Arava Export Growers, Adafresh, Avniv and Mehadrin.
- 30 Around £3.3m.
- 31 The majority of lendwithcare loan recipients are women, and studies have shown that supporting women can have the greatest impact on alleviating poverty, as they spend a larger proportion of their income on the welfare of their households than men.
- 32 £36 on average.
- 33 Co-operative support initiatives cover Fairtrade premiums, community investment monies for Tackling Global Poverty eg, for 'beyond Fairtrade' monies invested in carbon offset projects overseas, and affinity donations eg, through sales of The Co-operative Fairbourne Springs water.
- 34 This figure was lower than the £8m expected due to a previous miscalculation of Fairtrade tea premiums in 2011 before the target was set.
- 35 The contribution is match-funded by the Department for International Development's (DfID) Food Retail Industry Challenge (FRICH) Fund. FRICH is a fund launched by DfID to challenge the private sector to find ways of getting more food from Africa into UK supermarkets and other retail outlets, www.dfid.gov.uk/Work-with-us/Funding-opportunities/Business/FRICH/
- 36 Out of a total project cost of £200,558.
- 37 Out of a total project cost of £425,384.
- 38 This figure is lower than previously reported due to a National Census being conducted after the project proposal was submitted. This reduced the estimated number of population and child beneficiaries living in the villages that are being targeted.
- 39 www.dfid.gov.uk/News/Latest-news/2012/Britain-to-help-poor-farmers-to-feed-millions/

Animal welfare

- 1 Defra (2012) Poultry and Poultry Meat Statistics www.defra.gov.uk/statistics/foodfarm/food/poultry/
- 2 Defra (2012) United Kingdom Cattle, Sheep and Pig Slaughter Statistics www.defra.gov.uk/statistics/foodfarm/food/slaughter/
- 3 Products include beef, lamb and pork joints; steaks, chops, mince, burgers, sausages, bacon and gammon; whole chickens and turkeys; and chicken and turkey steaks, fillets and portions.
- 4 Compiled in collaboration with Compassion in World Farming (CIWF) and the World Society for the Protection of Animals (WSPA), the report ranked 68 food producers, retailers, wholesalers, restaurants and bars from around the world. In addition to farm animal welfare outcomes, the report methodology emphasised strategy, management systems, disclosure and reporting practices.
- 5 Compliance with UK farm assurance standards, or national equivalents, is assured for all own-brand primary meat and poultry products. Outside the UK, suppliers are required to ensure, through independent third-party audits, that non-UK producers apply equivalent standards.
- 6 Quality Standard Marks are specifically applied to beef, lamb and pork products.

- 7 In accordance with Humane Slaughter Association species code of practice.
- 8 Compliance with UK farm assurance standards or national equivalents was assured for all own-brand UK-sourced fresh shell eggs and milk and all primary turkey, beef, lamb, chicken, pork, pig meat for sausage and bacon, and farmed salmon and trout. While compliance with farm assurance standards is similarly stipulated for other meat and poultry products (eg, continental meats), and products that contain meat or poultry ingredients (eg, ready meals), evidence of application is much more difficult to secure.
- 9 Includes sales of Elmwood, RSPCA Welfare Freedom Food, organic, free-range and traditional breed products. Details of these welfare standards are provided throughout the chapter with further information available online. Figures include sales of prepared and 'ready to go' products.
- 10 A proportion of the milking herd (dependent on veterinary advice and taking into account grazing and weather conditions) should have adequate access to pasture during the grazing season.
- 11 Own-brand fresh and frozen duck products were delisted in 2012.
- 12 All non-UK primary fresh lamb is sourced from New Zealand.
- 13 With the exception of burgers.
- 14 Sheep are born and reared on open hills throughout the year. There are no boundaries or fences to keep different farm flocks apart.
- 15 Established by the British Union for the Abolition of Vivisection (BUAV), Cruelty Free International specifically campaigns against animal testing of cosmetics, household products and their ingredients.

Diet and health

- 1 Department for Environment, Food and Rural Affairs (2012) *Family Food 2011*. London, Defra
- 2 Department of Health (2011) *Healthy lives, healthy people: a call to action on obesity in England* London DoH.
- 3 Ibid.
- 4 Joint-first position, with Marks & Spencer, out of 10 UK food retailers, including: Aldi, Asda, Iceland, Lidl, Morrisons, Sainsbury's, Tesco and Waitrose. *Which?* (2012) *A taste for change? Food companies assessed for action to enable healthier choices*. December 2012.
- 5 The eighth alcohol pledge (A8) of the Public Health Responsibility Deal states: "As part of action to reduce the number of people drinking above the guidelines, we have already signed up to a core commitment to 'foster a culture of responsible drinking which will help people drink within guidelines'. To support this we will remove 1 billion units of alcohol sold annually from the market by December 2015 principally through improving consumer choice of lower-alcohol products."
- 6 The sixth food pledge (F6) of the Public Health Responsibility Deal states: "We will do more to create a positive environment that supports and enables people to increase their consumption of fruit and vegetables."
- 7 Joint-first position with Marks & Spencer and Sainsbury's (see footnote 4 for more detail).
- 8 Joint-third position with Marks & Spencer (see footnote 4 for more detail).
- 9 Based on unit prices. The Healthier Choice range accounted for 3.9% of own-brand product sales in 2012. Of the 109 products that make up the range, 29% have comparable equivalents in the standard ranges.
- 10 The Simply Value range accounted for 1.9% of own-brand product sales in 2012. Of the 97 products that make up the range, 83% have comparable equivalents in the standard ranges. Achieved with the tolerances accepted for nutritional analytical variation specified externally by LACORS; or where the sugar content of an economy-range product is slightly higher than the standard equivalent, due to an increased proportion of fruit or vegetables and consequently naturally occurring sugars (eg, own-brand value cheese and tomato pizza).
- 11 Other retailers meeting the targets in a similar timeframe were Asda and Waitrose.
- 12 Reporting on the Department of Health's Salt Targets follows financial year reporting periods.
- 13 The second food pledge (F2) of the Public Health Responsibility Deal states: "We commit to the salt targets for the end of 2012 agreed by the Responsibility Deal, which collectively will deliver a further 15% reduction on 2010 targets." These targets will give a total salt reduction of nearly 1g per person per day compared to 2007 levels in food. We recognise that achieving the public health goal of consuming no more than 6g of salt per person per day will necessitate action across the whole industry, government, NGOs and individuals.

- 14 A minimum of 30% of own-brand products by number. Healthier is defined as a product that carries no red 'traffic lights', is a healthier alternative, or meets the FSA nutrient profiling criteria used by OFCOM.
- 15 Joint-first position with Marks & Spencer and Sainsbury's (see reference 4 above for more detail).
- 16 Except those of negligible nutritional value (eg, tea and coffee), some 'assorted' products (eg, seasonal tins of biscuits) and fruit and vegetables, fresh meat and cooking aids.
- 17 Traffic-light labelling to include a combination of colour-coding, based on standardised nutrient levels, and text to indicate High, Medium or Low levels.
- 18 'Green Dot' messages are based on approved nutrition claims under the Nutrition and Health Claims Regulation (EC) 1924/2006, plus wholegrain and five-a-day claims.
- 19 The first food pledge (F1) of the Public Health Responsibility Deal states that "we will provide calorie information for food and non-alcoholic drink for our customers in out-of-home settings from 1 September 2011 in accordance with the principles for calorie labelling agreed by the Responsibility Deal."
- 20 30% of promotions, by number. Healthier products are defined as: produce, bread, pure fruit juice, canned fruit and vegetables in water or fruit juice, lean protein, plain pasta, rice and noodles, products passing through the FSA nutrient profiling model used by OFCOM, or any products from the Healthier Choice range, Food promotions exclude non-food grocery and beers, wines and spirits.
- 21 Fresh, frozen, dried and canned fruit and vegetables without added ingredients.
- 22 Joint-first position with Sainsbury's (see reference 4 above for more detail).
- 23 Joint-first position with Marks & Spencer and Sainsbury's (see reference 4 above for more detail).
- 24 Of 10 UK food retailers (see reference 4 above for more detail).
- 25 30% of promotions, by number. Healthier products are defined as: produce, bread, pure fruit juice, canned fruit and vegetables in water or fruit juice, lean protein, plain pasta, rice and noodles, products passing through the FSA nutrient profiling model used by OFCOM, or any products from the Healthier Choice range, Food promotions exclude non-food grocery and beers, wines and spirits.
- 26 Includes: till screens, radio, website, blogs, in-store messaging and magazines.
- 27 One alcohol pledge (A2) is only applicable to on-trade (eg, pubs and clubs) and so not applicable to our business.
- 28 The first alcohol pledge (A1) of the Public Health Responsibility Deal states that "We will ensure that over 80% of products on shelf (by December 2013) will have labels with clear unit content, NHS guidelines and a warning about drinking when pregnant."
- 29 The third alcohol pledge (A3) of the Public Health Responsibility Deal states that "We will provide simple and consistent information as appropriate in the off-trade (supermarkets and off-licences) as well as other marketing channels (eg, in-store magazines), to raise awareness of the units, calorie content of alcoholic drinks, NHS drinking guidelines, and the health harms associated with exceeding guidelines."
- 30 The fifth alcohol pledge (A5) of the Public Health Responsibility Deal states that "We commit to maintaining the levels of financial support and in-kind funding for Drinkaware and the Why Let Good Times Go Bad? campaign as set out in the Memoranda of Understanding between Industry, Government and Drinkaware."
- 31 In line with the sixth alcohol pledge (A6) of the Public Health Responsibility Deal that states "We commit to further action on advertising and marketing, namely the development of a new sponsorship code requiring the promotion of responsible drinking, not putting alcohol adverts on outdoor poster sites within 100 metres of schools and adhering to the Drinkaware brand guidelines to ensure clear and consistent usage."
- 32 The seventh alcohol pledge (A7) of the Public Health Responsibility Deal states that "In local communities we will provide support for schemes appropriate for local areas that wish to use them to address issues around social and health harms, and will act together to improve joined-up working between such schemes operating in local areas. Schemes are listed at www.responsibilitydeal.dh.gov.uk/2011/12/20/alcohol-pledges/
- 33 The fourth alcohol pledge (A4) of the Public Health Responsibility Deal states that "We commit to ensuring effective action is taken in all premises to reduce and prevent under-age sales of alcohol (primarily through rigorous application of Challenge 21 and Challenge 25)."

- 34 The eighth alcohol pledge (A8) of the Public Health Responsibility Deal states that "As part of action to reduce the number of people drinking above guidelines, we have already signed up to a core commitment to 'foster a culture of responsible drinking which will help people drink within guidelines'. To support this we will remove 1 billion units of alcohol sold annually from the market by 2015 principally through improving consumer choice of lower alcohol products."
- 35 The second physical activity pledge (P2) of the Public Health Responsibility Deal states that "We will contribute to the communication and promotion of the Chief Medical Officer's revised physical activity guidelines."
- 36 The third physical activity pledge (P3) of the Public Health Responsibility Deal states that "We will promote and support more active travel (walking and cycling). We will set measurable targets for this health enhancing behaviour."
- 37 The first physical activity pledge (P1) of the Public Health Responsibility Deal states that "We will use our local presence to get more children and adults more active, more often including engaging communities in planning and delivery."
- 38 We committed to an individual pledge (IP1) for the Public Health Responsibility Deal that states: "The Co-operative and Activate Sport will aim to reach 20,000 young people across 34 counties and 100 towns in 2012." Details are reported online [▶](#).
- 39 www.thetimes.co.uk/tto/public/cyclesafety/
- 40 The NHS New Medicines Service is only applicable in England. The similar scheme in Wales is the Discharge Medicine Review, providing advice for those recently discharged from hospital. Scotland has no equivalent scheme.
- 41 www.rpharms.com/nhs-community-pharmacy-contract-wales/discharge-medicines-review-service.asp

Responsible banking and finance

- 1 Sustainability leadership research is conducted on behalf of The Co-operative on a quarterly basis. Figures show average results for five surveys over 2012.
- 2 www.ethicalconsumer.org/home/insurance.aspx
- 3 On 21 March 2013, we announced our intention to sell our General Insurance business.
- 4 Since 2011, the Bank has been managed through distinct classifications: 'core' and 'non-core'. 'Core' represents those assets and activities consistent with the current strategy and risk appetite and includes Retail, selected Corporate and Business Banking and Treasury businesses. 'Non-core' includes those assets and activities not congruent with the current strategy which are being managed for value and targeted for run down or exit.
- 5 Edelman Trustbarometer 2013, Annual Global Study.
- 6 YouGov – 21–23 August 2012. 2,061 representative UK adults aged 18+.
- 7 The number of referrals fell in 2012, due to a review of process, which established that, previously, a number of companies were being referred unnecessarily.
- 8 Relates to those potential financial opportunities foregone following referral to the Ethical Policy Unit. Figure comprises the first year of income foregone as a result of business turned away in 2012 (£5,987,305) and declines originating in the years 2000–2011 (£16,041,967), on the basis that financial services provision will have retention beyond 12 months.
- 9 Does not include currency loans held at Treasury or certain Asset Finance deals, the total corporate lending book is approximately £8.9bn.
- 10 www.cardandpaymentsawards.com/2013/02/the-card-payments-awards-winners-announced/
- 11 RSPB, Traidcraft, IKEA, Lush, theTrainLine.com, Raleigh, Nigel's Eco-store, Ethical Superstore, Ecofirst, Ecotricity, Arriva, *Ethical Consumer Magazine*, The Ecologist, Co-op Electricals, The Co-operative Food and The Co-operative Insurance.
- 12 Leadership positions are identified via independent third parties, such as Ethical Consumer Research Association (ECRA).
- 13 www.rspb.org.uk/supporting/campaigns/sumatraf/

Social inclusion

- 1 National Equality Panel (2010) *An anatomy of inequality in the UK: Report of the National Equality Panel*.
- 2 Taylor, M (2011) *The long term impacts of financial capability: Evidence from the BHFS*.

- 3 Postal areas are defined as the initial one or two characters of a UK postcode.
- 4 Figures show Co-operative stores or branches located in deprived areas as a proportion of all Co-operative stores or branches.
- 5 Those that correspond with the 20% most deprived areas identified in the Government's Indices of Multiple Deprivation for England and Wales, Scotland, and Northern Ireland 2010.
- 6 The decline in 2011 can be attributed to the use of an older Indices of Multiple Deprivation (2007) to calculate data for previous years. The decline is due to the changes in classification of areas within the Index, as opposed to any significant movement in Funeralcare branch location.
- 7 Post Offices in Co-operative Food Stores offering financial services.
- 8 Only major food retailer competitors are included in this benchmark, as follows: Asda, Marks & Spencer, Morrisons, Sainsbury's, Tesco and Waitrose. This analysis is drawn from an internal competitor location database. This is constantly updated in line with our field-based analysis and information shared by competitors and industry bodies. While the figure is correct to the best of our knowledge, it is unlikely that the database will be 100% accurate at any given time, due to the pace of change in competitor store location.
- 9 New stores included the acquisition of the David Sands chain in Scotland, and 10 former Costcutter stores in London.
- 10 Figures relate to British Bankers' Association (BBA) (2010), 2012 data was not available at time of publication, www.bba.org.uk
- 11 Refers to businesses with an annual debit turnover of up to £1m.
- 12 Where deprived areas are defined as those 5% of postcode sectors equating to the 2% most deprived electoral wards in Great Britain.
- 13 Following a review of our in-store branches in 2012, one in-store branch was closed due to its proximity to a Britannia branch. At the time of opening the in-store branch, the merger with Britannia had not yet taken place.

- 14 In Scotland and Northern Ireland this will be in the form of a referral to a third party through our branches.
- 15 British Bankers' Association (March 2006), basic bank accounts give customers confidence in handling their finances.
- 16 Jones, Paul A (2009), Still Banking on a Fresh Start, Liverpool John Moores University.

Diversity

- 1 Institute of Leadership and Management Report 2010, Ambition and Gender at work.
- 2 www.papworth.org.uk/downloads/disabilityfactsandfigures2010_100202152740.pdf
<http://odi.dwp.gov.uk/docs/res/factsheets/disability-prevalence.pdf>
- 3 www.carers.org/key-facts-about-carers
- 4 www.ons.gov.uk/ons/rel/census/2011-census/key-statistics-for-local-authorities-in-england-and-wales/rpt-ethnicity.html
- 5 www.ons.gov.uk/ons/rel/integrated-household-survey/integrated-household-survey/april-2010-to-march-2011/stb---integrated-household-survey-april-2010-to-march-2011.html
- 6 Data is less complete for disability than other diversity categories, and it is likely that many census participants may choose not to define or report themselves as having a disability. It is anticipated that representation of those with a disability may be higher than the data available suggests.
- 7 As a percentage of all managers. In the Trading Group: a manager is deemed to be any employee in managerial role bands, or with 'manager', 'head of', or 'director' in their job title. In the Banking Group: a manager is deemed to be any employee paid £25,000 or more.
- 8 Full details of data sources and completeness is available online [▶](#).
- 9 www.gov.uk/government/news/women-on-boards
- 10 Aspire network steering group consists of a maximum of 20 female employees, tasked with running the network, with a primary responsibility of growing the network in a sustainable way.

- 11 The first meeting was in September 2012 and was attended by representatives from The Co-operative Group, Stonewall, Asda, Tesco, Unite, Sainsbury's, Morrison's and the CBI.
- 12 UK proportion of black, asian, minority, ethnic minority and refugee (BAMER) members from the 2011 census.
- 13 UK proportion of carers, disabled, and lesbian, gay, bisexual and transgender from the 2011 census.
- 14 Historic data is available in the 2011 Sustainability Report (page 81). Figures remain similar to those in previous years.
- 15 www.uk.coop/womenschallenge/womens-home

Inspiring young people

- 1 As at January 2013, the youth unemployment rate (including students) had risen to 18.4% (Jan 2011: 18.1%). The rate for those aged 25 to 49 had fallen to 6.1% (Jan 2011: 6.3%). For those aged 50 and over it dropped slightly to 4.4% (Jan 2011: 4.5%). Centre for Economic and Social Inclusion <http://www.cesi.org.uk/statistics/labour/january-2013>
- 2 Unless otherwise stated, 'young people' in this Report refers to those aged 25 and under.
- 3 The Work Foundation and Private Equity Foundation joint report Nov 2011 http://www.theworkfoundation.com/DownloadPublication/Report/294_Off%20the%20map%20-%20PEF%20snapshot%20FINAL.PDF
- 4 By 2020, 40% of all jobs will require a graduate-level qualification www.bitc.org.uk/issues/workplace-and-employees/talent-and-skills
- 5 This is largely the result of a decline in the number of Britannia young savers becoming members.
- 6 www.ssatuk.co.uk/ssat/programmes-support/academies/about-academies/
- 7 Governors are employees or elected members of The Co-operative.
- 8 Office of National Statistics, Social Trends 40: Transport (2010) and Social Trends 41: Transport (2011).
- 9 Employees aged 16 to 25 as at February 2013.

Ecological sustainability

Climate change

- 1 See for example: Stern, N. (2009), Blueprint for a Safer Planet – How We Can Save the World and Create Prosperity.
- 2 www.ipcc.ch/publications_and_data/ar4/syr/en/spms3.html
- 3 www.ncdc.noaa.gov/cmb-faq/anomalies.php#grid
- 4 http://unfccc.int/meetings/doha_nov_2012/meeting/6815.php#decisions
- 5 Figures for direct GHG emissions include those associated with air, rail and 'own-car' business travel, which are more commonly reported as 'indirect', or 'Scope 3' emissions.
- 6 Carbon dioxide equivalent (CO₂e) is used to compare the Global Warming Potential (GWP) of different greenhouse gases (methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆)) relative to CO₂e. For example, CO₂e has a GWP of one, while N₂O has a GWP of 310.
- 7 Historic data (2006–2009) includes data for merged and acquired businesses (the former United Co-operatives, former Somerfield and former Britannia), even at a time when these were not part of The Co-operative. Where historic data is unavailable, proxies have been used. The Co-operative Travel has been removed from all datasets also (2006–2011). Full information regarding the composition of figures can be found online [▶](#).
- 8 Unless stated otherwise, we use the emission factors identified in the Department for Environment, Food and Rural Affairs (Defra) 2012 guidance to calculate our GHG emissions.
- 9 In line with our financial reporting, 2012 has one additional week of reported data, making it a 53-week year. Additionally, 2012 saw a number of Food stores increasing their trading hours. Reported emissions are absolute and have not been manipulated to account for these longer business hours and reporting timescales.
- 10 Figures apply a conversion factor of 0.52037kg CO₂/kWh for fossil fuel and renewable electricity and 0.18521kg CO₂/kWh for gas. The conversion factors are updated annually by Defra and historical data recalculated to reflect this.

- 11 www.gov.uk/government/uploads/system/uploads/attachment_data/file/69945/et7_1.xls
- 12 The Building Research Establishment Environmental Assessment Method (BREEAM) assesses buildings against set criteria and provides an overall score that will fall within a band providing either: PASS, GOOD, VERY GOOD, EXCELLENT or OUTSTANDING rating. www.breeam.org
- 13 Refrigerant data (2006–2012) includes The Co-operative, former United Co-operatives, and former Somerfield stores, and distribution centres, even when these were not part of The Co-operative. 2012 data includes refrigeration units on distribution fleet. CO₂e emissions factors are calculated by applying relevant Defra 2012 conversion factors.
- 14 Carbon dioxide equivalent (CO₂e) is used to compare the Global Warming Potential (GWP) of different greenhouse gases (methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆)) relative to CO₂e. For example, CO₂e has a GWP of one, while N₂O has a GWP of 310.
- 15 HFC-free alternatives are sometimes referred to as 'natural refrigerants' and include CO₂, ammonia and hydrocarbons.
- 16 CO₂e emissions are calculated by applying relevant Defra 2012 conversion factors for each mode of transport to the distance travelled. Business travel mileage and emissions are restated to reflect removal of The Co-operative Travel from historical accounting (2006–2011). 2011 distribution emissions are restated due to an additional data source becoming available.
- 17 Business travel includes rail and air and business mileage in company, private and hired cars.
- 18 Our road distribution fleet serves The Co-operative Food, The Co-operative Funeralcare, The Co-operative Clothing and home deliveries across our businesses. Business travel includes rail and air travel and business mileage in company, hired and private cars.
- 19 Completion of personnel relocations as a result of the acquisition of Britannia by Co-operative Banking Group, a halving of Co-operative Banking Group air travel journeys combined with average distance flown halving, a 7% reduction in headcount at Co-operative Banking Group, general efficiencies from the merging of some Bank and Group roles under Project Unity.
- 20 Decreasing distribution mileage and associated CO₂e emissions by 33.8 million miles (29%) and by 46,185 tonnes CO₂e (30%) compared with 2005.
- 21 Survey results based upon responses from 6.5% of head office employees.
- 22 Avonmouth in Bristol and Castlewood in Derbyshire.
- 23 Such research includes: Dr A Williams (2 February 2007) Comparative Study of Cut Roses for the British Market Produced in Kenya and the Netherlands, Précis Report for World Flowers, Cranfield University; C Saunders and A Barber (2007) Comparative Energy and Greenhouse Gas Emissions of New Zealand's and the UK's Dairy Industry, Research Report No. 297, Lincoln University, New Zealand; and P Tyedmers and N Pelletier (2007) Greenhouse gas emissions for selected seafood species supplied to the UK, Dalhousie University, Canada.
- 24 www.ghgprotocol.org/calculation-tools/faq The GHG Protocol categorises direct and indirect emissions into three broad scopes.
- 25 Emissions from business travel in vehicles not owned by The Co-operative are currently recorded in Scope 1 and Scope 2 reporting (direct emissions), despite technically being Scope 3 (indirect). This is due to business travel being under the direct influence of business activities, and is the case for historical emissions also.
- 26 Offsets that are verified to either the Verified Carbon Standard (www.v-c-s.org) or Gold Standard (www.cdmgoldstandard.org).
- 27 In 2012, expert assistance from The Co-operative Enterprise Hub was provided to: Sheffield Renewables – urban hydropower in Sheffield; Valley Wind – wind power in West Yorkshire; and Brampton AD – anaerobic digestion in Cumbria.
- 28 www.gov.uk/government/consultations/tariffs-for-non-pv-technologies-comprehensive-review-phase-2b
- 29 www.co-operative.coop/Corporate/CSR/downloads/community_energy_manifesto_2012_the_co-operative.pdf
- 30 www.parliament.uk/edm/2012-13/684
- 31 www.parliament.uk/edm/2012-13/181
- 32 www.co-operative.coop/join-the-revolution/our-plan/clean-energy-revolution/fracking/reports-and-resources/

Waste and packaging

- 1 http://webarchive.nationalarchives.gov.uk/20130123162956/http://www.defra.gov.uk/statistics/files/wrfg01_gensec.xls
- 2 WRAP (2011) New estimates for household food and drink waste in the UK.
- 3 Most recent data available from Defra and the devolved governments. England (www.defra.gov.uk/statistics/files/2011-12-ANNUAL-publication_WITHOUTLINKS_v0.2.xls), Wales (<http://wales.gov.uk/docs/statistics/2012/121108sb1062012en.pdf>) and Scotland (www.sepa.org.uk/waste/waste_data/waste_data_reports/lacw_reporting/household_waste_reporting.aspx), 2011/12 data; and Northern Ireland (www.doeni.gov.uk/northern_ireland_environmental_statistics_report_2012r.pdf), 2010/2011 data.
- 4 Ibid.
- 5 Institute of Mechanical Engineers (2013) Global Food – Waste Not, Want Not.
- 6 WRAP (2011) New estimates for household food and drink waste in the UK.
- 7 www.co-operative.coop/corporate/pdfs/packaging_policy.pdf
- 8 85% complete, with reliance on extrapolation at The Co-operative Pharmacy and The Co-operative Travel. Reduction in waste arising is largely due to store disposals.
- 9 Reduction in waste recycled is largely due to store disposals.
- 10 Where a dataset for a business is extrapolated, this is footnoted later in this section.
- 11 Data includes tonnages from the Co-operative societies that merged with United Co-operative prior to its merger with The Co-operative. These include Yorkshire Co-operative Society, Leeds Co-operative Society and Sheffield Co-operative Society.
- 12 The Group's Travel business transferred into a joint venture with Thomas Cook in 2011. Travel data is no longer reported as it is no longer wholly owned by the Group, and previous years' data are restated to ensure fair comparisons are possible.
- 13 The majority of waste disposed is sent to landfill (page 60).
- 14 In line with our financial reporting, 2012 was a 53-week year and had one additional week of waste data. Additionally, 2012 saw a number of Food stores increasing their trading hours. Reported waste data are absolute and have not been manipulated to account for these longer business hours and reporting timescales.
- 15 In 2012, The Co-operative Food accounted for 98% of total packaging handled by The Co-operative.
- 16 Includes former Somerfield stores.
- 17 The Co-operative was also a signatory to the original Courtauld Commitment (2005–2010), which sought to 'design-out' packaging waste growth, deliver absolute reductions in packaging weight and tackle the amount of food that consumers throw away. During the Courtauld 1 commitment period (2007–2009), The Co-operative Food had achieved a 12% reduction in own-brand primary packaging and a 25% reduction in transit packaging, resulting in a combined reduction of 16%. Courtauld 2 ran from 2010–2012.
- 18 www.wrap.org.uk/content/new-figures-carrier-bags-use-released-wrap
- 19 Ultimately derived from the European Parliament and Council Directive 94/62/EC on Packaging and Packaging Waste.
- 20 As does any retailer that handles more than 50 tonnes of packaging and has a turnover in excess of £2m per annum, The Co-operative is obliged as a 'seller' at 48%, pack/filler at 37% and importer at 100%. The 2012 targets for materials were: glass 81%, paper 69.5%, aluminium 40%, steel 71%, plastics 32% and wood 22%. Overall recovery (which includes energy recovery and composting) is set at 74%, of which a minimum of 68% must be achieved via recycling. The Producer Responsibility Obligations (Packaging Waste) Regulations 2007, Defra.
- 21 Under the Regulations, obligations are calculated on the packaging handled in the previous year. The obligation in 2012 was, therefore, based on 204,688 tonnes of packaging handled by The Co-operative.
- 22 <https://brand.environment-agency.gov.uk/mb/Cp37GW>
- 23 The Co-operative producer obligation based on 14,000 items, and distributor obligation based on 347,833 items of electrical and electronic equipment produced/sold in 2012.
- 24 In addition to waste disposed directly to landfill, The Co-operative Funeralcare sent 475 tonnes of clinical waste and one tonne of spray booth filters to be autoclaved/incinerated and The Co-operative Motor Group sent four tonnes of hazardous waste, including cleaning solution and rags to be

reprocessed and disposed. No data is available for clinical/ pharmaceutical waste from The Co-operative Pharmacy.

- 25 Defra (2010) Assessing the Environmental Impacts of Oxo-degradable Plastics Across Their Life Cycle www.carrierbagtax.com/downloads/Oxo-degradable%20study-Defra.pdf
- 26 Including 34,047 tonnes of waste from food stores and 1,974 tonnes of waste from Regional Distribution Centres (extrapolated from a 67% sample, excluding those not operating throughout 2012. It is estimated that 75% (26,988 tonnes) of The Co-operative Food's waste is food waste.
- 27 Extrapolated from 93% sample.
- 28 Extrapolated from 74% sample.
- 29 Other businesses' waste to landfill data: Cash in Transit, 83 tonnes; Sunwin Services Group (this business was sold in 2012), 23 tonnes; The Co-operative Clothing, 15 tonnes (this business was sold in November 2012); The Co-operative Electrical, nine tonnes; and The Co-operative Legal Services, five tonnes.

Water

- 1 http://assets.wwf.org.uk/downloads/water_footprint_uk.pdf
- 2 In November 2002, the United Nations Committee on Economic, Social and Cultural Rights affirmed that access to adequate amounts of clean water for personal and domestic uses is a fundamental human right of all people.
- 3 World Health Organization states that over 1 billion people are now reliant on unimproved drinking water www.who.int/water_sanitation_health/mdg1/en/index.html
- 4 Environment Agency (2007) Identifying areas of water stress.
- 5 http://assets.wwf.org.uk/downloads/water_footprint_uk.pdf
- 6 Excludes The Co-operative Farms, which is reported separately.
- 7 Total number of sites increased from 4,711 in 2011 to 4,901 in 2012.
- 8 For the first time, average site metered water consumption applied to each business where rateable value bills are received.
- 9 Excluding The Co-operative Farms.
- 10 Number of premises increased 2011–2012.
- 11 Abstracted water in 2012 accounted for 73% of total water consumption, as opposed to 98% in 2011, 99% in 2010, 90% in 2009 and 70% in 2008.
- 12 The Environment Agency and Scottish Environmental Protection Agency stipulate that farmers must keep a record of water abstracted.
- 13 www.igd.com/water
- 14 In 2012, following a strategic review to expand the range of clean water technologies that The One Foundation implements, the decision was taken to cease funding PlayPumps™. Over the previous five years, the project installed a total of 333 PlayPumps™, which provided 1.71 million m³ of pumping capacity.

Biodiversity

- 1 Secretariat of the Convention on Biological Diversity (2010) Global Biodiversity Outlook 3: www.cbd.int/doc/publications/gbo3-final-en.pdf
- 2 UN Environment Programme (2010) Financial Initiative and Principles for Responsible Investment, Universal Ownership: Why Environmental Externalities Matter to Institutional Investors: www.unpri.org/files/6728_ES_report_environmental_externalities.pdf
- 3 'Overfished' means that the latest estimate of fishing mortality rate is higher than the fishing mortality rate that will deliver maximum sustainable yield in the long term.
- 4 European Commission, 2012. Fishing opportunities for 2013. ec.europa.eu/fisheries/cfp/fishing_rules/tacs/info/com_2012_278_en.pdf
- 5 www.neweconomics.org/page/-/files/Jobs_Lost_at_Sea.pdf
- 6 www.co-operativefood.co.uk/food-and-drink/food/Own-brand-fish/Responsible-Fish-Sourcing-Policy/
- 7 A rating of 1 is awarded to the most sustainably produced seafood including fish from certified fisheries, and a rating of 5 is awarded to a fish to be avoided for sustainability concerns. Visit www.fishonline.org/information/ for a full explanation of the MCS's seafood ratings.
- 8 In 2012, a supplier provided us with own-brand prawns which did not have full GAA 3* chain of custody. We have since worked with this supplier to ensure, in the future, their prawns for our own-brand products will be at least GAA Best Aquaculture Practice 3* certified.
- 9 FSC-certified products carry one of the following FSC labels: FSC 100%; FSC Recycled, containing a minimum of 85%

wood fibre content from post-consumer sources; and FSC Mixed, containing a blend of FSC 100% with recycled and/or controlled wood fibre. This controlled fibre is from non-FSC forests, but is screened to ensure it doesn't contribute to negative forest practices such as illegal logging or the destruction of high conservation value forests.

- 10 Mardas, N., Mitchell, A., Crosbie, L., Ripley, S., Howard, R., Eila, C., Trivedi, M. (2009) Global Forest Footprints, Forest Footprint Disclosure Project, Global Canopy Programme, Oxford.
- 11 Secretariat of the Convention on Biological Diversity (2010) Global Biodiversity Outlook 3. <http://www.cbd.int/doc/publications/gbo3-final-en.pdf>
- 12 Macqueen, D. Review of Funds Which Aim To Protect Tropical Forests; International Institute for Environment and Development: London, UK, 2010. Note: 1 billion forest farmers, 350 million in forest frontier communities and 60 million primarily indigenous forest dwellers.
- 13 http://wwf.panda.org/what_we_do/footprint/agriculture/palm_oil/solutions/responsible_purchasing/scorecard2011/
- 14 Mardas, N., Mitchell, A., Crosbie, L., Ripley, S., Howard, R., Eila, C., Trivedi, M. (2009) Global Forest Footprints, Forest Footprint Disclosure Project, Global Canopy Programme, Oxford.
- 15 Wilcove, D.S., Koh L.P. (2010) Addressing the threats to biodiversity from oil-palm agriculture, Biodiversity Conservation, 19:999–1007.
- 16 Carlson, K.M. et al. (2012) Carbon emissions from forest conversion by Kalimantan oil palm plantations. Nature Climate Change. Available online at: www.nature.com/nclimate/journal/vaop/ncurrent/full/nclimate1702.html
- 17 The Co-operative uses three different routes for CSPO accreditation. These are: 'UTZ certification' (7.6% of total palm oil use), where oil is traced using the RSPO official traceability partner; 'Segregated' (41.2%) where palm oil can be 100% CSPO traced from plantation to product, allowing the claim that this product contains RSPO-certified palm oil; 'identity preserved' (0.3%) where oil is uniquely identifiable to the mill and its supply base, and is kept physically isolated from all other palm oil sources throughout the supply chain (including other segregated RSPO-CSPO sources); and GreenPalm (40%), as described within the main text.
- 18 www.soystats.com/2012/Default-frames.htm
- 19 Such as the Cerrado, the Pantanal and the Atlantic Forest.
- 20 wwf.panda.org/what_we_do/footprint/agriculture/soy/responsiblesoy/soy_roundtable
- 21 IUCN (2011) IUCN UK Commission of Inquiry on Peatlands. IUCN UK Peatland Programme, Edinburgh.
- 22 jncc.defra.gov.uk/pdf/UKBAP_BiodiversityNews-59.pdf
- 23 www.naturalengland.gov.uk/ourwork/farming/funding/es/default.aspx
- 24 This figure varied throughout 2012 as a result of land sales.
- 25 www.woodlandtrust.org.uk/en/news-media/fact-file/pages/uk-woodland-facts.aspx
- 1 European Inventory of Existing Commercial chemical Substances (EINECS).
- 2 Defra, EU Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).
- 3 Health and Safety Executive, What are pesticides?
- 4 Due to movement to a new facility in 2010, a reduced number of tests took place in comparison to 2009.
- 5 Use of aldicarb will cease in 2014. In addition, in 2012, we highlighted to suppliers two other pesticides that were likely to change status as a result of planned convention reviews.
- 6 In 2009, we temporarily moved eight neonicotinoid pesticides to 'prohibited' status, and following subsequent scientific research, we moved two of these to 'monitored' status in early 2010. Research demonstrated that the cyano-substituted subgroup of neonicotinoids are less toxic to bees than was previously understood. As a result, thiacloprid and acetamiprid were moved to 'monitored'. Clothianidin, dinotefuran, imidacloprid, nitenpyram, thiamethoxam and fipronil remain on the 'prohibited' list.
- 7 Traceability audits are undertaken by The Co-operative Food's Quality Assurance team, which analyses Pesticide Application Records. These detail the number, rate and dates of pesticide application. Assurance is sought that the decision to use pesticides in the growing process has been based on sound information, and that due consideration has been given by the grower to integrated crop management procedures.
- 8 Tests are carried out on the final product as sold in-store.

Chemicals

- 9 In comparison, the most recent Pesticide Residues in Food Quarterly Report states that, in Q2 2012, 2.5% of fruit and vegetable samples that they tested, showed residues in excess of the set MRL.
- 10 MRLs are set by the European Food Safety Authority (EFSA) on the basis of the highest residues expected when a pesticide is applied in accordance with manufacturer instructions for use.
- 11 Discussion with the supplier identified high residue levels in a single growing area which was then left uncropped until residue levels had dropped to an acceptable level.
- 12 Residue hotspots for progress in 2013: mixed salads, strawberries, grapes, apples and coriander.
- 13 EU regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals.

- 14 Listed in the online version of this Report.
- 15 www.ospar.org
- 16 Regulation EC 1907/2006. ec.europa.eu/environment/chemicals/reach/reach_intro.htm
- 17 REACH regulations require manufacturers, importers and downstream users of chemicals to demonstrate safe product use and disposal for approximately 30,000 of the 100,000 chemical substances in use in the EU.
- 18 Listed in the online version of this Report.
- 19 RoHS Regulations (2006), Dangerous Substances Marketing and Use Directive.
- 20 ICMA (International Card Manufacturers Association). www.icma.com

- 21 Fertilisers are used to promote growth and supplement the three major plant nutrients (nitrogen, phosphorus and potassium), the secondary plant nutrients (calcium, sulphur and magnesium) and sometimes trace elements with a role in plant nutrition (boron, chlorine, manganese, iron, zinc, copper and molybdenum).
- 22 Previously, fertiliser purchases were reported. Recent accounting system improvements have simplified farm data collation, actual fertiliser application is a more accurate reflection of The Co-operative Farms' use of chemicals.
- 23 Growth regulators are synthetic plant hormones that modify natural growth in cereals and are used in conjunction with pesticides and adjuvants to optimise crop productivity.
- 24 Nutrients essential for plant health, but required only in very small amounts. Most common in agriculture are: boron, copper, manganese and magnesium.

Delivering value

Membership

- 1 www.co-operative.coop/corporate/widermovement
- 2 In addition, The Co-operative has 122 Independent Society members, who represent other co-operative societies to whom The Co-operative provides services. Independent Society members must demonstrate a commitment to co-operative values in their business practice and buy at least one share (costing £5) in The Co-operative. They have the right to participate in democratic affairs – a right that can be exercised at the AGM and in the nomination and election of Independent Society members to The Co-operative Group Board. As such, the interests of the co-operative businesses with whom The Co-operative trades are represented on its board.
- 3 In line with Industrial and Provident Act legislation, The Co-operative's membership scheme was previously only open to UK citizens aged 16 and over. Following a change to the Industrial and Provident Act, in 2012 we allowed those under the age of 16 to become members. Restrictions, however, preclude these members being elected to committees or boards.
- 4 N.B. The online members' meeting in 2011 was a pilot. In 2012 it was rolled out across a longer period to tie in with the physical meetings that take place in the Regions twice a year. In 2012, the online meeting was available earlier (1 April rather than 1 May) and the content was updated in October to coincide with the autumn meetings in the Regions. Therefore the page views were spread over a longer period of time. Going forward, the online meeting will replicate the 2012 approach, so the period to be reported in 2013 will be the same as 2012.
- 5 Targeted members are those members that received a share of profits in the June 2012 payout and voted in at least one of the last two years' area committee elections, therefore demonstrating interest in our elections process. If a member didn't have the opportunity to vote previously, for instance if elections in the last two years weren't contested and/or a member is new, they remain eligible to automatically receive a ballot paper, providing they received a share of the profits in June 2012.
- 6 Members defined as economically and/or democratically active members plus new members in 2012.
- 7 Targeted members are those members that received a share of profits in the June 2012 payout and voted in at least one of the last two years' area committee elections, therefore demonstrating interest in our elections process. If a member didn't have the opportunity to vote previously, for instance if elections in the last two years weren't contested and/or a member is new, they remain eligible to automatically receive a ballot paper, providing they received a share of the profits in June 2012.
- 8 N.B. The online members' meeting pilot in 2011 was rolled out across a longer period in 2012 to tie in with the physical meetings that take place in the Regions twice a year. In 2012, the online meeting was available earlier (1 April rather than 1 May) and the content was updated in October to coincide with the autumn meetings in the Regions. Therefore the page views were spread over a longer period of time. Going forward the online meeting will replicate 2012, so the period to be reported in 2013 will be the same as 2012.
- 9 In addition to the Group Board, there are subsidiary boards in place for The Co-operative Food, Co-operative Banking Group, and Specialist Businesses, all of which have the potential to appoint up to three independent, professional, non-executive directors.

- 10 Including the Northern Ireland members' council which has representation on the Scotland and Northern Ireland Regional Board. The Council is larger than an area committee and has enhanced roles and responsibilities.
- 11 The full responsibilities of the regional boards are detailed at: www.co-operative.coop/membership/have-your-say/our-committees/regional-boards/
- 12 The full responsibilities of the area committees are detailed at: www.co-operative.coop/membership/have-your-say/our-committees/area-committees/
- 13 Member profit share is paid in cash which, unlike in other major membership schemes, means we do not restrict how rewards are spent. The amount we pay is linked to the financial performance of our business.
- 14 The total individual payment of £42m, as reported in the Annual Report and Accounts (page 51), also includes membership activity funding. The value of a point halved in 2012 due to a fall in profits.
- 15 The stated number of members earning a share of profits includes members that, while having traded with The Co-operative, do not accrue sufficient points during the year to trigger a dividend payment for that year. In these circumstances, points are rolled over to the following year.
- 16 Full details at: www.co-operative.coop/membership/share-of-the-profits/exciting-news-for-2013/
- 17 All independent societies using The Co-operative Membership cards retain control of their respective membership schemes, including share of the profit payments and voting rights.

Supporting co-operatives

- 1 Co-operatives UK (2012) The UK Co-operative economy 2012: Alternatives to Austerity.
- 2 Ibid.
- 3 International Co-operative Alliance (2012) World Co-operative Monitor: Exploring the Co-operative Economy.
- 4 All of the 11 renewable energy co-operatives supported were also receiving advice and training from the Hub and are, therefore, also counted in the figures for co-operative development.
- 5 Total investment by The Co-operative Enterprise Hub includes funding for international development projects and support to Credit Unions. Financial contributions are rounded to the nearest £100.
- 6 www.co-operative.coop/enterprisehub
- 7 www.co-operative.coop/enterprisehub/About-the-hub/
- 8 www.co-operative.coop/enterprisehub/About-the-hub/ The Fund is managed by Co-operative and Community Finance, which is authorised and regulated by the Financial Conduct Authority.
- 9 www.communitysharesfund.coop/
- 10 www.co-operative.coop/corporate/Public-Service-Mutuals/
- 11 www.therochdalepioneers.co.uk/
- 12 www.co-operative.coop/graphicnovel
- 13 www.uk.coop/cespis

Economic impact

- 1 www.co-operative.coop/Annual-Results-2012
- 2 Underlying Group operating profit measures the normal underlying business performance and removes from operating profit the following volatile or one-off costs: property disposal gains/losses, investment property

- fluctuations, Financial Services Compensation levy, fair value amortisation, significant items.
- 3 The Banking Group operating result is presented before tax, FSCS levies, significant items, share of post tax profits from joint ventures and fair value amortisation.
- 4 Value added = operating profit + employee costs + depreciation + amortisation + impairment of property, plant and equipment; goodwill and intangible assets + significant items (excluding impairment, because already included above).
- 5 Based on GRI G3.1 Indicator EC1 guidance, and the UK Government's Department for Innovation, Universities and Skills' Value Added Scoreboard Methodology.
- 6 The Group's Travel business, Life and Savings business and a small number of former Somerfield stores have not been included in this calculation. This reflects the Group's 2010, 2011 and 2012 financial statements, which show these items as discontinued and therefore not included in the trading profit figures.
- 7 Ibid.
- 8 Ibid.
- 9 Based on the London Benchmarking Group (LBG) total figure, which assesses the total amount distributed to the community. This differs from the £18.3m figure reported in the UK communities section which is calculated differently, as detailed on page 9.

Employees

- 1 Figures show headcount.
- 2 Discretionary effort refers to the effort that employees are prepared to go to above and beyond the tasks within their job descriptions. The question asked in the staff survey is 'I am prepared to "go the extra mile" for The Co-operative to succeed'.
- 3 www.co-operative.coop/energysavingadvice
- 4 Based on employee feedback of actions undertaken from the website.
- 5 Recent changes include the merger of our financial services business with Britannia in 2009 and the acquisition of Somerfield in 2010.
- 6 Avoidable turnover excludes 'End Of Fixed Term Contract', 'Transfer Of Undertaking', 'Retirement – Normal', 'Retirement – Early', 'Resignation – Return To Studies', 'Resignation – Failed To Start', 'Resignation – End Of Studies', 'Redundancy – Voluntary', 'Redundancy – Compulsory', 'Redundancy and Retirement', 'End Of Seasonal/Temporary Work', 'End Of Apprenticeship/YTS', 'Death in Service', 'Redundancy – Re-organisation'.
- 7 Full details of trades unions recognised available online .
- 8 Data taken from 2011/12 being the most up-to-date market data available at time of publication. Highest total pay = 2011/12 salary, bonus paid in relation to 2011/12, expected value of long-term incentives at grant, pension and benefits, net of income tax and employees' national insurance (based on 2011/12 rates), sourced from Report and Accounts. Lowest total pay = 2011/12 salary (based on the over 18 hourly rate and standard full-time working week) and bonus paid in relation to 2011/12 (salary and bonus data sourced from IDS 'Pay and Conditions in Retail'), assumed combined pension and benefits worth 10% of base salary, net of income tax and employees' national insurance (based on 2011/12 rates).

- 9 Based on full-time equivalent salaries. Historic data is available online .
- 10 Every Banking Group colleague is eligible; however the scheme rules include qualifying dates, performance criteria and pro rating in respect of absence.
- 11 Figure includes head office management-level employee scheme.
- 12 Figure as of May 2012.
- 13 This is pro rata for part-time or new employees.
- 14 The Group contributes a higher percentage of pensionable pay than that required.
- 15 CIPD (2012) Absence Management Annual Survey Report 2012 (an unadjusted average is used).
- 16 The Trading Group figures have been restated based on full time equivalent (FTE) employees, as per good practice. FTE employee figures were as follows: 2009: 50,129; 2010: 63,970; 2011: 62,314; 2012: 58,202.
- 17 The Health and Safety Executive (HSE) changed the employee accident absence period in 2012, from three-day absence reporting to seven-days absence, which is used to determine when an absence-related accident is reported. This change contributed to the reduction in accidents achieved in 2012.
- 18 In previous years reported accident data for the Banking Group has been inconsistent with HSE reporting guidelines. In 2011, the reporting procedure was improved to be consistent with the guidelines, thus figures are not applicable or comparable prior to 2011.
- 19 In 2013, the provider of this service changed from AXA ICAS to Validium.
- 20 Figures for causes of absence are based on days absent.
- 21 CIPD, Absence Management Annual Survey Report, 2012.
- 22 The Speak Up service was previously not available to the Banking Group.

Customers

- 1 GfK NOP (2011) Consumer Confidence Index (www.gfknop.com/pressinfo/releases/singlearticles/009177/index.en.html)
- 2 GfK NOP (2012) Consumer Confidence Index (www.gfknop.com/pressinfo/releases/singlearticles/010716/index.en.html)
- 3 Page 3, 2011 Annual Report (www.co-operative.coop/Corporate/PDFs/Annual-Report/Annual_Report_2011.pdf)
- 4 www.co-operativebankinggroup.co.uk/servlet/Satellite?c=Page&cid=1166524495174&pagename=Corp%2FPage%2FtpICorp&loc=t
- 5 This measure will be taken from the new Banking Group Customer Satisfaction study, piloted in 2012 and rolled out in 2013.

- 6 www.which.co.uk/news/2012/09/high-street-banks-failing-on-customer-satisfaction-295883. Excludes online only banks.
- 7 GfK Customer Advocacy Score, December 2012.
- 8 To establish this, we assessed how important different aspects of customer experience are to our businesses and used the results to develop our questionnaires that focus specifically on the highest priority requirements. The results from these prioritised questionnaires form an index result that provides greater insight into the steps needed to improve performance. The index result is weighted towards attributes ranked most highly by customers and expressed as an overall percentage.
- 9 The figure of 500 relates to those we contact directly and comprises figures for Food, Pharmacy and Life Planning. For Food, we carry out 217 telephone interviews per month; for Pharmacy, we conduct exit interviews outside 25 branches per quarter, resulting in over 150 interviews per month; for Life Planning, we speak to direct purchasers on the telephone, Funeralcare purchasers via a postal survey, and enquirers on the telephone.
- 10 Data presented is an average of quarterly satisfaction scores.
- 11 A self-completion postal survey is issued by The Co-operative Legal Services (CLS) and Funeralcare. In the case of CLS, 'satisfied' customers are those who rate their satisfaction with The Co-operative as nine or 10 out of 10. Approximately 1,400 surveys are returned to CLS each quarter. In Funeralcare, satisfied customers are those who report they are 'very satisfied' or 'fairly satisfied' on a four-point scale.
- 12 Advocacy measures willingness to recommend a company, product or service to a friend or family member.
- 13 www.gfknop.com/sectors/financial/whatwedo/frs/index.en.html
- 14 The peer group varies according to product types.
- 15 Measurement is based on the percentage of customers rating their likelihood to recommend as eight, nine or 10 out of 10. Results are then weighted to reflect the number of customers who take up each product featured in the survey, to generate an overall score.
- 16 Telephone interviews with 549 corporate banking customers were undertaken in Q3 2012 and with 404 business banking customers in Q3 2012. Each survey measures satisfaction with those elements of service considered to be most important to customers.
- 17 Business customers with turnover exceeding £1m.
- 18 Reported in accordance with FSA requirements based on half-yearly figures.

- 19 H1: www.co-operativebankinggroup.co.uk/servlet/Satellite?c=Page&cid=1361784121798&pagename=Corp%2FPage%2FtpICorp; H2: www.co-operativebankinggroup.co.uk/servlet/Satellite?c=Page&cid=1278666470105&pagename=Corp%2FPage%2FtpICorp. We have changed how we report our complaints data, and in the second half of 2012 used an approach we believe to be more in line with others in the industry. As a result we no longer report on each aspect of a complaint separately where a customer raises more than one issue as part of the same complaint. Nevertheless, our levels have still reduced by around 5% on a comparable basis during the second half of 2012.
- 20 Reported in accordance with FCA requirements based on half-yearly figures.
- 21 Historical data for product complaints in 2009 have not been included, as these do not include former Somerfield, and therefore are not comparable with 2010, 2011 and 2012 data.
- 22 Based on data for the first half of 2012. FSA (2012). Aggregate complaints data 2012 H2 www.fsa.gov.uk/library/other_publications/commentary. H2 figure for 2012 was 97%.
- 23 This is also prominent on the website in line with our NHS contractual requirements.
- 24 As this does not capture those made at a local level direct to branch team, we believe the increase in compliments may be even greater.
- 25 A regulated complaint refers to a complaint that has not been resolved by close of business the day after it has been received.
- 26 www.fsa.gov.uk/library/other_publications/commentary/firm_spec
- 27 www.co-operativebankinggroup.co.uk/servlet/Satellite?c=Page&cid=1278666470105&pagename=Corp%2FPage%2FtpICorp

Suppliers

- 1 The Co-operative Farms is focusing on crops already grown – potatoes, apples and strawberries – to help to meet this target.
- 2 Unless there are quality, financial, availability or ethical issues that would prevent this.
- 3 Standard beef, pork and British lamb are already fed a diet containing GM, as are dairy cattle.

Public policy

- 1 www.party.coop

The Co-operative at a glance

- 1 Figure differs from that presented in the Annual Report and Accounts, due to slightly different reporting timeframes.
- 2 Ibid.

- 3 Includes Corporate, Group costs and other adjustments of -£18m. Excludes VAT.

Managing sustainability

- 1 Sustainability leadership research is conducted on behalf of The Co-operative Group on a quarterly basis. Figures show average results for three surveys over 2012.
- 2 The Co-operative complies with the UK Combined Code on Corporate Governance as far as it is applicable to an Industrial and Provident Society. Compliance is reported in the Annual Report and Accounts of The Co-operative Group (page 33) and The Co-operative Banking Group Financial Statements (page 13).
- 3 There are also three subsidiary boards, for the Banking Group, Food business, and other customer-facing businesses respectively.
- 4 Terms of reference for the V&P Committee can be found at: www.co-operative.coop/corporate/Investors/Governance/
- 5 The V&P Committee met four times during 2012 and also held a conference at which it met with regional V&P committees.
- 6 Full-time equivalent. Accurate as at December 2012.

- 7 The Executive Director of Corporate Affairs oversees Public Affairs, Public Relations, Corporate Communications and Social Goals.
- 8 The Co-operative Group Annual Report and Accounts 2012 pages 41–43.
- 9 Most recent payment based on 2012 BITC CR Index rank.
- 10 The Co-operative Group Annual Report and Accounts 2012 pages 26–29 and The Co-operative Banking Group Financial Statements 2012 pages 54–57.
- 11 The Audit and Risk Committee comprises five Board members. Among other things, the Committee monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance, together with any significant financial reporting judgements contained in the financial statements.
- 12 The Banking Group's certification extends to the complete range of operations, activities, products and services (personal and corporate banking, insurance, investments and pensions) of The Co-operative Banking Group (including, but not limited to, The Co-operative Bank, The Co-operative Insurance, smile the internet bank, Britannia and Platform).

- 13 The Co-operative Food and The Co-operative Banking Group have member-mandated and customer-mandated ethical policies respectively; The Co-operative Pharmacy and The Co-operative Funeralcare have ethical strategies. In 2012, these parts of the business accounted for 85% of total revenue.
- 14 Respondents comprised 64,000 Co-operative Group members and 36,000 members of other co-operative societies. Respondents to the consultation were representative of the overall membership base in terms of age, gender and location.
- 15 www.globalreporting.org
- 16 www.accountability.org
- 17 As reported in The Co-operative Group Sustainability Report 2011, page 58.

About this Report

Scope of this Report

This is our 2012 annual Sustainability Report, published in June 2012.

Performance relates to the calendar year 2012 (unless otherwise stated) and to our operations and stakeholders. It covers those businesses wholly owned by The Co-operative Group (page 100). Reporting on products sold by The Co-operative Food focuses on own-brand products, which accounted for 45% of sales by value in 2012 (2011: 46%). Like other retailers, we have greater influence over own-brand than we do branded products, and our priority is the improvement of the sustainability of these products.

Family of businesses

Throughout this Report, 'Trading Group' is used to describe all parts of our business, with the exception of The Co-operative Banking Group.

Business change

The Co-operative Clothing and Sunwin Services

We divested The Co-operative Clothing and Sunwin Services Group in 2012. Operational data relating to these businesses is reported, as part of business-wide figures, up to the point at which they ceased to be owned by the Group, unless detailed otherwise.

The Co-operative Motors

A number of The Co-operative Motors dealerships were divested in 2012. Operational data relating to those dealerships is reported, as part of business-wide figures, up to the point at which they ceased to be owned by the Group, unless detailed otherwise.

Co-operative Insurance Ltd and The Co-operative Asset Management

In 2013, the Banking Group announced the signing of agreements for Royal London to acquire its Life Insurance and Asset Management businesses, comprising Co-operative Insurance Ltd and The Co-operative Asset Management (TCAM). The acquisition is subject to regulatory approvals and the approval of Royal London members. Operational data relating to these parts of the business is reported as part of business-wide figures for the whole of 2012. Details of TCAM business engagements during 2012 can be found at www.co-operativeassetmanagement.co.uk.

General insurance

In early 2013, we announced our intention to seek a buyer for our General Insurance (GI) business.

The Co-operative Travel

The Travel business transferred into a joint venture with Thomas Cook in 2011. We retain a 30% share of the new entity,

but do not report any performance data relating to it. In addition, historic environmental performance data has been adjusted to remove Travel, to allow year-on-year comparisons.

More information on The Co-operative Group's businesses and subsidiaries can be found at: www.co-operative.coop/corporate/aboutus

Online reporting

Our online Report is available at www.co-operative.coop/sustainabilityreport. It includes a limited amount of additional information, as denoted by the following symbol, throughout this Report .

Where a review of previously reported data has identified inaccuracies, or a methodology for calculating data has changed, information is restated and identified by the following symbol . Details of restatements are provided in the online Report .

GRI and assurance

This Report is aligned with the Global Reporting Initiative's G3.1 Guidelines, achieving an A+ application level – the full GRI index can be found online .

We were the first UK bank and food retailer to produce a report to an A+ level.

All data and commentary are assured by Two Tomorrows in accordance with the AA1000 Assurance Standard (2008) (page 105).

2012 targets overview

During 2012, we worked towards a series of targets set in previous years, many of which were long-term Ethical Plan targets  (page 101). Throughout the Report, progress against targets is classified into one of the categories below.

 TARGET ACHIEVED	 ON TRACK	 CLOSE TO TARGET	 BEHIND SCHEDULE	 TARGET NOT ACHIEVED
37 out of 96 2011: 62 out of 104	31 OUT OF 96 2011: 20 OUT OF 104	7 out of 96 2011: 5 out of 104	11 out of 96 2011: 9 out of 104	10 out of 96 2011: 7 out of 104

Keep in touch

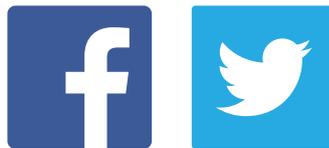
Visit www.jointherevolution.coop for regular updates on our sustainability initiatives and news from our family of businesses.



Be part of the conversation at Facebook and Twitter:

www.facebook.com/thecooperative

www.twitter.com/thecooperative



Our online Sustainability Report includes additional performance information, a short film and summary report for download, along with an archive of previous Sustainability Reports: www.co-operative.coop/sustainabilityreport.



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