# News release

7 April 2022

**Full Year Announcement: 52 week period ended 1 January 2022**

## Co-op continues planned strategic investment for the benefit of colleagues, members and businesses

### H2 sales and profitability impacted by food supply chain disruption during system transformation

### Financial Highlights

- Total group revenue up £0.3bn to £11.2bn against pre pandemic levels (2019: £10.9bn), down slightly year-on-year, reflecting unprecedented Covid-related sales in 2020 (2020: £11.5bn) and impact of significant supply chain disruption and system transformation in Food in H2 to support moves to an increasingly multichannel offer.
- Profit before tax of £57m, up £33m on pre pandemic (2019: £24m); down £70m on last year (2020: £127m); one-off £99m gain* from early settlement of the Group Relief Liability owed to Co-operative Bank PLC.
- Underlying operating profit of £100m (2019: £173m, 2020: £235m); reflecting increased investment in colleagues and businesses and H2 supply chain impacts.
- Net debt £920m**, (2019:  £695m, 2020: £550m) reflecting various factors, including increased capital expenditure, investment in stock during supply chain disruption, negative cash flow timings and furlough repayment; net debt has improved significantly since year end.
- More new members recruited than previous two years - 517,000 (2019: 470k) (2020: 445k); with almost two fifths (39%) aged 35 and under.
- £21m shared with members through member rewards and £10m in total saved by members by redeeming digital offers.

### Key investments

- £140m invested in Food store estate, including opening 50 new stores; 87 store refits; 25 relocations and 15 store extensions, bringing us closer to our customers.
- £39m invested in enhancing Food supply chain; including our new depot which opened this year.
- £20m invested on annualised basis, aligning frontline colleague pay to Real Living Wage.
- £18m invested in reducing prices across our businesses for our members and customers.

### Vision Highlights: ‘Co-operating for a Fairer World’

- Supporting members and customers in the cost of living crisis, with £8.7m investment across 102 Honest Value products, absorption of supplier inflation on key products in our Food business, and holding prices in our Funeralcare business.
- Reached milestone of £100 million of funds shared with local communities, causes and charity partners over the last five years.
- More than 1 million members selected a Local Community Fund cause to support in the last round of funding.
- Raised more than £4.5m in 2021 through partnerships with Mind, Inspire and SAMH, supporting over 8,000 people to increase their resilience and mental wellbeing.
- Launched two major new colleague policies including a domestic violence policy and pregnancy loss policy.
- Key focus on colleague safety through ‘Safer Colleagues, Safer Communities’ campaign, investing in new technology and training, and successful campaigning for better protection in law for shopworkers against violence.

- Launched 10-Point Climate Plan, with significant commitments, including reaching net zero by 2040 and ambition to be world's first food retailer to produce carbon neutral own brand food and drink by 2025.

## Outlook

Food and Life Services have enjoyed a good start to the year; Food sales have outperformed the market in the first quarter following availability improvements and focus on value.

- Looking ahead, Co-op expects to face continued challenges during the year, including the final implementation of the business transformation in Food, current inflationary pressures and the economic uncertainty facing customers, members and colleagues.
- Court of Appeal increases judgment against IBM in relation to the long-standing dispute on the insurance IT transformation programme from approximately £13 million to approximately £80.5 million.
- The Board remains confident in the strategy, with a focus on driving growth through capital-light routes to market and a priority to further reduce debt while continuing to deliver against the Co-op vision of co-operating for a fairer world.

**Allan Leighton, Chair, Co-op said:**

"The past year has been a challenging one for our Co-op, but we continued as planned with our investment strategy to strengthen our Co-op's future state.

"I would like to thank our colleagues across the business whose passion and support continues to inspire and drive us forwards.

"We would all like to thank Steve Murrells for his outstanding contribution to our Co-op over the past 10 years and congratulate Shirine Khoury-Haq on her appointment.

"The economic headwinds look stark and will be tricky to navigate but through our continued planned strategic investments our Co-op is well placed to ride out the storm and prosper beyond."

**Shirine Khoury-Haq, Interim Chief Executive, Co-op said:**

"The Co-op is a business designed for the long term and that is the path we are on. The last year has seen us facing some significant challenges, including significant supply chain issues in the second half coming at the same time as our Food business transformation and increasing inflationary pressures. The difficult operating environment disproportionately impacted our Food business, given its focus on the community convenience market, with an operating model that is more reliant on flexibility in the supply chain.

"The Co-op remains uniquely positioned. We continue to be driven by our vision of co-operating for a fairer world and have a platform of businesses in the right markets to drive change, and get closer to our members, customers and communities. The significant investment we have made across our business in recent years now provides the basis for us to move forwards in a more efficient manner.

"As we look ahead, our focus must be on accelerating growth in our Food business through our four routes to market, whilst expanding our Life Services businesses, from Funeralcare to Insurance and Legal Services. We must also ensure our businesses are there for our members, customers, communities and suppliers who are experiencing the effects of the cost-of-living crisis, as we continuing to focus on our Honest Value range in Food and affordable services across Life Services.

"I am delighted to be leading this unique business and look forward to working with all our colleagues to take our Co-op to the next phase of its development."

## Business Highlights

### Food

- Total sales across Food and Wholesale up to £9.1bn, on two-year basis (2019: £8.9bn); down slightly on previous year (2020 £9.3bn) which was boosted by impact of initial lockdown on consumer behaviours.
- Strong underlying demand, with two-year like-for-like growth of 3.3% (excluding Fuel) and more than 9% in Wholesale.
- In spite of disruption to our business in H2, we continued to invest, pushing ahead with the implementation of new buying and supply systems.
- Key investment activity included:
    - Significant investment into logistics network to support availability and future growth, with biggest regional depot in Biggleswade.
    - Plans to construct a new facility alongside Newhouse depot in North Lanarkshire this year.
    - Opened 50 stores, refitted 87 stores.
- Invested in price including:
    - Launched Honest Value range in Food stores across Q4 2020 & Q1 2021, investing £8.7m across 102 products.
    - Invested in 94 GRO lines, committing £1.1m to align vegan product prices with meat-based equivalents.
    - Absorbed supplier inflation on key lines in protein and dairy, protecting prices and customer offer.
- In Wholesale, recruited 546 new stores to be serviced by Nisa and launched the refreshed Nisa Reward Scheme in the period.
- Significant e-commerce expansion:
    - More than doubled revenue in online business to £200m, through website and partnerships with Amazon, Starship and Deliveroo (2020: £70m) (2019: £4m).
    - E-commerce operations available across 1,600 stores, in more than 450 locations, available to over 55% of the population.
    - Looking to expand successful trial with Amazon Prime this year, with ambition to grow offering to serve 26m shoppers.
    - Launched vending machines and micro-supermarkets in a wide range of locations including offices and hospitals, allowing customers to self-serve conveniently.
    - Achieved fastest rollout of micro distribution hubs - more than doubling our ultra-fast grocery delivery services to 2,000 stores and reaching three-quarters of the population. .
- Continued to expand franchise operation with 22 new stores in 2021, totalling 36 stores, including first franchise in Scotland and first ever service station store in Cornwall.
- Growth across University partnership, servicing over 200k students with ten in-campus and off-campus stores.

### Funeralcare

- Overall revenue slightly down on prior year by £8 million to £264 million (2020: £272 million), reflecting lower death rate after the peak of the pandemic.
- Strong performance in funeral planning, with number of new clients up 5% on previous year (2021: 44,751) (2020: 42,497).
- Fully compliant with all CMA requirements ahead of the September 2021 deadline and submitted FCA application and Regulatory Business Plan in October 2021.
- Continued to invest in and transform the business:
    - offering more competitive prices to members and clients, maintaining prices since 2017 as well as reducing prices in direct cremations, making this increasingly popular option more affordable.
    - transforming and modernising with new digital capabilities to provide an omni channel experience for clients, including new ways to pay online and live web chat.
    - expanded choices to be more diverse and inclusive, including extension of African and Caribbean funeral options to additional locations and trialling a new eco proposition.

### Insurance

- New capital-light and customer centric business model has driven return to profitability with new business sales of £34m, up on the previous year (2020: £6m).

- Core areas of home and motor insurance both performed strongly, in first year of new business model, attracting 162,000 new customers.
- Delivered a major investment in customer experience and attracted new UK insurers to meet members' needs, improving prices and competitiveness.
- Covid continued to impact a number of insurance product lines:
  - Travel restrictions during the pandemic harmed consumer confidence and travel remained low.
  - Pet insurance saw a 20% sales increase as the pandemic led to an increase in pet ownership.
- Broadened our long-standing relationship with Neighbourhood Watch with launch of Student Watch: a new national initiative designed to improve student safety whilst on campus and away from home.

**Legal**

- Overall revenue increased by 9% compared to previous year (2021: £39m) (2020: £37m) with profits also increased.
- Probate up 20% year-on-year with number of cases opened over 6,000, and the estate planning division growing revenue by 11% year on year.
- Continued investment in digital capabilities and the launch of new products and services, including a lasting power of attorney digital service and a digital probate administration service.
- Continued to expand B2B partnerships with 19 new partners including leading banks, financial services providers and charities.

**ENDS**

*Generated from early settlement of liability owed to Co-operative Bank PLC, agreed at £48m, against historic expected liability of £147m; further details in 'Our financial performance' section
**Excluding lease liabilities

**Media Enquiries: For more information contact**:

Russ Brady (07880 784442, russ.brady@coop.co.uk)

Susanna Voyle (07980 894557, svoyle@headlandconsultancy.com)

Cat Turner (07834 090783, catherine.turner@coop.co.uk)

# Co-operative Group Limited

## Annual Report and Accounts 2021

## Chair's introduction

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

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

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

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

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

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

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

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

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

As Steve will outline in his report, we must further ensure the security and long-term commercial viability of our Co-op, so that it can continue to serve and support for many more centuries to come. As we highlighted within our Interim report, the second half of the year proved to be a very challenging one within our Food business, where the well-publicised supply chain issues affecting the sector significantly impacted upon our trading performance. It is important that we keep our eyes totally centred on our business performance; our investment aligned with activity that will drive our price and product proposition; and our innovation focused on enabling us to compete and win within our chosen markets. 2022 is likely to be another testing year, but one we should face into with confidence and belief.

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

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

**Allan Leighton**

**Chair, The Co-op Group**

## Chief Executive’s overview

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

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

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

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

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

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

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

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

- **Supporting our communities:** In 2021, we celebrated that together, since 2016, we’ve raised £100 million for local communities, causes and charity partners. See the ‘Fairer for our members and communities’ section for everything our Co-op achieved in the locations we serve.

- **Fairer Access to Education and Employment for Young People**: We launched Cooplevyshare.co.uk in 2021 - an online platform bringing businesses together to create new apprenticeships for candidates from under-represented groups, who may routinely be overlooked or discriminated against. We also joined a new £5.2m investment, giving more than 6,000 young people an opportunity to make their communities fairer and safer.

- **Diversity and inclusion:** I was delighted to see our colleague networks breathe life into a rich calendar of celebrations and significant landmarks for different cultures. These groups remain key to shaping how we become actively anti-racist, as do our diversity and inclusion commitments, helping us achieve true inclusivity and respect the diversity within our Co-op.

- **Climate change:** I made a point of attending COP26 in Glasgow in October to emphasise that climate action needs to be accessible and inclusive in order to make the difference that's so desperately needed. Co-op has its own 10-Point Climate Plan, which underpins our own mission to be a net zero business before 2040. More information is available in the 'Fairer for our planet' section of this report.

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

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

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

## Financial overview

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

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

There are some other significant items within our figures this year that also make a simple year-on-year comparison more complicated, including a one-off gain of £99m. This is generated from an early settlement of a liability agreed at £48m against a historic liability of £147m, owed to Co-operative Bank PLC. Further details on this are available in the 'Our financial performance' section.

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

### Costs and key investments

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

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

- £19.7m invested on annualised basis aligning frontline colleagues' pay with the Real Living Wage.
- £140m invested in our Food store estate, including opening 50 new stores; 87 store refits; 25 relocations and 15 store extensions, bringing us closer to our customers.

- £38.6m invested in Biggleswade depot, a key part of our Food infrastructure, opening in 2022.

- £8m invested in reducing prices for funerals, at a time where families across our whole country needed it most.

- £3.6m invested in developing ecommerce within our Food business, which has seen our group become available to 55% of the UK population as a result.

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

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

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

## Business unit updates

- **Food**

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

---

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

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

**A year of investment**

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

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

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

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

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

**Strengthening our four routes to market**

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

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

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

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

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

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

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

**Showcasing our Co-op Values through our products and services**

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

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

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

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

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

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

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

- **Funeralcare**

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

---

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

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

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

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

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

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

**Modern, diverse and inclusive in every way**

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

In 2021, we:

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

**A true omni-channel approach to client engagement**

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

In 2021, we:

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

**More efficient ways of serving our clients**

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

All of this couldn't have been achieved without our dedicated, caring and professional Funeralcare colleagues. This year we have built on our work to create a safe, diverse and inclusive environment. We've supported our colleague wellbeing with the development of our Psychological First Aiders and we have rolled out inclusion training to all managers. We recognise the unique and pivotal role our teams have in dealing with grief and bereavement on a daily basis - our focus in 2021 and into the future is to provide exceptional care for our colleagues who are the heartbeat of our business.

- ## Insurance

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

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

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

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

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

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

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

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

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

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

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

- **Legal Services**

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

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

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

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

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

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

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

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

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

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

- 24/7 access to legal services.
- A personalised list of tasks to complete, which highlights risks when managing the estate of someone who has died.
- Clear, structured guidance allowing customers to form clear, legally binding instructions for their attorneys. It provides security that their health, wellbeing and finances are being managed as they would wish.
- A free-to-use executor tool. Everyone can access initial bespoke guidance to understand their legal responsibilities when managing the estate of someone who has died.

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

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

## Co-operating for a Fairer World

We live in a world where:

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

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

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

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

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

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

## Fairer for our members and communities

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

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

**Member recruitment**

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

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

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

**Engaging our members**

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

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

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

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

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

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

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

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

**Supporting and understanding our communities**

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

Selected causes receive a share of the financial support generated by our members when they shop at Co-op. So we're delighted that, during 2021, a record-breaking one million members selected a Local

Community Fund cause in our final round. This is the highest level of cause selection we've ever seen in a single round.

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

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

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

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

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

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

**Raising funds together**

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

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

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

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

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

**Our three missions**

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

- **Fairer Access to Food**

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

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

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

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

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

We're proud to have been one of the first retailers to confirm our participation in the End Child Food Poverty Taskforce convened by Marcus Rashford. The Taskforce campaigned for the Government to expand eligibility for the Free School Meal scheme to include every child, extend the Holiday Activity and Food Programme to all areas in England, and increase the value of Healthy Start Vouchers to £4.25 per week - a cause for which our members also actively used their voice.

- **Fairer Access to Mental Wellbeing Support**

Of equal importance is fairer access to mental wellbeing support, and we've seen the need for this grow rapidly. It's well documented that the pandemic has had a significant impact on the mental wellbeing of the nation, with 65% of adults and 68% of young people reporting that their mental health has declined. Data from Mind (2021), Coronavirus: the consequences for mental health, July 2021.

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

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

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

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

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

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

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

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

In February 2021, we also announced Cooplevyshare.co.uk – an opportunity for employers to come together and support apprenticeships for individuals from under-represented socio-economic groups.

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

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

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

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

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

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

**Member Pioneers**

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

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

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

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

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

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

**Co-op Foundation**

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

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

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

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

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

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

## Fairer for our colleagues

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

**Safer Colleagues, Safer Communities**

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

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

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

We've continued to campaign for better protection in law, working with MPs, unions and other retailers to get new legislation that increases the penalty given for violence towards a retail worker. In January 2021, the Scottish Parliament voted in favour of the Protection for Workers (Retail and Age-restricted Goods and Services) Bill, which creates a new statutory offence of assaulting, threatening or abusing a retail worker.

We were also pleased that the Government has accepted the need for a change in law in England and we look forward to seeing that legislation put in place in the early part of 2022.

**Colleague wellbeing**

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

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

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

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

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

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

- We've made our Headsmart mental health training available to all managers, to help them understand the importance of wellbeing, identify the signs of poor mental health and approach the issue.
- We've launched Wagestream to all colleagues, allowing thousands of them to access their earned pay between pay days and open a savings account paying 5% interest. Colleagues have told us Wagestream has reduced their stress levels and improved their finances.
- We've sent all our colleagues a wellbeing booklet and wallet card to show them all the support we have available in one place.
- We've launched a pilot of YuLife, which will incentivise colleagues for healthy behaviours. YuLife is an app that puts all Co-op benefits in one place and rewards colleagues for simple healthy activities, like walking and meditating, with YuCoin. YuCoin can be exchanged for vouchers from brands including Amazon, ASOS and Nike.
- We've continued our other partnerships to support physical, mental and financial wellbeing such as Smart Health, which provides all colleagues and their families with access to virtual GPs and support in areas such as mental health, complex medical cases, nutrition and fitness.
- Our wellbeing platform, provided by LifeWorks, has continued to grow in popularity, giving colleagues access to a range of self-help wellbeing resources. We're also continuing to partner with Stepchange, Neyber, Co-operative Credit Union and Keep Credit Union to bring quality financial wellbeing guidance to colleagues. We've created a wellbeing hub to help our leaders easily access all wellbeing content from one place to support their teams.
- During Mental Health Awareness Week, we ran 40 virtual events on numerous mental wellbeing topics, inviting partners such as Mind, SAMH and Inspire to host.

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

**Diversity and inclusion**

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

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

- We've delivered over 3,000 inclusion learning opportunities alongside a more diverse range of activity through our Inclusion Calendar.
- We've ensured inclusion objectives are embedded in our individual and collective leadership goals this year with all our senior leaders striving to lead by example.
- We launched our Advancing Diverse Talent Programme, developed for ambitious colleagues from ethnic minority backgrounds, to furnish them with skills and techniques to draw upon, against barriers to development and progression.
- We've created a programme of learning that celebrates all facets of diversity, bringing Rosh Hashanah and Trans Awareness Week to the forefront. We have worked in a more intersectional way across our colleague networks, in support of understanding more about our colleagues and their lived experiences.
- We launched our first English as a Second Language offering for colleagues, having listened to feedback and ideas from our colleagues. We saw more than 400 people sign up.
- We've also translated policies into several different languages for the first time, starting with our new Domestic Abuse Policy.
- Our discovery groups and listening circles focused on areas such as how we celebrate cultural events, and accessibility to items needed for prayer and cultural practice.
- We've also been analysing our colleague data to understand how we can drive better decisions that support not only our most marginalised colleagues, but all of our colleagues. Our ongoing focus on data has seen us working alongside our leaders to understand the value of our colleague diversity information and its role in decision making. 65% of our 60,000 colleagues have shared their data with us.

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

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

**Fair pay and meaningful work**

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

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

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

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

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

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

### Transforming our leadership

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

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

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

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

## Fairer for our planet

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

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

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

- We'll follow the science in our target setting and decision making. Above all else we must rapidly reduce the carbon we put into the air.
- We'll work for a fair and just transition for people and planet. Solving the climate crisis can't come at the expense of those who can least afford it.
- We'll co-operate to drive systems change because we recognise that we are stronger and more effective when we work with others.

### Our route to net zero by 2040

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

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

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

### Climate justice for people and the planet

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

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

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

**Together we can make a difference to climate change**

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

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

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

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

Finally, Co-op will focus its campaigning influence to drive improvements at a national and global level, collaborating with Government and other businesses to lead the change that we need to make as an industry; all while developing easy ways for our customers and members to do good for themselves and the planet.

**Reducing our impact through our businesses**

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

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

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

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

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

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

## Creating an even stronger and more agile Co-op

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

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

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

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

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

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

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

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

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

We have a plan to achieve this by:

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

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

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

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

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

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

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

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

**Steve Murrells**

**CEO, The Co-op Group**

## Our financial performance

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

* Refer to Note 1 of our financial statements for a definition of underlying profit before tax.

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

## Our headline performance

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

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

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

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

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

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

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

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

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

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

## How our businesses have performed

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

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

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

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

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

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

We have continued to grow our Legal Services business with a slight increase in sales to £39 million (2020: £37 million) and profits up to £5 million (2020: £4 million) and, following its launch in December 2020, our

Insurance (distribution and marketing) business generated profits of £11m (2020: £2m loss) on sales of £31m (2020: £6m), showing the agility and success of the revised business model.

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

### Property revaluations, disposals and one-off items

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

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

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

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

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

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

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

| **One-off items** | 2021 | 2020 |
|---|---|---|
| | **£m** | £m |

| | | |
|---|---|---|
| **Fit for future (restructuring in Food)** | **(17)** | - |
| **Reduction in deferred consideration (Nisa)** | **2** | - |
| **ATMs business rates refund** | **-** | 15 |
| **Pensions GMP equalisation** | **-** | (3) |
| **Total** | **(15)** | 12 |

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

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

## Financing

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

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

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

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

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

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

## Net debt and investment

Our total net debt at the year end was £2.4 billion including the IFRS 16 lease liability of £1.5 billion. Excluding the lease liability, net debt was £920 million. This represents an increase of £370 million from the

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

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

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

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

## Tax

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

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

See Notes 8 and 15 for more detail on Tax.

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

## Our balance sheet

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

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

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

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

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

## Consolidated income statement

for the period ended 1 January 2022

**What does this show?** Our income statement shows our income for the year less our costs. The result is the profit that we've made.

| Continuing Operations | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| Revenue | 2 | **11,151** | 11,472 |
| Operating expenses | 3 | **(11,097)** | (11,277) |
| Other income | 5 | **10** | 12 |
| **Operating profit** | 1 | **64** | 207 |
| Finance income* | 6 | **196** | 132 |
| Finance costs | 7 | **(203)** | (212) |
| **Profit before tax** | 1 | **57** | 127 |
| Taxation | 8 | **(25)** | (55) |
| **Profit from continuing operations** | | **32** | 72 |
| | | | |
| **Discontinued Operation** | | | |
| Profit on discontinued operation, net of tax | 9 | **13** | 5 |
| **Profit for the period (all attributable to members of the Society)** | | **45** | 77 |

* Finance income in 2021 includes a one-off gain of £99m following settlement of a liability (see note 6 for further details).

**Non-GAAP measure: underlying (loss) / profit before tax****

**What does this show?** The table below adjusts the operating profit figure shown in the consolidated income statement above by taking out items that are not generated by our day-to-day trading. This makes it easier to see how our business is performing. We also take off the underlying interest we pay (being the day-to-day interest on our bank borrowings and lease liabilities).

| Continuing Operations | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| Operating profit (as above) | | **64** | 207 |

| | | | |
|---|---|---|---|
| Add back / (deduct): | | | |
| One-off items | 1 | **15** | (12) |
| Property, business disposals and closures | 1 | **30** | 41 |
| Change in value of investment properties | 26 | **(9)** | (1) |
| **Underlying operating profit** | 1 | **100** | 235 |
| Less underlying loan interest payable | 7 | **(56)** | (63) |
| Less underlying net interest expense on lease liabilities | 6, 7 | **(76)** | (72) |
| **Underlying (loss) / profit before tax** | | **(32)** | 100 |

The accompanying notes form an integral part of these financial statements.

** Refer to Note 1 for a definition of underlying (loss) / profit before tax.

# Consolidated statement of comprehensive income

for the period ended 1 January 2022

**What does this show?** Our statement of comprehensive income includes other income and costs that are not included in the consolidated income statement on the previous page. These are usually revaluations of pension schemes and some of our financial investments.

| | Notes | **2021** £m | 2020 £m |
|---|---|---|---|
| **Profit for the period** | | **45** | 77 |
| **Items that will never be reclassified to the income statement:** | | | |
| Remeasurement gains / (losses) on employee pension schemes | 27 | **350** | (83) |
| Related tax on items above | 8 | **(130)** | - |
| | | **220** | (83) |
| **Items that are or may be reclassified to the income statement:** | | | |
| Gains less losses on fair value of insurance assets* | | **-** | 6 |
| Fair value losses on insurance assets transferred to the income statement* | | **-** | (2) |
| Fair value losses on insurance assets transferred to the income statement on disposal of subsidiary* | | **-** | (18) |
| Gain on revaluation of Right-of-use assets prior to transfer to Investment property** | | **5** | - |
| Related tax on items above | 8 | **-** | 3 |
| | | **5** | (11) |
| **Other comprehensive profits / (losses) for the period net of tax** | | **225** | (94) |
| **Total comprehensive profit / (loss) for the period (all attributable to members of the Society)** | | **270** | (17) |

The accompanying notes form an integral part of these financial statements.

* The sale of our Insurance underwriting business completed on 3 December 2020. The results of that business have been classified as a discontinued operation in the Consolidated income statement in both 2020 and 2021 with assets and liabilities transferred to held for sale in the 2019 Consolidated balance sheet. Further details on discontinued operations are given in Note 9 (Profit / (loss) on discontinued operations, net of tax).

** During the year, we reviewed how we identify Investment properties and have reclassified £5m of assets from Property, plant and equipment (Note 11) and £28m from Right-of-use assets (Note 12) to Investment properties (see Note 26). Prior to the transfer from Right-of-use-assets a £5m uplift to fair value was recorded through the Consolidated statement of comprehensive income.

# Consolidated balance sheet

as at 1 January 2022

**What does this show?** Our balance sheet is a snapshot of our financial position as at 1 January 2022. It shows the assets we have and the amounts we owe.

| | Notes | **2021 £m** | 2020 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **1,912** | 1,955 |
| Right-of-use assets | 12 | **1,086** | 1,031 |
| Goodwill and intangible assets | 13 | **1,075** | 1,105 |
| Investment properties | 26 | **55** | 17 |
| Investments in associates and joint ventures | | **4** | 3 |
| Funeral plan investments | 14 | **1,372** | 1,331 |
| Derivatives | 29 | **-** | 3 |
| Pension assets | 27 | **2,262** | 1,931 |
| Trade and other receivables | 17 | **214** | 203 |
| Finance lease receivables | 12 | **30** | 34 |
| Contract assets (funeral plans) | 18 | **43** | 60 |
| **Total non-current assets** | | **8,053** | 7,673 |
| **Current Assets** | | | |
| Inventories | 16 | **488** | 460 |
| Trade and other receivables | 17 | **551** | 546 |
| Finance lease receivables | 12 | **12** | 11 |
| Contract assets (funeral plans) | 18 | **5** | 6 |
| Derivatives | 29 | **4** | - |
| Cash and cash equivalents | 20 | **60** | 269 |
| Assets held for sale | 19 | **7** | 21 |
| **Total current assets** | | **1,127** | 1,313 |
| **Total assets** | | **9,180** | 8,986 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 21 | **796** | 803 |
| Lease liabilities | 12 | **1,306** | 1,234 |
| Trade and other payables | 22 | **44** | 214 |
| Contract liabilities (funeral plans) | 23 | **1,614** | 1,570 |
| Derivatives | 29 | **2** | 1 |
| Provisions | 24 | **74** | 85 |
| Pension liabilities | 27 | **4** | 77 |
| Deferred tax liabilities | 15 | **314** | 161 |
| **Total non-current liabilities** | | **4,154** | 4,145 |
| **Current liabilities** | | | |
| Overdrafts | 20 | **4** | - |
| Interest-bearing loans and borrowings | 21 | **180** | 16 |
| Lease liabilities | 12 | **210** | 191 |
| Trade and other payables | 22 | **1,472** | 1,747 |
| Contract liabilities (funeral plans) | 23 | **164** | 167 |
| Derivatives | 29 | **3** | - |
| Provisions | 24 | **52** | 46 |
| Liabilities held for sale | 19 | **2** | 5 |
| **Total current liabilities** | | **2,087** | 2,172 |
| **Total liabilities** | | **6,241** | 6,317 |
| **Equity** | | | |
| Members' share capital | 25 | **74** | 74 |
| Retained earnings | 25 | **2,859** | 2,594 |
| Other reserves | 25 | **6** | 1 |
| **Total equity** | | **2,939** | 2,669 |
| **Total equity and liabilities** | | **9,180** | 8,986 |

The accompanying notes form an integral part of these financial statements.

## Board's certification

The financial statements are hereby signed on behalf of the Board pursuant to Section 80 (1) (a) of the Co-operative and Community Benefit Societies Act.

**Allan Leighton** - Chair
7 April 2022

**Steve Murrells** - Chief Executive

**Helen Grantham** - Group Secretary

# Consolidated statement of changes in equity
## for the period ended 1 January 2022

**What does this show?** Our statement of changes in equity shows how our reserves have changed during the year.

| **For the 52 weeks ended 1 January 2022** | Notes | **Members' share capital £m** | **Retained earnings £m** | **Other reserves £m** | **Total equity £m** |
|---|---|---|---|---|---|
| **Balance at 2 January 2021** | | **74** | **2,594** | **1** | **2,669** |
| Profit for the period | | **-** | **45** | **-** | **45** |
| **Other comprehensive income / (loss):** | | | | | |
| Remeasurement gains on employee pension schemes | 27 | **-** | **350** | **-** | **350** |
| Gain on revaluation of Right-of-use assets prior to transfer to Investment property* | | **-** | **-** | **5** | **5** |
| Tax on items taken directly to other comprehensive income | 8 | **-** | **(130)** | **-** | **(130)** |
| **Total other comprehensive income** | | **-** | **220** | **5** | **225** |
| **Balance at 1 January 2022** | 25 | **74** | **2,859** | **6** | **2,939** |

*During the year, we reviewed how we identify Investment properties and have reclassified £5m of assets from Property, plant and equipment (Note 11) and £28m from Right-of-use assets (Note 12) to Investment properties (see Note 26). Prior to the transfer from Right-of-use-assets a £5m uplift to fair value was recorded through other comprehensive income.

| **For the 52 weeks ended 2 January 2021** | Notes | Members' share capital £m | Retained earnings £m | Other reserves £m | Total equity £m |
|---|---|---|---|---|---|
| **Balance at 4 January 2020** | | 73 | 2,597 | 15 | 2,685 |
| Profit for the period | | - | 77 | - | 77 |
| **Other comprehensive income / (loss):** | | | | | |
| Remeasurement losses on employee pension schemes | 27 | - | (83) | - | (83) |
| Gains less losses on fair value of insurance assets** | | - | - | 6 | 6 |
| Fair value gains on insurance assets transferred to the income statement** | | - | - | (2) | (2) |
| Fair value losses on insurance assets transferred to the income statement on disposal of subsidiary** | | - | - | (18) | (18) |
| Tax on items taken directly to other comprehensive income | 8 | - | 3 | - | 3 |
| **Total other comprehensive loss** | | - | (80) | (14) | (94) |
| **Contributions by and distribution to members:** | | | | | |
| Shares issued less shares withdrawn | 25 | 1 | - | - | 1 |
| **Balance at 2 January 2021** | | 74 | 2,594 | 1 | 2,669 |

The accompanying notes form an integral part of these financial statements.

**The sale of our Insurance underwriting business completed on 3 December 2020. The results of that business have been classified as a discontinued operation in the Consolidated income statement in both 2020 and 2021 with assets and liabilities transferred to held for sale in the 2019 Consolidated balance sheet. Further details on discontinued operations are given in Note 9 (Profit / (loss) on discontinued operations, net of tax).

# Consolidated statement of cash flows

## for the period ended 1 January 2022

**What does this show?** Our statement of cash flow shows the cash coming in and out during the year. It splits the cash by type of activity - showing how we've generated our cash then how we've spent it.

| | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| **Net cash from operating activities** | 10 | **178** | 672 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(297)** | (253) |
| Proceeds from sale of property, plant and equipment | | **80** | 35 |
| Purchase of intangible assets | | **(28)** | (60) |
| Acquisition of businesses, net of cash acquired | | **(30)** | (31) |
| Disposal of businesses | | **22** | 104 |
| Payments to funds for pre-paid funeral plan sales | | **(93)** | (86) |
| Receipts from funds for pre-paid funeral plans performed or cancelled | | **105** | 107 |
| **Net cash used in investing activities** | | **(241)** | (184) |
| **Cash flows from financing activities** | | | |
| Interest paid on borrowings | | **(57)** | (79) |
| Interest paid on lease liabilities | | **(79)** | (77) |
| Interest received on subleases | | **3** | 3 |
| Interest received on deposits | | **-** | 1 |
| Settlement of Group Relief Creditor owed to The Co-operative Bank PLC* | | **(48)** | - |
| Issue / (repayment) of corporate investor shares | 21 | **1** | (1) |
| Repayment of borrowings | 21 | **(2)** | (246) |
| RCF drawdown | 21 | **163** | - |
| Payment of lease liabilities | | **(134)** | (128) |
| Derivative settlements | | **3** | - |
| **Net cash used in financing activities** | | **(150)** | (527) |
| Net decrease in cash and cash equivalents | | **(213)** | (39) |
| Cash and cash equivalents at beginning of period | | **269** | 308 |
| **Cash and cash equivalents at end of period** | | **56** | 269 |
| **Analysis of cash and cash equivalents** | | | |
| Cash and cash equivalents (per balance sheet) | 20 | **60** | 269 |
| Overdrafts (per balance sheet | 20 | **(4)** | - |
| | | **56** | 269 |

*Refer to Note 6 (Finance Income) for details of the settlement of the Group Relief Creditor owed to The Co-operative Bank PLC.

The balances above include cashflows from Discontinued operations. Cash & cash equivalents includes £6m (2020: £6m) of non-distributable cash held on behalf of customers in the process of purchasing funeral plans. Refer to Note 20 (Cash and cash equivalents).

The accompanying notes form an integral part of these financial statements.

| **Group Net Debt** | Notes | 2021 £m | 2020 £m |
|---|---|---|---|
| Interest-bearing loans and borrowings: | | | |
| - current | | **(180)** | (16) |
| - non-current | | **(796)** | (803) |
| Total Interest-bearing loans and borrowings | | **(976)** | (819) |
| Lease liabilities: | | | |
| - current | | **(210)** | (191) |
| - non-current | | **(1,306)** | (1,234) |
| Total Lease liabilities | | **(1,516)** | (1,425) |
| **Total Debt** | | **(2,492)** | (2,244) |
| - Group cash | | **60** | 269 |
| - Overdrafts | | **(4)** | - |
| **Group Net Debt** | 21 | **(2,436)** | (1,975) |

| | | |
|---|---|---|
| **Group Net Debt (excluding lease liabilities)** | **(920)** | (550) |

## Notes to the financial statements

# Section A - where do our profits come from?

### 1 Operating segments

**What does this show?** This note shows how our different businesses have performed. This is how we report and monitor our performance internally. These are the numbers that our Board reviews during the year.

| **2021** | **Revenue from external customers (e)** | **Underlying segment operating profit / (loss) (a)** | **Operating profit / (loss)** | **Additions to non-current assets (d,e)** | **Depreciation and amortisation** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Food** | **7,671** | **156** | **103** | **288** | **(332)** |
| **Wholesale** | **1,386** | **7** | **7** | **5** | **(9)** |
| **Funerals** | **264** | **12** | **14** | **28** | **(32)** |
| **Insurance** | **34** | **15** | **15** | **-** | **-** |
| **Legal** | **39** | **5** | **5** | **-** | **(1)** |
| **Other businesses (c)** | **1** | **(1)** | **(2)** | **-** | **-** |
| **Federal (f)** | **1,756** | **-** | **-** | **-** | **-** |
| **Costs from supporting functions** | **-** | **(94)** | **(78)** | **34** | **(31)** |
| **Total** | **11,151** | **100** | **64** | **355** | **(405)** |

| 2020 (represented*) | Revenue from external customers (e) | Underlying segment operating profit / (loss) (a) | Operating profit / (loss) | Additions to non-current assets (d,e) | Depreciation and amortisation |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | |
| Food | 7,765 | 350 | 316 | 264 | (306) |
| Wholesale | 1,577 | 6 | 6 | 6 | (7) |
| Funeral | 272 | 16 | (2) | 21 | (29) |
| Insurance | 6 | (2) | (2) | - | - |
| Legal | 37 | 4 | 4 | - | (1) |
| Other businesses (c) | 2 | (9) | (10) | - | - |
| Federal (f) | 1,813 | - | - | - | - |
| Costs from supporting functions | - | (130) | (105) | 22 | (37) |
| Total | 11,472 | 235 | 207 | 313 | (380) |

*Refer to (c) below and the general accounting policies section for details of the representation.

a) Underlying segment operating profit / (loss) is a non-GAAP measure of segment operating profit before the impact of property and business disposals (including impairment of non-current assets within our businesses), the change in the value of investment properties, and one-off items. Further detail on the Group's alternative performance measures (APMs) is given in the Jargon Buster section.

b) Each segment earns its revenue and profits from the sale of goods and provision of services, mainly from retail activities.

c) The Group identifies its operating segments based on its divisions, which are organised according to the different products and services it offers its customers. The operating segments (and the captions) reported above are based on the periodic results reported into the Chief Operating Decision Maker which is the Board and whether the respective division's results meet the minimum reporting thresholds set out in IFRS 8 (Operating Segments).

The results of our Insurance business (marketing and distribution) are now reported as a separate operating segment in the tables above in both the current and comparative periods (previously the results were reported within Other businesses but are now shown in their own segment having reached appropriate maturity). This is in-line with the way that information is now reported to our Board and follows the sale of our insurance underwriting business in December 2020 (the results of which have been reported in Discontinued Operations from 2018 and so were not shown in the segmental tables thereafter).

The Other businesses segment includes activities which are not reportable per IFRS 8. In the current and comparative period then this mainly comprises the results of Co-op Health which was sold on 6 April 2021.

Our other holding and support companies are included within costs from supporting functions.

d) Additions to non-current assets are shown on a cash flow basis.

e) The Group's external revenue and non-current assets arise primarily within the United Kingdom. The Group does not have a major customer who accounts for 10% or more of revenue. In-line with how information is presented to the Board then underlying segment operating profit includes an appropriate allocation of central support centre costs which are re-charged to the operating segments. There are no other material transactions between the main operating segments.

f) Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities.

g) Transactions between operating segments excluded in the analysis are £nil (2020: £1m) in the period of sales of legal cover made by Legal Services to our Insurance underwriting business (sold in December 2020).

h) Operating profit in 2021 includes £20m of government assistance received through business rates relief and no employee furlough payments have been received in 2021 (for the 52 weeks ended 2 January 2021 equivalent figures were £66m of business rates relief and £16m of employee furlough payments). These amounts have been netted against relevant cost lines in operating profit. As noted in our 2020 financial statements, Co-op has repaid the £16m it received in furlough payments in 2020 during the first half of 2021.

i) A reconciliation between underlying segment operating profit and operating profit is as follows:

| **2021** | **Food** | **Wholesale** | **Funeral** | **Insurance** | **Legal** | **Other businesses** | **Costs from supporting functions** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Underlying segment operating profit /(loss) | **156** | **7** | **12** | **15** | **5** | **(1)** | **(94)** | **100** |
| | | | | | | | | **-** |
| One-off items | **(17)** | **-** | **-** | **-** | **-** | **-** | **2** | **(15)** |
| Property, business disposals and closures | **(36)** | **-** | **2** | **-** | **-** | **(1)** | **5** | **(30)** |
| Change in value of investment properties | **-** | **-** | **-** | **-** | **-** | **-** | **9** | **9** |
| **Operating profit / (loss)** | **103** | **7** | **14** | **15** | **5** | **(2)** | **(78)** | **64** |

One-off items totalling a £15m charge (2020: £12m gain) are made up of a £17m charge in relation to organisational changes to colleague structures within our food store teams (under the Fit for Future programme) net of a £2m gain in relation to a reduction in the value of deferred consideration from our acquisition of Nisa. In the prior period the £12m gain included £15m of income received for refunded business rates in relation to externally facing ATMs following the Supreme Court ruling that ATMs outside stores should not be separately assessed for business rates net of a £3m charge in respect of aligning guaranteed minimum pensions for members of our schemes who have previously transferred out of the scheme.

| 2020 (represented*) | Food | Wholesale | Funeral | Insurance | Legal | Other businesses | Costs from supporting functions | Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Underlying segment operating profit /(loss) | 350 | 6 | 16 | (2) | 4 | (9) | (130) | 235 |
| One-off items | 15 | - | - | - | - | - | (3) | 12 |
| Property, business disposals and closures | (49) | - | (18) | - | - | (1) | 27 | (41) |
| Change in value of investment properties | - | - | - | - | - | - | 1 | 1 |
| Operating profit / (loss) | 316 | 6 | (2) | (2) | 4 | (10) | (105) | 207 |

* The results of our Insurance business (marketing and distribution) are now reported as a separate operating segment in the tables above in both the current and comparative periods (previously the results were reported within Other businesses but are now shown in their own segment having reached appropriate maturity). Refer to the general accounting policies section for details of the representation.

j) A reconciliation between Underlying operating profit and Profit before tax is provided below:

| | | **2021** | 2020 |
|---|---|---|---|
| **Continuing Operations** | | | |
| | Notes | **£m** | £m |

| | | | |
|---|---|---|---|
| **Underlying operating profit** | | **100** | 235 |
| Underlying loan interest payable | 7 | **(56)** | (63) |
| Underlying net interest expense on lease liabilities | 6, 7 | **(76)** | (72) |
| **Underlying (loss) / profit before tax** | | **(32)** | 100 |
| One-off items | 1 | **(15)** | 12 |
| Loss on property, business disposals and closures (see table below) | 1 | **(30)** | (41) |
| Change in value of investment properties | 26 | **9** | 1 |
| Finance income (net pension income) | 6 | **30** | 37 |
| Fair value movement on derivatives (net) | 6, 7 | **-** | 4 |
| Fair value movement on quoted Group debt | 6, 7 | **5** | (10) |
| Finance income (one-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc) | 6 | **99** | - |
| Finance income (funeral plans) | 6 | **54** | 88 |
| Finance costs (funeral plans) | 7 | **(58)** | (60) |
| Other non-cash finance costs | 7 | **(5)** | (4) |
| **Profit before tax from continuing operations** | | **57** | 127 |

| **Loss from property, business disposals, closures and impairment of non-current assets** | **2021** | | 2020 | |
|---|---|---|---|---|
| | **£m** | **£m** | £m | £m |
| Disposals, closures and onerous contracts | | | | |
| - proceeds | **80** | | 35 | |
| - less net book value written off | **(71)** | | (23) | |
| - provisions recognised | **(9)** | | (17) | |
| | | **-** | | (5) |
| Impairment of property, plant and equipment, right-of-use assets and goodwill | | **(30)** | | (36) |
| **Total** | | **(30)** | | (41) |

Impairment charges of £30m (2020: £36m) are split: Food £22m (2020: £36m), Funerals £nil (2020: £10m) and Costs from supporting functions saw a net impairment charge of £8m (which includes £6m of impairment reversals) (2020: £10m reversal) in respect of our non-trading property estate. The impairment charge in 2021 includes £3m on properties which have subsequently been transferred to Investment properties (see note 26 for details).

## 2 Revenue

**What does this show?** This note shows our net revenue (which excludes VAT) across our different businesses.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Sale of goods | **7,689** | 7,806 |
| Member reward earned on sale of goods | **(18)** | (41) |
| Provision of services | **341** | 321 |
| Member reward earned on provision of services | **(3)** | (4) |
| Wholesale sales | **1,386** | 1,577 |
| Federal sales | **1,756** | 1,813 |
| **Net revenue (as shown in the consolidated income statement)** | **11,151** | 11,472 |

### Accounting policies

Revenue is recognised in line with IFRS 15 (Revenue from Contracts with Customers). IFRS 15 defines performance obligations as a 'promise to provide a distinct good or service or a series of distinct goods or services'. Revenue is recognised when a performance obligation has been delivered which reflects the point when control over a product or service transfers to a customer. Revenue is measured based on the consideration set out in the contract with the customer and excludes amounts collected on behalf of third parties.

**Sale of goods**
The Group recognises revenue when it transfers control over a product to a customer. For the sale of goods, revenue is recognised at the point of sale. Any rebates, VAT and other sales tax or duty items are deducted from revenue.

**Provision of services**
Provision of services relates to activities in our Funerals, Legal services and Insurance (distribution and marketing services) businesses. Revenue is recognised when separate performance obligations are delivered to the customer. For funeral sales ('at need') and funeral plan sales ('pre need') the only separable performance obligation is the funeral itself and therefore revenue is only recognised when the funeral is performed (or the plan is redeemed and the funeral is performed). See Note 29 (Financial instruments) for further details of the accounting policies relating to prepaid funeral plans, funeral benefit options (FBO's) and low cost instalment plans (LCIP's). Revenue from Legal and Insurance services is recognised as distinct performance obligations are delivered to the customer.

**Contract liabilities**
Amounts received from funeral plan holders are deferred on the balance sheet within contract liabilities until the related funeral is performed. The deferred amount is subject to adjustment to reflect a significant financing component. This significant financing component is calculated based on the expected interest rate that would be reflected in a separate financing transaction between the Group and the plan holder at the inception of the contract and is charged to the income statement as a finance cost (Note 7) each period until the performance obligation is satisfied. The interest rate applied is fixed at inception of each plan and is based on an estimated incremental borrowing rate between the customer and the Group at the point the contract is entered into and reflects the security over our customers' plans through the whole of life policies we have in place. The corresponding obligation to deliver the funeral is shown in the consolidated balance sheet as a contract liability until the funeral is performed (at which point the revenue is recognised). See Note 23 (Contract Liabilities) for further details. When the service prescribed by the plan is delivered, revenue is recognised equal to the deferred revenue balance related to the specific plan.

**Contract assets**
A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) are deferred and shown in the consolidated balance sheet as a contract asset. The costs are then recognised in the consolidated income statement at the point that the funeral is performed and in line with when the revenue is recognised. See Note 18 (Contract assets) for further details.

**Member rewards**
The member rewards earned as part of the membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. From October 2020 onwards member rewards are earned at 2% of sales value (prior to that at 5%). The Community reward on member's spend is recognised as an operating expense in the income statement when it is earned (from October 2020 at 2% of sales value (prior to that at 1%)).

**Federal sales - principal versus agent presentation**
The Group operates a joint buying group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities. In accordance with IFRS 15 and based on the nature of the sales made to the other independent co-operatives and the level of control the Group has over the goods sold to those co-operatives the Group is acting as the principal in these transactions as opposed to an agent and records revenue on that basis.

## 3 Operating expenses

**What does this show?** This note shows the costs we have incurred during the period. It splits costs into key categories such as trading activities and employee benefits.

Operating profit is stated after (charging) / crediting the following:

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Cost of inventories recognised as an expense | **(7,894)** | (8,135) |
| Employee benefits expense (see below) | **(1,484)** | (1,507) |
| Distribution costs | **(508)** | (496) |
| Gain / (loss) on property, business disposals and closures (before impairments) | **-** | (5) |
| Impairment of plant, property and equipment and goodwill | **(5)** | (26) |
| Impairment of right-of-use assets | **(25)** | (11) |
| Impairment reversal on subleases | **1** | 1 |
| Net gain on other plant and equipment disposals | **2** | 2 |
| Change in value of investment properties | **9** | 1 |
| Depreciation of plant, property and equipment | **(254)** | (250) |
| Depreciation of right-of-use assets | **(122)** | (113) |
| Amortisation | **(29)** | (17) |
| Furlough (repayment) / receipt* | **(16)** | 16 |

| | | |
|---|---|---|
| Business rates relief received* | **20** | 66 |
| Subscriptions and donations | **(4)** | (4) |
| Community reward earned | **(19)** | (13) |

*Operating profit (see Note 1) includes £nil (2020: £16m) of employee furlough payments received under the UK Government's Coronavirus Job Retention Scheme and £20m (2020: £66m) of assistance through business rates relief in the first quarter of 2021. These amounts have been netted against relevant cost lines in operating profit. As noted in our 2020 financial statements, Co-op has repaid the £16m it received in furlough payments in 2020 during the first half of 2021.

**Employee benefits expense**

| | **2021** **£m** | 2020 £m |
|---|---|---|
| Wages and salaries | **(1,332)** | (1,323) |
| Social security costs | **(86)** | (82) |
| Pension costs - defined benefit schemes | **(5)** | (5) |
| Pension costs - defined contribution schemes | **(61)** | (60) |
| **Total employee benefits expense (continuing operations)** | **(1,484)** | (1,470) |
| **Total employee benefits expense (discontinued operations)*** | **-** | (37) |
| **Total employee benefits expense** | **(1,484)** | (1,507) |

Employee benefits expense includes executive directors.

The average number of people employed by the Group in the UK (including executive directors) was:

| | **2021** **Number** | 2020 Number |
|---|---|---|
| Full-time | **19,618** | 20,273 |
| Part-time | **42,919** | 43,982 |
| **Total (continuing operations)** | **62,537** | 64,255 |
| **Total (discontinued operations)*** | **-** | 963 |
| **Total** | **62,537** | 65,218 |

*The sale of our Insurance underwriting business (CISGIL) completed on 3 December 2020 and the results of that business have been included in Discontinued operations. We've recorded a profit after tax of £13m (2020: £5m) in Discontinued Operations (see Note 9 for further details). The 2020 figures noted in the tables above reflect the 11 month period in 2020 that CISGIL was under Co-op ownership.

| **Auditor remuneration and expenses** | **2021** **£m** | 2020 £m |
|---|---|---|
| Audit of these financial statements* | **1.6** | 1.8 |
| Amounts receivable by the Society's auditor in respect of: | | |
| - Audit of financial statements of subsidiaries in respect of the Society | **0.4** | 0.4 |
| Services relating to: | | |
| - Audit-related assurance services | **-** | - |
| - All other services | **0.1** | 0.1 |
| **Total** | **2.1** | 2.3 |

* 2020 figure restated to include audit overrun fees incurred but not finalised at the time the Group's accounts were published.

## Accounting policies

**Operating expenses**
Operating expenses are analysed by nature, as defined by IAS 1 (Presentation of Financial Statements). Payments to our members in their capacity as customers or colleagues (rather than as members), or membership payments to non-members such as charitable organisations, are treated as charges in the income statement.

## 4 Supplier income

**What does this show?** Sometimes our suppliers give us money back based on the amount of their products we buy and sell. This note shows the different types of income we've earned from our suppliers based on the contracts we have in place with them. This income is taken off operating expenses in the income statement.

| Supplier income | 2021 £m | 2020 £m |
|---|---|---|
| Food - Long-term agreements | **158** | 140 |
| Food - Bonus income | **82** | 130 |
| Food - Promotional income | **341** | 355 |
| **Total Food supplier income** | **581** | 625 |
| Wholesale - Long-term agreements | **27** | 28 |
| Wholesale - Bonus income | **19** | 21 |
| Wholesale - Promotional income | **99** | 114 |
| **Wholesale supplier income** | **145** | 163 |
| **Total supplier income** | **726** | 788 |

| Percentage of Cost of Sales before deducting Supplier income | % | % |
|---|---|---|
| Food - Long-term agreements | **2.6%** | 2.3% |
| Food - Bonus income | **1.4%** | 2.2% |
| Food - Promotional income | **5.7%** | 5.9% |
| **Total Food supplier income percentage** | **9.7%** | 10.4% |
| Wholesale - Long-term agreements | **2.0%** | 1.8% |
| Wholesale - Bonus income | **1.4%** | 1.3% |
| Wholesale - Promotional income | **7.3%** | 7.2% |
| **Total Wholesale supplier income percentage** | **10.7%** | 10.3% |

All figures exclude any income or purchases made as part of the Federal joint buying group.

### Accounting policies

**Supplier income**
Supplier income is recognised as a deduction from cost of sales on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within trade and other receivables (Note 17). Where amounts received are in the expectation of future business, these are recognised in the income statement in line with that future business. There are three main types of income:

1. Long-term agreements: These relate largely to volumetric rebates based on agreements with suppliers. They include overriders, advertising allowances and targeted income. The income accrued is based on the joint buying group's latest forecast volumes and the latest contract agreed with the supplier. Income is not recognised until confirmation of the agreement has been received from the supplier.

2. Bonus income: These are typically unique payments made by the supplier and are not based on volume. They include payments for marketing support, range promotion and product development. These amounts are recognised when the income is earned and confirmed by suppliers. An element of the income is deferred if it relates to a future period.

3. Promotional income: Volumetric rebates relating to promotional activity agreed with the supplier. These are retrospective rebates based on sales volumes or purchased volumes.

## 5 Other income

**What does this show?** This note shows what we have earned during the period from activities that are outside our normal trading activities. This is mainly from rental income we earn on properties that we own or sublet.

| | 2021 £m | 2020 £m |
|---|---|---|
| Rental income from non-investment property | **7** | 11 |
| Rental income from investment property | **3** | 1 |
| **Total other income** | **10** | 12 |

During the year, we reviewed how we identify Investment properties and have reclassified £5m of assets from Property, plant and equipment (Note 11) and £28m of Right-of-use assets (Note 12) to Investment properties (Note 26).

### Accounting policies

**Rental income from investment and non-investment properties**
Rental income arising from operating leases on both investment and non-investment properties is accounted for on a straight-line basis over the lease term. For accounting policies relating to investment property, refer to Note 26.

## 6 Finance income

**What does this show?** Finance income arises from the interest earned on our pension scheme and interest from finance lease receivables which have been discounted. If they are gains then we also include the movement in the fair value of some elements of our debt, our interest rate swap positions, foreign exchange contracts and commodity derivatives (which are used to manage risks from interest rate, foreign exchange and commodity price movements). If they are losses, they are included in Finance costs (see Note 7). If they are gains, we also show the fair value movement on our funeral plan investments as well as the discount unwind on funeral plan instalment debtors.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Net pension finance income | **30** | 37 |
| Underlying interest income from finance lease receivables | **3** | 3 |
| Fair value movement on foreign exchange contracts and commodity derivatives | **5** | - |
| Fair value movement on interest rate swaps (Note 29) | **-** | 4 |
| Fair value movement on quoted Group debt (Note 21) | **5** | - |
| One-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc* | **99** | - |
| **Finance income (excluding funeral plans)** | **142** | 44 |
| Unrealised fair value movement on funeral plan investments (Note 14) | **54** | 81 |
| Discount unwind on funeral plan debtors | **-** | 7 |
| **Finance income (on funeral plans)** | **54** | 88 |
| **Total finance income** | **196** | 132 |

Refer to Note 29 for details of our accounting policy for funeral plans.

*The one-off gain of £99m relates to the settlement of the Group Relief Creditor owed to the Co-operative Bank Plc when a settlement of £48m was agreed in February 2021 against a liability of £147m. This was disclosed as a post balance sheet event in Note 34 of the 2020 Annual Report and Accounts.

## 7 Finance costs

**What does this show?** Our main finance costs are the interest that we've paid during the year on our bank borrowings (that help fund the business) and the interest payments we incur on our lease liabilities. If they are losses then we also include the movement in the fair value of some elements of our debt and our interest rate swap positions (which are used to manage risks from interest rate and foreign exchange movements). If they are gains, they are included in Finance income (see note 6). We also include the interest that accrues on the funeral plans we hold and any impact of discounting on funeral plan instalment debtors if it is a charge.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Loans repayable within five years | **(56)** | (26) |
| Loans repayable wholly or in part after five years | **-** | (37) |
| **Underlying loan interest payable** | **(56)** | (63) |
| **Underlying interest expense on lease liabilities** | **(79)** | (75) |
| **Total underlying interest expense** | **(135)** | (138) |
| Fair value movement on quoted Group debt (Note 21) | **-** | (10) |
| Fair value movement on interest rate swaps (Note 29) | **(5)** | - |
| Other non-underlying finance interest | **(5)** | (4) |

| | | |
|---|---|---|
| **Finance costs (excluding funeral plans)** | **(145)** | (152) |
| Interest accruing on funeral plan liabilities (Note 23) | **(54)** | (60) |
| Discounting on funeral plan debtors | **(4)** | - |
| **Finance costs (on funeral plans)** | **(58)** | (60) |
| **Total finance costs** | **(203)** | (212) |

Refer to Note 29 for details of our accounting policy for funeral plans.

Non-underlying finance interest includes the impact of discount unwind on payables and provisions (see Note 24).

Total interest expense on financial liabilities (including lease liabilities) that are not at fair value through the income statement was £127m (2020: £98m).

## 8 Taxation

**What does this show?** Our tax charge is made up of current and deferred tax. This note explains how those items arise. Additional explanatory footnotes are included to explain the key items. We were re-accredited with the Fair Tax Mark during 2021 and the additional disclosures we provide are in line with best practice guidance.

| | Footnote | **2021** **£m** | 2020 £m |
|---|---|---|---|
| Current tax charge - current period | (i) | **(1)** | - |
| Current tax charge - adjustment to group relief payable owed to The Co-operative Bank | (ii) | **-** | (16) |
| Current tax charge - adjustment in respect of prior periods | (iii) | **-** | - |
| Net current tax charge - in respect of continuing operations | | **(1)** | (16) |
| Net current tax credit - in respect of discontinued operations | | **1** | (3) |
| **Total current tax charge** | | **-** | (19) |
| | | | |
| Deferred tax charge - current period | (iv) | **(5)** | (39) |
| Deferred tax charge - adjustments in respect of prior periods | (v) | **(6)** | - |
| Deferred tax charge - impact of rate change (see note below) | | **(13)** | - |
| Net deferred tax charge - in respect of continuing operations | | **(24)** | (39) |
| Net deferred tax charge - in respect of discontinued operations | | **-** | (3) |
| **Total deferred tax charge** | | **(24)** | (42) |
| | | | |
| Total tax charge reported in the income statement | | **(25)** | (55) |
| Total tax credit / (charge) attributable to a discontinued operation | | **1** | (6) |
| **Total tax charge** | | **(24)** | (61) |

The tax on the Group's net profit before tax differs from the theoretical amount that would arise using the standard applicable rate of corporation tax of 19% (2020: 19%) as follows:

| | Footnote | **2021** **£m** | 2020 £m |
|---|---|---|---|
| Profit before tax from continuing operations | | **57** | 127 |
| Profit before tax from discontinued operation | | **12** | 11 |
| Total profit before tax | | **69** | 138 |
| **Tax charge at 19% (2020: 19%)** | | **(13)** | (26) |
| | | | |
| **<u>Current tax reconciliation:</u>** | | | |
| Expenses not deductible for tax (including one-off costs) | (vi) | **(2)** | (1) |
| Credits not taxable on the Co-operative Bank settlement | (ii) | **19** | - |
| Depreciation and amortisation on non-qualifying assets | (vii) | **(11)** | (11) |
| Non-taxable profits / (losses) arising on business disposals | (viii) | **3** | (3) |
| Capital gains arising on property disposals | (ix) | **(1)** | (3) |
| Adjustments in respect of prior periods | (iii) | **-** | - |
| Revaluation of the Co-operative Bank group relief creditor | (ii) | **-** | (16) |
| Impact on current tax for movement in temporary tax differences (see below) | | **5** | 41 |

| | | | |
|---|---|---|---|
| **Total current tax (charge) / credit** | | **-** | (19) |
| | | | |
| **Deferred tax reconciliation:** | | | |
| *Utilisation in temporary tax differences - see Note 15 footnote (vii):* | | | |
| Utilisation of capital allowances in excess of depreciation on qualifying assets | | **-** | (10) |
| Utilisation of brought forward tax losses | | **(1)** | (1) |
| Pension timing differences | | **(10)** | (13) |
| Unwind of restatement adjustment on adoption of IFRS 16 | | **(3)** | (3) |
| Impact of restatement adjustment in relation to IFRS 15 | | **-** | (13) |
| Unrealised gains on investment properties, rolled-over gains and historic business combinations | | **6** | - |
| Other timing differences | | **3** | (1) |
| **Subtotal of deferred tax reconciling items** | (iv) | **(5)** | (41) |
| | | | |
| **Other deferred tax items:** | | | |
| Adjustment in respect of previous periods | (v) | **(6)** | - |
| Impact of restatement of deferred tax to enacted rate | (x) | **(13)** | (1) |
| **Total deferred tax charge** | | **(24)** | (42) |
| | | | |
| **Total tax charge** | | **(24)** | (61) |

The net tax charge of £25m on a continuing profit before tax of £57m gives an effective tax rate of 45%, which is higher than the standard rate of 19%. The main reasons for the increase are the impact of restating deferred tax following the announcement of the Corporation Tax rate change enacted in the 2021 Budget and depreciation on non-qualifying assets, being tax debits of £13m and £11m respectively. See footnotes (vii) and (x) for more detail. Off-setting this, as noted in foot note (ii), was a non-taxable accounting credit taken to the income statement on the final settlement of the Co-operative Bank group relief creditor which reduces the effective tax rate after the above items by 33%.

**Tax expense on items taken directly to consolidated statement of comprehensive income or consolidated statement of changes in equity**

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Actuarial gains and losses on employee pension scheme | **(128)** | - |
| Investment property revaluation through other comprehensive income | **(2)** | - |
| Insurance assets held at fair value through other comprehensive income | **-** | 3 |
| | **(130)** | 3 |

Of the tax taken directly to the consolidated statement of comprehensive income, £66m charge (2020: £15m credit) arises on the actuarial movement on employee pension schemes. There is also a £62m charge (2020: £15m charge) being the impact of rate change on the deferred tax related to the employee pension schemes. A further £2m charge arises on investment property movement through other comprehensive income. Following the disposal of CISGIL last year there is no longer any movement in respect of Insurance assets held at fair value.

Following last year's Budget, on 3 March 2021, the Chancellor announced the enacted corporation tax rate of 19% would increase to 25% with effect from 1 April 2023. To the extent the above deferred tax assets and liabilities are expected to crystalise after this date they should be valued using 25% rather the current corporation tax rate of 19%. The bulk the deferred tax assets and liabilities, as shown in Note 15, are expected to crystalise over a much longer time frame, being mainly the retirement benefit obligations, capital allowances on fixed assets and unrealised gains on investment properties, rolled-over gains and historic business combinations. An assessment of the amount of deferred tax assets and liabilities that are expected to crystalise prior to 1 April 2023 is considered to be immaterial when compare to total net deferred tax liability, being less than 2% of the total amount. Due to this assessment being based on projected forecasts and the potential uncertainties inherent in using these, utilising a flat rate of 25% is seen as a fair approximate and has been used to determine the actual net deferred tax liabilities.

The impact of recognising the net deferred tax liabilities at 25% rather than 19% has increased the liability by £75m of which £62m has been charged to equity and the remaining £13m has been charged to the income statement.

**Tax policy**

We publish our tax policy on our website (https://www.co-operative.coop/ethics/tax-policy) and have complied with the commitments set out in that policy.

**Footnotes to taxation note 8:**

i) The Group is not tax-paying in the UK in respect of 2021 due to the fact it has a number of brought forward capital allowances (£184m gross claimed in 2021) and tax losses (£5m gross utilised in 2021) that offset its taxable profits for the period. These allowances and losses are explained in more detail in Note 15.

The disclosure in this year's tax note has been extended to show separately the reconciliation of both current tax and deferred tax as we believe this conveys a greater transparency and understanding to the reader of these financial statements. More detail on these reconciling items are included within footnote (x).

The current tax charge nets to nil, but discontinued disclosure requirements require the tax impact of discontinued operations to be split out resulting in a £1m tax charge and £1m tax credit in continuing and discontinued respectively.

Outside of the UK, our Isle of Man resident subsidiary, Manx Co-operative Society, a convenience retailing business in the Isle of Man showed a small profit in 2021, giving rise to a small current tax liability of £0.2m (2020: £0.3m). This is the Group's only non-UK resident entity for tax purposes, which employs 116 part-time and 149 full-time colleagues out of our total Group headcount figure. All other income in the consolidated income statement is generated by UK activities and all other colleagues are employed in the UK.

The unaudited 2021 revenue of Manx Co-operative Society is £38m and all other revenue reflected in the consolidated income statement is generated by UK trading activities. The unaudited net assets of Manx Co-operative Society at 2 January 2021 were £11.8m, compared to net assets of the consolidated Group of £2,939m. The Manx assets represent the only overseas trading assets within the Group. A full copy of the most recent accounts is available here https://www.co-operative.coop/investors/rules. The presence of this IOM resident subsidiary has not resulted in any additional tax charge in 2021 over and above that payable to the Isle of Man authorities stated above. If these activities had been carried out in the UK, these profits would have been included within the Group's taxable profit prior to the availability of capital allowances and tax losses.

In addition the Group has one dormant company registered in the Cayman Islands, Violet S Propco Limited. This is a legacy dormant company and is UK resident for tax purposes, as it is managed and controlled entirely within the UK. All tax obligations in respect of this company are therefore reported in the UK. It should be noted that we have engaged with the Cayman Counsel and are in the process of completing the relevant due diligence that will allow the commencement of the formal striking off of Violet S Propco Ltd as a Cayman Isle registered company.

ii) The Group held a creditor balance in relation to group relief claimed from The Co-operative Bank ('the Bank') (see Note 22). Group relief is the surrender of tax losses made by one group company to another which made taxable profits. In 2012 and 2013, the Bank had tax losses that it was able to surrender to a number of Group companies which had taxable profits during those two years. This group relief payable was linked to and held at prevailing tax rates. Due to the enacted rate change in 2020 from 17% to 19% the creditor balance was remeasured increasing the total liability by £16m, being the charge shown in the 2020 comparatives.

As noted in last year's financial statements, as a non-adjusting post balance sheet event, in February 2021 the Bank agreed a full and final settlement of £48m as payment for the losses it had group relieved to Co-op Group, extinguishing the liability of £147m as carried on Group's balance sheet. The accounting gain of £99m arising from this, shown in the income statement, is not subject to corporation tax in accordance with UK tax legislation.

iii) There was minimal adjustment in respect of the current year in respect of prior years for both 2021 and 2020.

iv) Deferred tax is an accounting concept that reflects how some income and expenses can affect the tax charge in different periods to when they are reflected for accounting purposes. These differences are a result of tax legislation.

The £5m deferred tax charge represents the net utilisation of temporary differences throughout the current year that are offset against the Group's taxable profits, reducing the Group's current tax liabilities. The current year charge of £5m primarily relates to deferred tax arising on movements on our pension assets. Note 15 gives further detail on how each deferred tax balance has moved in the year.

As the Group is not tax-paying in respect of 2021, the reconciling items between the tax charge at the standard rate and the actual tax charge mostly affect the deferred tax we carry as they will result in us having more or less capital allowances or losses to offset against future profits.

v) There was a £6m tax charge adjustment in the current year relating to prior years. This resulted from changes to the taxable profits reported in the individual subsidiary accounts compared to the Group's tax charge as a whole in 2020. In 2020 there was minimal adjustment in respect of prior years.

It is common for adjustments to arise in respect of prior years, as the tax charge in the financial statements is an estimate that is prepared before the detailed tax calculations are required to be submitted to HMRC, which is 12 months after the year end. Also, HMRC may not agree with a tax return some time after the year end and a liability for a prior period may arise as a result. When HMRC may not agree this can give rise to uncertainties for which a provision is recognised. Following recent agreement with HMRC on prior year issues we no longer carry any uncertain tax positions.

vi) Some expenses incurred by the Group may be entirely appropriate charges for inclusion in its financial statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability. Examples of this include some repairs, entertaining costs and certain legal costs.

vii) The accounting treatment of depreciation differs from the tax treatment. For accounting purposes an annual rate of depreciation is applied to capital assets. For tax purposes the Group is entitled to claim capital allowances, a relief provided by law. Some assets do not qualify for capital allowances and no relief is available for tax purposes on these assets. This value represents depreciation arising on such assets (primarily Land and Buildings).

viii) In 2021 the Group disposed of its shares in Co-operative Care Limited. The disposal falls within the substantial shareholder exemptions (SSE) which means any gain or losses arising on the disposal are not brought into tax. The amount shown for 2020 was in connection to the disposal of shares in CIS General Insurance Limited that was also covered by SSE.

ix) During the year a number of properties were sold, where the taxable profit was in excess of the accounting profit.

x) It is a requirement to measure deferred tax balances at the substantively enacted corporation tax rate at which they are expected to unwind. As noted above the net impact of rate change on deferred tax balances recognised through the income statement is £13m this year.

## Accounting policies

Income tax on the profit or loss for the period is made up of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

## 9 Profit / (Loss) on discontinued operation, net of tax

**What does this show?** We classify any of our business segments as discontinued operations if they have been disposed of during the year or if they are held for sale at the balance sheet date (which means they are most likely to be sold within a year). This note shows the operating result for these segments as well as the profit or loss on disposal.

**Discontinued operation - disposal of Insurance (underwriting) business**

The sale of our insurance underwriting business (CISGIL) completed on 3 December 2020. The results of that business have been classified as a discontinued operation from 2018 and shown in a separate line at the bottom of the consolidated income statement under Discontinued Operations. As part of the sale agreement Co-op have continued to supply CISGIL with certain agreed services in the first half of 2021 under a service agreement (TSA). The costs and recoveries associated with that agreement are included in the table below within Operating expenses and Operating income respectively and are shown within Discontinued operations in the Consolidated Income statement. Other income also includes £12m of income following payments received in respect of a legal claim.

| **Results of discontinued operation - Insurance (underwriting business)** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Operating income / Revenue | **12** | 273 |
| Operating expenses | **(13)** | (352) |
| Other income | **13** | 85 |
| Remeasurement adjustments recognised in arriving at fair value less costs to sell | **-** | 10 |
| **Operating profit** | **12** | 16 |
| Finance costs | **-** | (5) |
| **Profit before tax** | **12** | 11 |
| Tax | **1** | (6) |
| **Profit for the period from discontinued operation** | **13** | 5 |

Figures in 2020 only include trading results of CISGIL up to the point of disposal on 3 December 2020.

| **Segmental analysis - Insurance (underwriting business)** | **Revenue from external customers** | **Underlying segment operating (loss) / profit** | **Operating profit** | **Additions to non-current assets** | **Depreciation and amortisation** |
|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| **52 weeks ended 1 January 2022** | **12** | **(1)** | **12** | **-** | **-** |
| Period ended 2 December 2020 | 273 | 19 | 16 | 32 | (43) |

Figures in 2020 only include trading results of CISGIL up to the point of disposal on 3 December 2020.

The table below shows a summary of the cash flows of discontinued operations:

| **Cash flows used in discontinued operations:** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Net cash from operating activities | **13** | 30 |
| Net cash used in financing activities | **-** | (5) |
| **Net cash from discontinued operations** | **13** | 25 |

Cash flows from investing activities were not significant in any period.

**Accounting policies**

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Discontinued operations are those operations that can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes, that have either been disposed of or classified as held for sale and which represent a separate major line of business. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the balance sheet. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
• Represents a separate major line of business or geographical area of operations; or
• Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

## 10 Reconciliation of operating profit to net cash flow from operating activities

**What does this show?** This note shows how we adjust our operating profit, as reported in the income statement, to get to the net cash from operating activities which is the starting position in the cash flow statement. Non-cash items are added back to or subtracted from the operating profit figure to show how much cash is generated from our operating activities.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Operating profit (Note 1) | **64** | 207 |
| Depreciation and amortisation charges | **405** | 380 |
| Non-current asset impairments | **30** | 36 |
| Profit / (loss) on closure and disposal of businesses and non-current assets | **(2)** | 3 |
| Change in value of investment properties | **(9)** | (1) |
| Retirement benefit obligations | **(24)** | (35) |
| Increase in inventories | **(28)** | (6) |
| Increase in receivables | **(17)** | (248) |
| Decrease / (increase) in contract assets (funeral plans) | **18** | (8) |
| Increase in contract liabilities (funeral plans) | **(19)** | 99 |
| (Decrease) / increase in payables and provisions | **(253)** | 215 |
| **Net cash flow from operating activities before net cash operating inflow from discontinued operations** | **165** | 642 |
| **Net cash flow from operating activities relating to discontinued operations** | **13** | 30 |
| **Net cash flow from operating activities** | **178** | 672 |

**Accounting policies**

Refer to note 20 for details of the accounting policy for Cash and cash equivalents.

# Section B - what are our major assets?

This section of the accounts (notes 11 - 20) outlines the key assets that we hold at the balance sheet date.

## 11 Property, plant and equipment

**What does this show?** Property, plant and equipment is the physical assets we use in our business such as our buildings, equipment and vehicles. This note shows how the amount we include on our balance sheet for these assets has changed over the period.

| **For the period ended 1 January 2022** | **Property** | **Plant and equipment** | **Total** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Cost or valuation: | | | |
| At 2 January 2021 | **1,467** | **2,580** | **4,047** |
| Additions | **38** | **224** | **262** |
| Transfer to Assets held for sale (see Note 19) | **(4)** | **(6)** | **(10)** |
| Reclassified to Investment properties (see Note 26)* | **(7)** | **-** | **(7)** |
| Disposals | **(52)** | **(67)** | **(119)** |
| **At 1 January 2022** | **1,442** | **2,731** | **4,173** |
| Depreciation: | | | |
| At 2 January 2021 | **607** | **1,485** | **2,092** |
| Charge for the period | **30** | **224** | **254** |
| Impairment | **1** | **4** | **5** |
| Transfer to Assets held for sale (see Note 19) | **(2)** | **(5)** | **(7)** |
| Reclassified to Investment properties (see Note 26)* | **(2)** | **-** | **(2)** |
| Disposals | **(24)** | **(57)** | **(81)** |
| **At 1 January 2022** | **610** | **1,651** | **2,261** |
| Net book value: | | | |
| **At 1 January 2022** | **832** | **1,080** | **1,912** |
| At 2 January 2021 | **860** | **1,095** | **1,955** |
| Capital work in progress included above | **21** | **37** | **58** |

*During the year, we reviewed how we identify Investment properties and have reclassified net £5m of assets from Property, plant and equipment to Investment property (see Note 26).

The impairment charge of £5m (2020: £21m) primarily relates to poor performing food stores and funeral branches (see also Critical accounting estimates and judgements section of this note for further detail on impairment).

| **For the period ended 2 January 2021** | Property | Plant and equipment | Total |
|---|---|---|---|
| | £m | £m | £m |
| Cost or valuation: | | | |
| At 4 January 2020 | 1,463 | 2,437 | 3,900 |
| Additions | 45 | 218 | 263 |
| Reclassified as assets held for sale (see note 19) | (8) | (6) | (14) |
| Disposals | (33) | (69) | (102) |
| **At 2 January 2021** | 1,467 | 2,580 | 4,047 |
| Depreciation: | | | |
| At 4 January 2020 | 588 | 1,311 | 1,899 |
| Charge for the period | 25 | 225 | 250 |
| Impairment | 13 | 8 | 21 |
| Reclassified as assets held for sale (see note 19) | (2) | (3) | (5) |
| Disposals | (17) | (56) | (73) |
| **At 2 January 2021** | 607 | 1,485 | 2,092 |
| Net book value: | | | |
| **At 2 January 2021** | 860 | 1,095 | 1,955 |
| At 4 January 2020 | 875 | 1,126 | 2,001 |
| Capital work in progress included above | 35 | 74 | 109 |

**Critical accounting estimates and judgements**

**Impairment**

The recoverable amount for Food and Funeral cash generating units (CGUs) is the greater of the fair value of the CGU (less costs to sell) and the value in use (VIU) of the CGU. The value in use for Food and Funeral CGUs has been determined using discounted cash flow calculations. The key assumptions in the value in use calculations are as follows:

| Assumption | Food Segment | Funeral Segment |
|---|---|---|
| **Structure of a CGU** | Each individual food store is deemed to be an individual CGU. | A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub. |
| **Cash flow years / assumptions** | Future cash flows derived from Board approved three-year plan cash flow assumptions.<br><br>These forecasts are extrapolated over a period of 2 years and then subject to a long term growth rate of 1.9% (2020: 0%) reflecting the UK's long-term post war growth rate which is in-line with industry norms for the period of the lease. Where lease terms are shorter than this, the remaining lease terms have been used. Perpetuities are included in cash flows with 0% growth (2020: 0%) where stores are expected to be operated beyond their current lease term.<br><br>Cash flows include estimated store capital maintenance costs based on the square footage of the store.<br><br>The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods. | Future cash flows derived from Board approved three-year plan cash flow projections.<br><br>These cash flows are extrapolated over the remaining lease term for leasehold properties or into perpetuity for freehold properties.<br><br>Perpetuities included in cash flows where the Hub is expected to be operational beyond its current lease terms.<br><br>A growth rate of 1.9% (2020: 0%) is applied beyond Board approved three-year plan horizon (reflecting the UK's long-term post war growth rate which is in-line with industry norms).<br><br>The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods. |
| **Discount rate** | Post tax discount rate representing the Food segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 7.3% (2020: 8.2%).<br><br>Post tax WACC calculated using the capital asset pricing model.<br><br>Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material.<br><br>In each of the current and comparative years, sensitivity analysis has been performed in relation to our store impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.<br><br>Sensitivity analysis has also been performed on our goodwill impairment testing, see note 13. | Post tax discount rate representing the Funeralcare segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 8.8% (2020: 9.5%).<br><br>Post tax WACC calculated using the capital asset pricing model.<br><br>Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material.<br><br>In each of the current and comparative years, sensitivity analysis has been performed in relation to our Funeralcare Hub impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.<br><br>Sensitivity analysis has also been performed on our goodwill impairment testing, see note 13. |

**Accounting policies**

Where parts of an item of property, plant and equipment have materially different useful economic lives, they are accounted for as separate items of property, plant and equipment. Cost includes purchase price plus any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation is provided on the cost or valuation less estimated residual value (excluding freehold land) on a straight-line basis over the anticipated working lives of the assets. The estimated useful lives are as follows and where appropriate would also include our assessment of the expected impact on asset lives of our plan to move to net zero by 2040::

**Property**

Freehold buildings - 50 years
Leasehold property - shorter of period of lease or 50 years
All properties are measured at cost less accumulated depreciation and impairment losses.

**Plant & equipment**

Plant and machinery - 3 to 13 years
Vehicles - 3 to 9 years

**The residual value, if significant, is reassessed annually.**

We no longer include property, plant and equipment in our balance sheet when the Group loses the right to the future economic benefits associated with the asset. For property, this usually happens when we have exchanged contracts on an unconditional basis to sell it.

**Impairment**
For the Food segment, the Group treats each store as a separate cash-generating unit for impairment testing of property, plant and equipment and right-of-use assets. The Group allocates goodwill to groups of cash-generating units. The lowest level at which goodwill is monitored by management is at a total Food segment level.

For the Funerals segment, the Group treats a local network of interdependent branches, known as a Funeralcare Hub, as a separate cash-generating unit for impairment testing of property, plant and equipment, right-of-use assets and goodwill.

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss. Impairment losses are recognised in the income statement.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. For Food stores, the CGU is deemed to be each trading store. For Funeralcare, the CGU is deemed to be a local network of interdependent branches. Where an individual branch within a local network is to be closed, the individual branch is defined as the CGU, rather than being included with the network of interdependent branches. This is because the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount is returned to what it would have been, net of depreciation or amortisation, if no impairment loss had been recognised.

## 12 Leases

**What does this show?** This note shows the value of our leased assets and the corresponding value of our lease liabilities. The tables show how these balances have moved in the period from additions, disposals, payments, interest charges and impairments.

### A. As a lessee

| Right-of-use assets | Property | Plant and equipment | Total |
|---|---|---|---|
| | £m | £m | £m |
| **Balance at 2nd January 2021** | **952** | **79** | **1,031** |
| Depreciation charge for the year | **(105)** | **(17)** | **(122)** |
| Additions | **226** | **10** | **236** |
| Disposals | **(5)** | **-** | **(5)** |
| Reclassified to Investment properties (see Note 26)* | **(28)** | **-** | **(28)** |
| Transfer to Assets held for sale (see Note 19) | **(1)** | **-** | **(1)** |
| Impairment | **(25)** | **-** | **(25)** |
| **Balance at 1st January 2022** | **1,014** | **72** | **1,086** |
| | | | |
| Balance at 4th January 2020 | 979 | 66 | 1,045 |
| Depreciation charge for the year | (98) | (15) | (113) |
| Additions | 93 | 28 | 121 |
| Disposals | (9) | - | (9) |
| Transfer to assets held for sale (see Note 19) | (2) | - | (2) |
| Impairment | (11) | - | (11) |
| Balance at 2nd January 2021 | 952 | 79 | 1,031 |

*During the year, we reviewed how we identify Investment properties and have reclassified £28m (2020: £nil) of Right-of-use assets to Investment property (see Note 26).

The Group leases many assets, principally it leases properties for its food retail stores and funeral branches as well as some vehicles and other equipment. The leases of retail stores are typically between 1 and 20 years in length (2020: 1 and 20 years), and leases of funeral branches are typically between 1 and 8 years in length (2020: 1 and 8 years). Vehicle and equipment leases are typically between 1 and 4 years in length (2020: 1 and 4 years) and in some cases the Group has options to purchase the assets at the end of the contract term.

| Lease liabilities | 2021 | 2020 |
|---|---|---|

| | £m | £m |
|---|---|---|
| Current | **(210)** | (191) |
| Non-current | **(1,306)** | (1,234) |
| **Lease liabilities included in the Consolidated balance sheet** | **(1,516)** | (1,425) |

| **Lease liabilities** | **2021 £m** | **2020 £m** |
|---|---|---|
| At the start of the period | **(1,425)** | (1,470) |
| Additions | **(244)** | (114) |
| Disposals | **17** | 26 |
| Interest expense | **(79)** | (77) |
| Transfer to liabilities held for sale (see note 19) | **2** | 5 |
| Payments | **213** | 205 |
| **Total lease liabilities** | **(1,516)** | (1,425) |

The Group recognised rent expense from short-term leases of £2m (2020: £3m).

**Extension and termination options**

Some leases of retail stores contain extension or termination options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension and termination options in new leases to provide operational flexibility. The extension and termination options held are typically exercisable only by the Group and not by the lessors.

The Group assesses at lease commencement whether it is reasonably certain to exercise the extension or termination options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

As at 1 January 2022, potential discounted future cash outflows of £150m (2020: £139m) have not been included in the lease liability because it is not reasonably certain that the Group will exercise the extension option. Included within the lease liability are discounted future cash outflows of £107m (2020: £125m) where the group holds termination options but it is not reasonably certain to execute those termination options.

**Sale and leaseback**

During the year the Group completed sale and leaseback transactions on some of its freehold buildings used within food retail and our funerals business. Aggregate consideration of £12m (2020: £7m) was received, a net lease liability of £6m (2020: £2m) was recognised and net book value of £3m (2020: £3m) disposed creating a profit on disposal of £3m (2020: £2m).

## B. As a lessor

Lease income from lease contracts in which the Group acts as a lessor is as below:

| | **2021 £m** | **2020 £m** |
|---|---|---|
| **Operating lease (i)** | | |
| Lease income | **10** | 12 |
| **Finance lease (ii)** | | |
| Finance income on the net investment in the lease | **3** | 3 |

**i. Operating lease**

The Group leases out its investment properties. The Group classifies these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date.

| | **2021 £m** | **2020 £m** |
|---|---|---|
| Less than one year | **6** | 7 |
| One to two years | **5** | 6 |
| Two to three years | **4** | 5 |
| Three to four years | **4** | 4 |
| Four to five years | **3** | 4 |
| More than five years | **35** | 45 |
| **Total undiscounted lease payments receivable** | **57** | 71 |

**ii. Finance lease**

The Group also subleases some of its non-occupied leased properties. The Group classifies the sublease as a finance lease, where the period of the sublease is for substantially the remaining term of the head lease. The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Less than one year | **12** | 12 |
| One to two years | **9** | 11 |
| Two to three years | **9** | 8 |
| Three to four years | **8** | 7 |
| Four to five years | **7** | 7 |
| More than five years | **23** | 31 |
| **Total undiscounted lease payments receivable** | **68** | 76 |
| Less: Unearned finance income | **(17)** | (21) |
| **Present value of minimum lease payments receivable** | **51** | 55 |
| Impairment loss allowance | **(9)** | (10) |
| **Finance lease receivable (net of impairment allowance)** | **42** | 45 |
| Current | **12** | 11 |
| Non-current | **30** | 34 |
| **Finance lease receivable as per Consolidated balance sheet** | **42** | 45 |

The average term of finance leases entered into is 10 years (2020: 8 years).

**Impairment of finance lease receivable**

The Group estimates the loss allowance on finance lease receivables at an amount equal to lifetime expected credit losses. The lifetime expected credit losses are estimated based upon historical defaults on subleases, the credit quality of current tenants and forward-looking factors.

**Accounting policies**

**Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

**Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**Short-term leases and leases of low-value assets**

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

## 13 Goodwill and intangible assets

**What does this show?** Intangible assets have long-term value but no physical presence, such as software or customer relationships. This note shows how the amount we include on our balance sheet for these assets has changed over the period.

| **For period ended 1 January 2022** | **Goodwill** | **Computer software** | **Acquired customer relationships and other intangibles** | **Total** |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| Cost: | | | | |
| At 2 January 2021 | **1,277** | **316** | **43** | **1,636** |
| Additions | **-** | **30** | **-** | **30** |
| Transferred to Assets held for sale (see Note 19) | **(3)** | **-** | **-** | **(3)** |
| Disposals | **(29)** | **-** | **-** | **(29)** |
| **At 1 January 2022** | **1,245** | **346** | **43** | **1,634** |
| Accumulated amortisation and impairment: | | | | |
| At 2 January 2021 | **384** | **110** | **37** | **531** |
| Charge for the period | **-** | **28** | **1** | **29** |
| Transferred to Assets held for sale (see Note 19) | **-** | **-** | **-** | **-** |
| Disposals | **(1)** | **-** | **-** | **(1)** |
| Impairment | **-** | **-** | **-** | **-** |
| **At 1 January 2022** | **383** | **138** | **38** | **559** |
| Net book value: | | | | |
| **At 1 January 2022** | **862** | **208** | **5** | **1,075** |

| For period ended 2 January 2021 | Goodwill | Computer software | Acquired customer relationships and other intangibles | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Cost: | | | | |
| At 4 January 2020 | 1,295 | 264 | 43 | 1,602 |
| Additions | - | 60 | - | 60 |
| Transferred to Assets held for sale (see Note 19) | (4) | (8) | - | (12) |
| Disposals | (14) | - | - | (14) |
| **At 2 January 2021** | 1,277 | 316 | 43 | 1,636 |
| Accumulated amortisation and impairment: | | | | |
| At 4 January 2020 | 383 | 96 | 36 | 515 |
| Charge for the period | - | 16 | 1 | 17 |
| Transferred to Assets held for sale (see Note 19) | - | (2) | - | (2) |
| Disposals | (4) | - | - | (4) |
| Impairment | 5 | - | - | 5 |
| **At 2 January 2021** | 384 | 110 | 37 | 531 |
| Net book value: | | | | |
| **At 2 January 2021** | 893 | 206 | 6 | 1,105 |

### Goodwill

The components of goodwill are as follows:

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Food | **840** | 866 |
| Other businesses | **22** | 27 |

| | 862 | 893 |
|---|---|---|

The goodwill within other businesses principally relates to the goodwill recognised in the Funeral and Legal Services businesses.

**Critical accounting estimates and judgements**

**Goodwill impairment - sensitivity testing**

For the Food goodwill impairment review, the Food segment's future cash flow projections have been taken from the board approved three-year plan, taken into perpetuity and discounted to present value at a pre-tax rate of 7.3% (2020: 8.2%). A long term growth rate of 1.9% has been applied beyond the three-year plan period (2020: 0%). In each of the current and comparative years, sensitivity analysis has been performed on this assumption, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities the cash flows remain well in excess of the current carrying value. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified which will then be reflected in our financial models and plans as appropriate and in line with the Group's integrated approach to a changing climate.

For the Funerals goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the three-year plan. Although inherently uncertain this also includes our best estimate of future death rates including the recent impact of Covid-19. Cash flows have been projected based on the three-year plan and into perpetuity from year four and discounted back to present value using a pre-tax discount rate of 8.8% (2020: 9.5%). A long term growth rate of 1.9% has been applied beyond the three-year plan period (2020: 0%). Sensitivity analysis has been performed with the discount rate increased by 1% and a decrease in growth by minus 1%, and under these sensitivities no further material amounts of impairment are calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

**Accounting policies**

**Goodwill**
Goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Assets and liabilities accepted under a transfer of engagements are restated at fair value, including any adjustments necessary to comply with the accounting policies of the Group.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying value of goodwill is included in the carrying amount of the investment in the associate. Where impairment is required the amount is recognised in the income statement and cannot be written back.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

Acquisition costs are expensed to the income statement when incurred.

**Computer software**
Computer software is stated at cost less accumulated amortisation and impairment. Costs directly attributable to the development of computer software for internal use are capitalised and classified as intangible assets where they are not an integral part of the related hardware and amortised over their useful life up to a maximum of seven years. We have considered the impact of guidance issued in March 2021 by the IFRS Interpretations Committee, which clarified IAS 38 guidance around what costs should and should not be capitalised specifically in relation to Software as a Service ('SaaS') contracts, and concluded that our policy continues to be compliant with the standard.

**Subsequent expenditure**
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is charged to the income statement as incurred.

**Amortisation**
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill with an indefinite useful life is tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:
• Software development costs: 3 – 7 years
• Other intangible assets: 1 - 10 years

**Impairment**
Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates.

**Food:**
In the Food business, the CGUs to which goodwill has been allocated and the level at which it is monitored is deemed to be the Food segment as a whole as goodwill arising on acquisitions reflects synergies (principally buying benefits) that benefit the whole business. Accordingly, impairment testing for all store goodwill balances is carried out using all the food stores as the group of CGUs.

**Other businesses:**
The majority of goodwill within other businesses is allocated to the Funerals business.

In the Funerals business, a CGU to which goodwill has been allocated is determined as a local network of interdependent branches.

Where an individual branch within a local network is to be closed, the CGU attributable to that branch is redefined as being solely that individual branch on the basis that the branch is no longer expected to contribute to the business through cash generated through its operating activities but instead through any proceeds on disposal.

## 14 Funeral plan investments

**What does this show?** Our Funerals business holds some investments in relation to funeral plans. This note provides information on these investments and how they are accounted for.

| **Funeral plan investments as per the balance sheet:** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Current | **-** | - |
| Non-current | **1,372** | 1,331 |
| **Funeral plan investments** | **1,372** | 1,331 |

| **Funeral plan investments held by the Group are as follows:** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| **Fair value through the income statement:** | | |
| Funeral plan investments (see below) | **1,372** | 1,331 |
| **Total Funeral plan investments** | **1,372** | 1,331 |

| **Funeral plan investments:** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| At start of period | **1,331** | 1,271 |
| Net plan investments (including ongoing instalments) | **92** | 86 |
| Plans redeemed or cancelled | **(105)** | (107) |
| Unrealised fair value movement on funeral plan investments (Note 6) | **54** | 81 |
| **At end of period** | **1,372** | 1,331 |

See Note 29 for further detail on the accounting policy for funeral plans.

The Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts (<5% of total). The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funerals on a portfolio basis. The most recent valuation was performed as at 30 September 2021 and the headroom achieved on a portfolio basis is shown in the table below.

The plan investments are financial assets which are recorded at fair value each period using valuations provided to Co-op by the policy provider. The plan values reflect the amount the policy provider would pay out on redemption of the policy at the valuation date with the main driver being underlying market and investment performance. The investment strategy is targeted to deliver appropriate returns on the plan investments over the medium term to match expected inflationary increases in the cost to deliver a funeral. Assets include UK and overseas equities, gilts, corporate bonds, property and cash.

| Funeral Plan Investments Actuarial Valuation (pre tax) | **30th September 2021** | 30th September 2020 |
|---|---|---|
| | **£m** | £m |
| **Total Assets** | **1,397** | 1,287 |
| Liabilities: | | |
| Present value (wholesale basis) | **1,102** | 1,158 |
| **Total Liabilities (pre tax)** | **1,102** | 1,158 |
| Headroom (pre-tax) | **295** | 129 |
| Headroom as a % of liabilities (pre-tax) | **27%** | 11% |

Wholesale costs have only increased slightly during the year and have been exceeded by actual investment returns. There has also been an increase in both longer term inflation and investment return expectations. The group continues to manage funeral plans for the medium to long term given, in the normal course of business, this is when the majority of the liability will crystallise. We estimate that the pre-tax wholesale cost surplus at 31 December 2021 would be approximately £310m.

| Key assumption | **30th September 2021** | 30th September 2020 |
|---|---|---|
| Average total wholesale costs per plan funeral | **£2,652** | £2,646 |

**Sensitivities**

The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. The headroom percentage is expressing the surplus as a percentage of total liabilities. Each 0.1% increase in the inflation assumptions would reduce the surplus by approximately £19m (2020: £21m). Each 0.1% fall in the discount rate would reduce the surplus by approximately £14m.

The "wholesale" actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Group fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus. At 30 September 2021, on a pre-tax marginal cost basis, liabilities would reduce to £662m, giving a £735m surplus (111% of liabilities). On this pre-tax marginal cost basis, each 0.1% increase in the inflation assumptions would reduce the surplus by approximately £12m.

### Accounting policies

See Note 29 Financial Instruments for the accounting policies relating to funeral plans.

## 15 Deferred taxation

**What does this show?** Our tax charge is made up of current and deferred tax as explained in note 8. We show a net asset or net liability in the balance sheet to reflect our deferred tax. This note shows how those items are calculated and how they affect the income statement. Additional explanatory footnotes are included to explain the key items.

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25.0% (2020: 19.0%). Temporary differences arise because sometimes accounting and tax requirements mean that transactions are treated as happening at a different time for accounting purposes than they are for tax purposes.

| Net deferred tax in the balance sheet comprises: | | **2021** | 2020 |
|---|---|---|---|
| | | **£m** | £m |
| Deferred tax asset - continuing operations | | **429** | 336 |
| Deferred tax liability - continuing operations | | **(743)** | (497) |
| Deferred tax liability - discontinued operation | | **-** | - |
| **Net deferred tax liability** | | **(314)** | (161) |
| Comprised of: | Footnote: | | |
| Other temporary differences | (i) | **1** | (3) |
| Retirement benefit obligations | (ii) | **(565)** | (352) |
| Capital allowances on fixed assets | (iii) | **327** | 255 |
| Unrealised gains on investment properties, rolled-over gains and historic business combinations | (iv) | **(155)** | (125) |
| Tax losses | (v) | **23** | 19 |
| IFRS 16 transition adjustment taken through Opening Reserves | (vi) | **55** | 45 |
| | | **(314)** | (161) |

| The movements in the net deferred tax liability during the period are set out below: | | **2021** | 2020 |
|---|---|---|---|
| | | **£m** | £m |
| At beginning of the period | | **(161)** | (122) |
| Income statement (charge) / credit: | | | |
| Group (see Note 8) | (vii) | **(24)** | (39) |
| Adjustment in respect of deferred tax classified as assets held for sale (see Note 8) | | **-** | (3) |
| Additions / disposals | | **1** | |
| Charged to equity: | | | |
| Retirement benefit obligations (see Note 8) | (ii) | **(128)** | - |
| Investment property revaluation movement | | **(2)** | - |
| Fair value through other comprehensive income assets - Insurance (see Note 8) | | **-** | 3 |
| **At end of the period (continuing operations)** | | **(314)** | (161) |

Following last year's Budget, on 3 March 2021, the Chancellor announced the enacted corporation tax rate of 19% would increase to 25% with effect from 1 April 2023. To the extent the above deferred tax assets and liabilities are expected to crystalise after this date they should be valued using 25% rather the current corporation tax rate of 19%. The bulk the deferred tax assets and liabilities, as shown in Note 15, are expected to crystalise over a much longer time frame, being mainly the retirement benefit obligations, capital allowances on fixed assets and unrealised gains on investment properties, rolled-over gains and historic business combinations. An assessment of the amount of deferred tax assets and liabilities that are expected to crystalise prior to 1 April 2023 is considered to be immaterial when compare to total net deferred tax liability, being less than 2% of the total amount. Due to this assessment being based on projected forecasts and the potential uncertainties inherent in using these, utilising a flat rate of 25% is seen as a fair approximate and has been used to determine the actual net deferred tax liabilities.

The impact of recognising the net deferred tax liabilities at 25% rather than 19% has increased the liability by £75m of which £62m has been charged to equity and the remaining £13m has been charged to the income statement.

**Footnotes:**

i) This amount includes deferred tax liabilities that arose on the acquisition of Nisa Retail Limited in 2018 and the adoption of IFRS 9, also in 2018. These are offset by a deferred tax asset in respect of provisions. Expenses that have not yet been incurred are able to be recorded in the accounts as provisions. However, of these certain expenses don't receive tax relief until they have been paid for and so the related tax relief is delayed to a future period.

ii) This amount represents the theoretical future tax cost to the Group in respect of the current pension scheme surplus. The overall increase in 2021 was £213m. This is primarily due to the impact of the rate change going from 19% to 25%, leading to a £136m increase in the liability. In addition there is a £76m increase in liability for the movement in the total schemes' surpluses during the year.

iii) A deferred tax asset arises on capital allowances where the tax value of assets is higher than the accounts value of the same fixed assets. The reason the Group has a higher tax value for these fixed assets is due to the fact the Group has not made a full claim to its maximum entitlement to capital allowances since 2013 due to reduced levels of trading profits in the intervening years. However, impairment, disposals and depreciation have continued to reduce the accounts value for our assets. The Group expects to use these allowances to reduce future trading profits. The £72m increase in the asset over the year is mainly due to the £80m impact of the rate change.

iv) This amount represents the theoretical amount of tax that would be payable by the Group on (a) the sale of all investment properties, (b) the sale of properties that have been restated at their fair value on historic mergers and transfers of engagements and (c) the sale of any property that has had an historic capital gain 'rolled into' its base cost (which is an election available by statute designed to encourage businesses to reinvest proceeds from the sale of trading properties into new trading properties and ventures). The £30m increase in the liability over the year is mainly due to the £37m impact of the rate change.

v) The Group has incurred trading losses and interest losses that were in excess of taxable profits in the past. These losses can be used to reduce future trading profits and capital gains which are included in future tax forecasts for the Group. The restriction on the amount of losses that can be used in any one year post 1 April 2017, being £5m plus 50% of any surplus taxable profits above this amount, is not expected to limit the use of these losses other than extend the time over which they will be claimed.

The increase in asset of £4m is mainly due to £5m impact from the rate change less £1m in respect of amounts offset against taxable profits this year.

vi) Deferred tax that arose on the adoption of IFRS 16 in 2019 will unwind over a number of years and reduce taxable profits in those future years. The increase in asset of £10m is mainly due to £13m impact from rate change less £3m in respect of the unwind during the year.

vii) This movement is made up of a net £5m current year utilisation of temporary differences, £6m prior year adjustments and £13m impact from rate change, see Note 8 for more detail.

**Accounting policies**

Deferred tax is provided for, with no discounting, using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profits, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available to use the asset against. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 16 Inventories

**What does this show?** This note shows the stock we hold at the period end. This is mainly the goods we're planning to sell, held either at Food stores or distribution centres. We also hold stocks of store consumables (such as plastic bags) as well as work in progress relating to funeral caskets.

| Inventories include the following: | **2021** <br> **£m** | 2020 <br> £m |
|---|---|---|
| Raw materials, consumables and work in progress | **4** | 4 |
| Finished goods and goods for resale | **484** | 456 |
| | **488** | 460 |

The period end inventory provision is £29m (2020: £23m) and a net charge of £6m (2020: £3m) has been made within operating expenses in the income statement. Inventory held at fair value less cost to sell is not material in either period. There was no inventory pledged as security for liabilities in the current or prior period.

**Accounting policies**
Inventories are stated at the lower of cost, including attributable overheads, and net realisable value.

## 17 Trade and other receivables

**What does this show?** This note shows amounts we are owed and amounts we have paid in advance for services which will be received over a period of time. It also shows a reduction to reflect amounts we think may not be repaid. They are split between current items (which will be settled within one year) and non-current items (which will be settled after more than one year).

| | **2021** <br> **£m** | 2020 <br> £m |
|---|---|---|
| Non-current | **214** | 203 |
| Current | **551** | 546 |
| | **765** | 749 |

| | **2021** <br> **£m** | 2020 <br> £m |
|---|---|---|
| Trade receivables | **309** | 277 |
| Prepayments | **25** | 9 |
| Accrued income | **128** | 139 |
| Other receivables | **313** | 336 |
| | **775** | 761 |
| Allowance for expected credit losses | **(10)** | (12) |
| | **765** | 749 |

Trade receivables are non-interest bearing and the Group's standard payment terms are between 7 and 60 days.

Non-current debt includes £199m (2020: £178m) that relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £37m (2020: £41m) of current debt also relates to pre-paid funeral plan instalments which are £236m (2020: £219m) in total. Non-current debt also includes £15m of deferred consideration receivable in respect of the agreement with Markerstudy to provide marketing and distribution services for motor and insurance products with an additional £10m included in current. These balances are all included within Other receivables.

Within trade receivables is £52m (2020: £48m) of supplier income that is due from Food and Wholesale suppliers. Accrued income includes £116m (2020: £120m) in relation to supplier income that has been recognised but not yet billed. As at 7th April 2022, £45m (2020: £46m) of the trade receivables balance had been invoiced and settled and £112m (2020: £111m) of the accrued income balance has been invoiced and settled.

The table below shows the movement in the allowance for expected credit losses for trade and other receivables:

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Opening allowance for expected credit losses | **12** | 8 |
| Charge to the income statement | **7** | 12 |
| Credit to the income statement | **(9)** | (8) |
| Closing allowance for expected credit losses | **10** | 12 |

The Group has applied the expected losses model as defined under IFRS 9 (Financial Instruments) which focuses on the risk that a trade receivable will default rather than whether a loss has been incurred. The Group has applied a simplified approach as allowed under IFRS 9 to use a provision matrix for calculating expected losses for trade receivables. More information on credit risk and the use of a provision matrix is provided in Note 29 which outlines our approach to financial risk management.

**Accounting policies**

Refer to Note 29 Financial Instruments for the accounting policies relating to trade receivables and allowances for expected credit losses.

## 18 Contract assets

**What does this show?** This note shows the costs we've incurred in setting up funeral plans (fulfilment costs). We hold these on the balance sheet as contract assets until the funerals have been performed and we're entitled to receive payment, then we transfer them to the income statement in line with when the revenue is recognised.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Current | **5** | 6 |
| Non-current | **43** | 60 |
| **Total** | **48** | 66 |

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Opening contract assets | **66** | 58 |
| Fulfilment costs - incurred on new funeral plan sales | **12** | 12 |
| Fulfilment costs - transferred to contract liabilities in respect of membership discount* | **(24)** | - |
| Fulfilment costs - transferred to the income statement on funeral plan redemptions | **(3)** | (3) |
| Fulfilment costs - transferred to the income statement on funeral plan cancellations | **(3)** | (1) |
| **Closing contract assets** | **48** | 66 |

*During the year we reassessed the treatment of discounts given to members on inception of a plan and now classify them as a reduction against the contract liability (Note 23) whereas previously they were held as contract assets in the table above.

No provision for expected credit losses has been recognised against contract assets in either the current or prior year.

**Accounting policies**

A contract asset is recognised when our right to consideration is conditional on something other than the passage of time. For funeral plans, fulfilment costs (which are costs relating directly to the plan sale which otherwise wouldn't have been incurred) associated with delivering the funeral are deferred and shown in the consolidated balance sheet as a contract asset until the funeral is performed (at which point the costs are recognised in the income statement in-line with when the revenue is recognised).

## 19 Assets and liabilities held for sale

**What does this show?** This shows the value of any assets or liabilities that we hold for sale at the period end (these generally relate to properties or businesses that we plan to sell soon). When this is the case, our balance sheet shows those assets and liabilities separately as held for sale.

| Assets and liabilities classified as held for sale | 2021 £m | 2020 £m | 2021 £m | 2020 £m |
|---|---|---|---|---|
| | Assets held for sale | | Liabilities held for sale | |
| Goodwill and Intangible assets | **3** | 10 | **-** | - |
| Right-of-use assets (leases) | **1** | 2 | **-** | - |
| Lease liabilities | **-** | - | **(2)** | (5) |
| Property, plant and equipment | **3** | 9 | **-** | - |
| | **7** | 21 | **(2)** | (5) |

**Accounting policies**

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. After that, generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss. See also accounting policy in Note 9 (Loss on discontinued operation, net of tax).

## 20 Cash and cash equivalents

**What does this show?** The tables below show a breakdown of the cash and cash equivalent balances that the Group holds at the balance sheet date and the accounting policies explains what is and what isn't classified as cash and cash equivalents.

| Cash and cash equivalents | 2021 £m | 2020 £m |
|---|---|---|
| Cash in hand | **59** | 99 |
| Cash at banks | **1** | 170 |
| **Cash and cash equivalents** | **60** | 269 |

| | | |
|---|---|---|
| Cash and cash equivalents (as above) | **60** | 269 |
| Bank overdrafts | **(4)** | - |
| **Net cash and cash equivalents** | **56** | 269 |

The Group has a right of off-set as part of a pooling arrangement with its principal bank and the bank overdraft figure above reflects the net position across those accounts.

Bank overdrafts includes amounts receivable from banks for credit card and debit card transactions of £38m (2020: £35m) which clear the bank shortly after the transaction takes place.*

Bank overdrafts also includes £6m (2020: £6m) of non-distributable cash held on behalf of customers in the process of purchasing funeral plans.

**Accounting policies**

Cash and cash equivalents in the consolidated balance sheet comprise cash in hand, cash in transit and cash at bank and short-term deposits with banks with a maturity of three months or less, which are subject to an insignificant risk of changes in value. Cash and cash equivalents includes debit and credit card payments made by customers which are receivable from banks and clear the bank within three days of the transaction date.

In the statement of consolidated cash flows, cash and cash equivalents includes bank overdrafts as they are repayable on demand and deemed to form an integral part of the Group's cash management.

Amounts held in trustee-administered bank accounts of the Group of £25m (2020: £28m), which can only be utilised to meet liabilities in respect of funeral plans, are classed as Funeral plan investments (see Note 14) and not Cash and cash equivalents.

* At its meeting on 15 September 2021, the IFRS Interpretations Committee (IFRS IC) reached a tentative agenda decision (TAD) on a submission concerning Cash received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments). The TAD looks at the timing of when it is appropriate to recognise a financial asset (the cash) in relation to EFT transactions that are not received in the bank until a few days later. Should the TAD come into force then the Group would need to consider the impact on its financial statements which would most likely see such balances recorded as amounts due from customers (rather than cash) until the monies are received in the bank.

# Section C - what are our major liabilities?

This section of the accounts (notes 21 - 24) outlines the key liabilities that we have at the balance sheet date.

## 21 Interest-bearing loans and borrowings

**What does this show?** This note provides information about the terms of our interest-bearing loans. This includes information about their value, interest rate and repayment terms and timings. Details are also given about other borrowings and funding arrangements such as corporate investor shares and leases. All items are split between those that are due to be repaid within one year (current) and those which won't fall due until after more than one year (non-current).

| **Non-current liabilities:** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| £105m 7.5% Eurobond Notes due 2026 (fair value) | **123** | 128 |
| £245m 7.5% Eurobond Notes due 2026 (amortised cost) | **258** | 259 |
| £300m 5.125% Sustainability Bond due 2024 (amortised cost) | **299** | 298 |
| £109m 11% Final repayment subordinated notes due 2025 | **109** | 109 |
| £20m 11% Instalment repayment notes (final payment 2025) | **7** | 9 |
| **Total (excluding lease liabilities)** | **796** | 803 |
| Lease liabilities | **1,306** | 1,234 |
| **Total Group interest-bearing loans and borrowings** | **2,102** | 2,037 |

| **Current liabilities:** | **2,021** | 2020 |
|---|---|---|
| | **£m** | £m |
| £245m 7.5% Eurobond Notes due 2026 (amortised cost) - interest accrued | **9** | 9 |
| £300m 5.125% Sustainability Bond due 2024 (amortised cost) - interest accrued | **2** | 2 |
| £20m 11% Instalment repayment notes (final payment 2025) | **2** | 2 |
| £400m Sustainable revolving credit facility (RCF) | **163** | - |
| Corporate investor shares | **4** | 3 |
| **Total (excluding lease liabilities)** | **180** | 16 |
| Lease liabilities | **210** | 191 |
| **Total Group interest-bearing loans and borrowings** | **390** | 207 |

See Note 29 for more information about the Group’s exposure to interest rate and foreign currency risk, and a breakdown of the Group's borrowings by the three-level fair value hierarchy (which reflects different valuation techniques) as defined within IFRS 13 (Fair Value Measurement).

**Reconciliation of movement in net debt**

Net debt is a measure that shows the amount we owe to banks and other external financial institutions less the cash that we have and any short-term deposits. Some of our Eurobond borrowings are held as financial liabilities at fair value through the income statement. The fair value movement on these liabilities is shown under non-cash movements in the tables below.

| **For period ended 1 January 2022** | **Start of period** | **Non cash movements** | | **Cash flow** | **End of period** |
|---|---|---|---|---|---|
| | | **New leases** | **Other** | | |
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Interest-bearing loans and borrowings: | | | | | |
| - current | **(16)** | **-** | **-** | **(164)** | **(180)** |
| - non-current | **(803)** | **-** | **5** | **2** | **(796)** |
| Lease liabilities | | | | | |
| - current | **(191)** | **(34)** | **(198)** | **213** | **(210)** |
| - non-current | **(1,234)** | **(210)** | **138** | **-** | **(1,306)** |
| **Total Debt** | **(2,244)** | **(244)** | **(55)** | **51** | **(2,492)** |
| Group cash: | | | | | |
| - cash & overdrafts | **269** | **-** | **-** | **(213)** | **56** |
| **Group Net Debt** | **(1,975)** | **(244)** | **(55)** | **(162)** | **(2,436)** |

| For period ended 2 January 2021 | **Start of period** | **Non cash movements** | | **Cash flow** | **End of period** |
|---|---|---|---|---|---|
| | | **New leases** | **Other** | | |
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Interest-bearing loans and borrowings: | | | | | |
| - current | (200) | - | (54) | 238 | (16) |
| - non-current | (803) | - | - | - | (803) |
| Lease liabilities | | | | | |
| - current | (193) | (15) | (188) | 205 | (191) |
| - non-current | (1,277) | (99) | 142 | - | (1,234) |
| **Total Debt** | (2,473) | (114) | (100) | 443 | (2,244) |
| Group cash: | | | | | |
| - cash & overdrafts | 308 | - | - | (39) | 269 |
| **Group Net Debt** | (2,165) | (114) | (100) | 404 | (1,975) |

Details of the Group's bank facilities are shown in Note 29.

## Terms and repayment schedule

The 2026 £350m 7.5% bond has an original value of £350m (carrying amount of £381m). This bond has been paying an additional 1.25% coupon since 8 July 2013 following the downgrade of the Group's credit rating to sub-investment grade. On maturity this bond will be repaid at par.

The Group also has two subordinated debt instruments in issue - £109m 11% final repayments notes due 2025 and £20m 11% instalment repayment notes, final repayment 2025. As at 1 January 2022 the £109m 11% final repayments notes had an outstanding value of £109m. The £20m 11% instalment repayment notes had an outstanding value of £9m.

The Group issued a £300m Sustainability Bond in May 2019. The bond is repayable in May 2024 and has an interest rate of 5.125%. As at 1 January 2022 (and as at 2 January 2021), the bond proceeds had been fully allocated against the cost of purchasing Fairtrade products for resale.

The £400m revolving credit facility (RCF) facility now matures in September 2024, following the exercise of the Group's second extension option in September 2021. The RCF has been agreed on a sustainable basis with rates of interest linked to the Group's CO2 emission targets.

Further details of the Group's remaining banking facilities are given in Note 29.

### Corporate investor shares

Corporate investor shares represent borrowings the Group has with other co-operative societies. The borrowings are split into Variable Corporate Investor Shares (VCIS) and Fixed Corporate Investor Shares (FCIS). The VCIS are repayable on demand and the FCIS are fixed term borrowings.

### Accounting policies

The Group measures its interest-bearing loans and borrowings in two main ways:

1) Fair value through the income statement. Debt is restated as its fair value each period with the fair value movement going through the income statement. The hedged portion of the Eurobond quoted debt is accounted for in this way. This is because the Group has used interest rate swaps to hedge the impact of movements in the interest rate and the movement in the fair value of the quoted debt is partially offset by the fair value movement in the interest rate swaps (notes 6, 7 and 30). The un-hedged portion of the Eurobond quoted debt is accounted for at amortised cost in accordance with IFRS 9. This approach applies to those borrowings taken out prior to the adoption of IFRS 9 in 2018. Any subsequent borrowings are measured at amortised cost as noted below.

2) Amortised cost. Borrowings are recognised initially at fair value, which equates to issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. The effective interest rate is calculated when borrowings are first taken out and is the rate that exactly discounts the estimated future cash payments associated with the borrowings to the value when they are initially recognised.

For more general information on accounting policies on financial instruments, refer to Note 29.

## 22 Trade and other payables

**What does this show?** This note shows how much we owe, and includes amounts we owe to suppliers for goods and services we've bought, as well as taxes we owe and other sundry liabilities.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Current | **1,472** | 1,747 |
| Non-current | **44** | 214 |
| | **1,516** | 1,961 |

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Trade payables | **1,013** | 1,118 |
| Value Added Tax, PAYE and social security | **16** | 42 |
| Accruals | **317** | 425 |
| Deferred income | **66** | 79 |
| Deferred consideration | **6** | 38 |
| Other payables | **98** | 259 |
| | **1,516** | 1,961 |

Further details on the maturity profile of trade and other payables can be found in Note 28.

Deferred income includes £55m (2020: £78m) in relation to the 13 year marketing and distribution arrangement entered into with Markerstudy following the sale of our Insurance underwriting business (CISGIL). Accruals includes capital expenditure accruals of £52m (2020: £85m), payroll accruals of £110m (2020: £127m) as well as standard cost accruals of £155m (2020: £213m).

Deferred consideration includes £6m (2020: £38m) in respect of the Nisa acquisition and is contingent on the level of trade that passes through Nisa.

Other payables also includes £30m (2020: £30m) of rewards earned through our membership offer that have either not been redeemed by members or have not yet been paid out to local causes. During the year a £1m charge (2020: £1m release) of member reward earned has been charged / written back to the income statement in line with a prudent assessment of the likelihood that members won't redeem their rewards. In the prior year; Other payables included an amount owed to The Co-operative Bank of £147m in respect of historic group relief and this liability has been settled in full during the year (see Note 6 for further details).

The Group operates a supplier financing arrangement with Prime Revenue, under which suppliers can obtain accelerated settlement on invoices from the finance providers signed up to the programme. The Group settles these amounts in accordance with each supplier's agreed payment terms. The Group's trade creditors balance includes £33m (2020: £57m) relating to payments due to Co-op suppliers under these arrangements. During the year ended 1 January 2022, the maximum facility was £120m.

**Accounting policies**

Refer to Note 29 Financial instruments for the accounting policies relating to trade payables.

## 23 Contract liabilities

**What does this show?** When a customer buys a funeral plan from us we invest the money they give us and we recognise that we have an obligation to provide a funeral in the future. We include a liability on our balance sheet for this and we recognise an effective interest charge on the monies received from a customer in each year until the plan is redeemed at which point the revenue is recognised as the total of the monies received from the customer and the interest charged. This note shows these liabilities and how they have changed during the period. Further detail on our accounting policy for funeral plans is given in Note 29.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Contract liabilities - Funeral plans | **1,778** | 1,737 |

| | | |
|---|---|---|
| Current | **164** | 167 |
| Non-current | **1,614** | 1,570 |
| | **1,778** | 1,737 |

Contract liabilities - Funeral plans comprise £1,365m (2020: £1,309m) relating to fully paid plans, £253m (2020: £214m) on instalment plans and £159m (2020: £214m) of deferred income. Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £348m (2020: £261m). This relates to 65,754 live plans (2020: 52,095 live plans). Refer to Note 29 for further details of the accounting policies for funeral plans, contract liabilities and LCIPs.

| **Contract Liabilities:** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Opening contract liabilities | **1,737** | 1,641 |
| New plan additions | **98** | 96 |
| Interest accruing on funeral plan liabilities | **61** | 60 |
| Transfered from Contract assets in respect of membership discount (see Note 18)* | **(24)** | - |
| Plans cancelled or redeemed outside of the Group | **(49)** | (6) |
| Recognised as revenue in the period | **(45)** | (54) |
| Closing contract liabilities | **1,778** | 1,737 |

*During the year we reassessed the treatment of the discount given to our members on inception of a plan and now classify them as a reduction against the contract liability (in the table above) whereas previously they were held as contract assets (Note 18).

## 24 Provisions

**What does this show?** We recognise a provision when a liability has been incurred but there is some uncertainty about when the liability will be settled or how much it may cost us. This note provides an analysis of our provisions by type, and shows how the value of each provision has changed during the period.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Non-current | **74** | 85 |
| Current | **52** | 46 |

| | | |
|---|---|---|
| | **126** | 131 |

| **2021** | **Uninsured claims £m** | **Property provisions £m** | **Restructuring & integration £m** | **Regulatory / other £m** | **Total £m** |
|---|---|---|---|---|---|
| At beginning of the period | **40** | **67** | **7** | **17** | **131** |
| Credit to income statement | **(6)** | **(12)** | **(2)** | **(4)** | **(24)** |
| Charge to income statement | **24** | **27** | **19** | **3** | **73** |
| Payments | **(21)** | **(9)** | **(21)** | **(2)** | **(53)** |
| Transfer to payables | **-** | **(1)** | **-** | **-** | **(1)** |
| **At end of the period** | **37** | **72** | **3** | **14** | **126** |

| 2020 | **Uninsured claims £m** | **Property provisions £m** | **Restructuring & integration £m** | **Regulatory / other £m** | **Total £m** |
|---|---|---|---|---|---|
| At beginning of the period | 38 | 94 | 11 | 14 | 157 |
| Credit to income statement | (3) | (16) | (5) | (2) | (26) |
| Charge to income statement | 24 | 35 | 6 | 7 | 72 |
| Discounting | - | 1 | - | - | 1 |
| Payments | (19) | (47) | (5) | (1) | (72) |
| Transfer to payables | - | - | - | (1) | (1) |
| **At end of the period** | 40 | 67 | 7 | 17 | 131 |

**Critical accounting estimates and judgements**

**Uninsured claims**
This provision relates to potential liabilities arising from past events which are not covered by insurance. It includes a wide variety of known claims and potential claims from accidents in our depots and stores. The provision includes an assessment, based on historical experience, of claims incurred but not reported at the period end. The claims are expected to be settled substantially over the next three years.

**Property provisions**
Property provisions are held for onerous contractual obligations for leasehold properties that are vacant or not planned to be used for ongoing operations. The provisions represent the least net cost of exiting from the contracts. Provisions include an assessment of dilapidation and return of lease obligations, and other service costs that are explicitly excluded from the measurement of lease liabilities in accordance with IFRS 16. The Group considers that where it has entitlement to possession of a property, even if vacant, it retains a statutory obligation to pay the related business rates that have been determined to be levies as defined in IFRIC 21. Accordingly, the estimate of the least net costs of exiting from the contracts excludes future business rates of £24m, which instead under IFRIC 21 are recognised when the event that triggers the payment of the levy arises (as a periodic cost). Property provisions are expected to be utilised over the remaining periods of the leases which range from 1 to 97 years.

**Restructuring and integration**
Provisions of £5m were recognised in 2020 following the sale of our insurance underwriting business (CISGIL) on 3 December 2020. The expected costs reflected latest estimates of programme delivery costs associated with the sale and £2m has been incurred in 2021. Provisions of £17m (2020: £nil) relating to organisational changes to colleague structures within our food store teams (under the Fit for Future programme) have been recognised in the period with £nil remaining at 1 January 2022. The remaining provisions are expected to be utilised within one year.

**Regulatory / other**
This provision relates to costs from a number of past events that are expected to be incurred within the next one to three years. Typically, these cover potential legal or regulatory claims.

**Accounting policies**
A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

# Section D - other notes to the accounts

This section (notes 25 - 34) contains additional notes to the accounts.

### 25 Members' share capital and reserves

**What does this show?** This note shows the amounts our members have paid to become owners of the business and provides information on their rights as shareholders. It also shows our reserves which, together with our share capital, form the total capital resources of the business.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Individual shares of £1 each | **65** | 65 |
| Corporate shares of £5 each | **9** | 9 |
| **Share capital** | **74** | 74 |
| Other reserves | **6** | 1 |
| Retained earnings | **2,859** | 2,594 |
| **Total Retained earnings and Other reserves** | **2,865** | 2,595 |
| **Total Capital resources** | **2,939** | 2,669 |

**Members' share capital (Issued and paid-up value)**

Members' share capital is made up of corporate and individual shares. The rights attached to shares are set out in the Society's rules. Shares held by Independent Society Members (corporate shares) are not withdrawable and are transferable only between Independent Society Members with the consent of the Society's Board. Shares held by individual members (individual shares) are withdrawable on such period of notice as the Society's Board may from time to time specify. IFRIC 2 (Members' Shares in Co-operative Entities and Similar Instruments) determines the features that allow shares to be classified as equity capital. As the Board has an unconditional right to refuse redemption of both classes of shares, both corporate and individual shares are treated as equity shares.

Both classes of share maintain a fixed nominal value with corporate shares attracting a limited rate of interest. Under the Society's current rules, voting for Independent Society Members is in proportion to trade with the Society, with Independent Society Members totalling 21.9% (2020: 21.9%) of the vote at the Annual General Meeting. Each individual member has one vote with individual members totalling 78.1% (2020: 78.1%) of the vote at the Annual General Meeting.

For individual shares, new members are required to contribute a minimum of £1 when they join the Society. Each member has 1 individual share although contributions of up to £100,000 per member are allowed. No interest is earned on member capital. Members can withdraw money from their share account upon request (to a minimum of £1) or they can withdraw their £1 when they leave the Society. Share capital increased by £0.4m in the period being the net of new member contributions of £0.5m and withdrawals of £0.1m. There are 17.0m individual member records on the share register.

| **Other reserves (2021)** | Revaluation Reserve £m | **Total £m** |
|---|---|---|
| Balance at 2 January 2021 | **1** | **1** |
| Gain on revaluation of right-of-use assets prior to transfer to Investment property* | **5** | **5** |
| **Balance at 1 January 2022** | **6** | **6** |

| Other Reserves (2020) | Revaluation Reserve £m | Investments held at FVOCI £m | Total £m |
|---|---|---|---|
| Balance at 4 January 2020 | 1 | 14 | 15 |
| Gains less losses on fair value of insurance assets | - | 6 | 6 |
| Fair value gains on insurance assets transferred to the income statement | - | (2) | (2) |
| Disposal of CISGIL | - | (18) | (18) |
| **Balance at 2 January 2021** | 1 | - | 1 |

**Revaluation reserve - property, plant and equipment**

This reserve relates to the surplus created following the revaluation of certain assets in previous periods. Any surplus relating to a revalued asset is transferred to retained earnings at the point the asset is disposed of.

* During the year, we reviewed how we identify Investment properties and reclassified £28m from Right-of-use assets (Note 12) to Investment properties (see Note 26). Prior to the transfer from right-of-use-assets a £5m uplift to fair value was recorded through other comprehensive income.

**Investments held at fair value through other comprehensive income (FVOCI)**

We sold our Insurance underwriting business (CISGIL) on 3 December 2020. Prior to disposal CISGIL held certain debt securities as investments at fair value through other comprehensive income. Subsequent valuation was at fair value with differences between fair value and carrying value recognised in other comprehensive income as they arise. The balance of this reserve has been disposed of as part of the sale of CISGIL and the Group no longer holds any investments at FVOCI.

**Distribution of reserves in the event of a winding-up**

The Society's rules state that any surplus in the event of a winding-up shall be transferred to one or more societies registered under the Co-operative and Communities Benefit Act 2014. Such societies must be a member of Co-operatives UK Limited and have the same or similar rule provisions in relation to surplus distribution on a dissolution or winding-up as we have. If not transferred to another society in this way, the surplus shall be paid or transferred to Co-operatives UK Limited to be used and applied in accordance with co-operative principles.

**Capital management**

The Group defines capital as its share capital and reserves. The Group's policy is to maintain a strong base and to be more prudent than industry 'normal' levels as it is not able to raise equity externally. The Group still recognises the need to maintain a balance between the potential higher returns that might be achieved with greater borrowing levels and the advantages and security coming from a sound capital position.

The Group manages capital to make sure we have the right balance between investing in the future growth of the Group and making member and community payments. Following the launch of the membership offer in 2016, the Group has made payments to members and communities of £40m in 2021 (2020: £58m). See Note 33 for more details. It has also invested in future growth through cash capital expenditure additions of £325m (2020: £313m) and still kept within its net debt limits. Total member funds increased during the period by £270m (2020: decreased £16m).

## 26 Investment properties

**What does this show?** We own properties that we don't occupy or trade from and which we rent out to generate income or hold for capital growth. These properties are revalued at each period end and this note shows how that valuation has changed during the year as well as showing other changes in our investment property holdings.

| | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Valuation at beginning of period | **17** | 16 |
| Disposals | **(9)** | - |
| Reclassification from Property, plant and equipment (Note 11)* | **5** | - |
| Reclassification from Right-of-use assets (Note 12)* | **28** | - |
| Revaluation gain recognised in the Consolidated income statement | **9** | 1 |
| Revaluation gain recognised in the Consolidated statement of comprehensive income** | **5** | - |
| **Valuation at end of period** | **55** | 17 |

*During the year, we reviewed how we identify Investment properties and have reclassified £5m of assets from Property, plant and equipment (Note 11) and £28m from Right-of-use assets (Note 12) to Investment properties.

**Prior to the transfer from Right-of-use-assets a £5m uplift to fair value was recorded through the Consolidated statement of comprehensive income.

### Accounting policies

Properties held for long-term rental yields that are not occupied by the Group or properties held for capital growth are classified as investment property. Investment properties are freehold land and buildings and Right-of-use assets. These are carried at fair value which is determined by either independent valuers or internally each year on a three-year cyclical basis in accordance with the RICS Appraisal and Valuation Manual. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement.

If we start to occupy or trade from one of our investment properties, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. Other disclosures required by IAS 40 (Investment Properties) are not considered to be material.

## 27 Pensions

**What does this show?** This note provides information about our pension schemes. It explains the types of pension scheme we have, the assets and liabilities they hold, the assumptions used in valuing the pension schemes and the key risks faced in connection with the schemes.

| | 2021 £m | 2020 £m |
|---|---|---|
| Pension schemes in surplus | **2,262** | 1,931 |
| Pension schemes in deficit | **(4)** | (77) |
| **Closing net retirement benefit surplus** | **2,258** | 1,854 |

**Defined benefit (DB) plans**

The Group operates three funded DB pension schemes all of which are closed to future accrual. This means that colleagues can no longer join or earn future benefits from these schemes. The assets of these schemes are held in separate trustee-administered funds to meet future benefit payments.

The Group's largest pension scheme is the Co-operative Group Pension Scheme ('Pace') which accounts for approximately 85% of the Group's pension assets. The DB section of Pace ('Pace Complete') closed to future service accrual on 28 October 2015. Further information about Pace is set out below.

**Defined contribution (DC) plans**

Since the closure of the DB schemes, the Group provides all colleagues with DC pension benefits through the DC section of Pace. Colleagues are able to select the level of contributions that they wish to pay. The contribution paid by the Group varies between 1% and 10% of pensionable salary depending on the contribution tier that the scheme member has selected.

Contributions are based on the scheme member's basic pay plus any earnings in respect of overtime, commission and shift allowance.

The Pace DC section provides benefits based on the value of the individual colleague's fund built up through contributions and investment returns. The Group has no legal or constructive obligation to pay contributions beyond those set out above. There is therefore no balance sheet items for DC pension benefits except for any accrued contributions.

**Balance sheet position for DB plans**

The table below summarises the net surplus in the balance sheet by scheme:

| | Net 2021 £m | Net 2020 £m |
|---|---|---|
| **Schemes in surplus** | | |
| The Co-operative Group Pension Scheme (Pace) | **2,087** | 1,854 |
| Somerfield Pension Scheme | **108** | 71 |
| United Norwest Co-operatives Employees' Pension Fund | **67** | 0 |
| Yorkshire Co-operatives Limited Employees' Superannuation Scheme* | **-** | 6 |
| **Total schemes in surplus** | **2,262** | 1,931 |
| **Schemes in deficit** | | |
| United Norwest Co-operatives Employees' Pension Fund | **-** | (43) |
| The Plymouth and South West Co-operative Society Limited Employees' Superannuation Fund* | **-** | (29) |
| Other unfunded obligations | **(4)** | (5) |
| **Total schemes in deficit** | **(4)** | (77) |
| **Total schemes** | **2,258** | 1,854 |

* In March 2021 the Yorkshire and Plymouth funds merged both their assets and liabilities into Pace. Further info is detailed overleaf.

**Recognition of accounting surplus**

Any net pension asset disclosed represents the maximum economic benefit available to the Group in respect of its pension obligations. The Group has carried out a review of the provisions for the recovery of surplus in its pension schemes. This review concluded that the Group can recoup the benefits of the surplus via a right to refunds and this is reflected in the balance sheet position.

**Events arising during the year - Mergers of Plymouth and Yorkshire Schemes into Pace**

During March 2021 the Plymouth and Yorkshire funds merged into the Pace scheme, effectively meaning these two Schemes had all their assets and liabilities transferred into Pace, with the two transferring schemes being wound up. As a consequence the Co-op was no longer required to pay deficit contributions in respect of the Plymouth and Yorkshire schemes; the combined Pace funding surplus, post merger, meant that any deficit contributions in respect of the Plymouth and Yorkshire Schemes were stopped with immediate effect.

**Events arising during the year - Trivial commutation and Small pots exerices**

During 2021 both Pace and United carried out trivial commutation exercises, whilst Somerfield carried out a small pots exercise. These exercises involved writing out to members with very small benefits to offer them a one off lump sum payment in lieu of future pension payments. Across the three schemes the take up rate was c3,000 members opting to take the lump sum with a total value paid out of c£60m. The impact of these exerices is a settlement gain of £2m and a resulting interest cost remeasurement gain of £3m. Together these result in a net P&L gain of £5m.

**Events arising during the prior year - Revisiting historic transfer values to account for GMP Equalisation**

In 2018 an allowance was made in the accounts in respect of revisiting Guaranteed Minimum Pensions (GMPs) in light of the judgement on the back of the Lloyds case. A second hearing in November 2020 concluded that schemes must top-up past transfer payments paid since 17 May 1990 that failed to take account of the obligation to equalise for GMPs. In the prior year a charge of £3m was made and included within one off items in the Consolidated income statement.

**Pace - nature of scheme**

As Pace represents around 85% of the Group's pension assets, further information has been included on Pace below. As all of the DB schemes will be exposed to similar risks to Pace, we have not provided additional commentary on each scheme. Benefits accrued in Pace between 6 April 2006 and 28 October 2015 are calculated based on an individual’s average career salary. Benefits accrued prior to 6 April 2006 are linked to final salary until scheme members end their pensionable service.

**Pace - funding position**

A valuation of the Co-op section of Pace DB was carried out as at 5 April 2019, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The results of the valuation showed that the Co-op section of Pace DB had a surplus of £907m. On completion of the actuarial valuation in July 2020 the Group and the Trustee agreed that no contributions would be required.

**Pace - multi-employer provisions following sectionalisation**

Pace is a mutli-employer scheme but following sectionalisation of the scheme in 2018, the Group accounts only for the Co-op section of Pace. CFSMS, a subsidiary of the Group, participates in the Co-op's section with a material share of accrued DB obligations. There are other participating employers in the Group section which include Group subsidiaries, non-associated and associated entities, but these do not have a material share. Non-associated entities account for pension contributions in respect of the scheme on a DC basis.

As a multi-employer pension scheme, Pace exposes the participating employers to the risk of funding the pension obligations associated with the current and former colleagues of other participating employers. The sectionalisation of Pace largely removes The Co-operative Bank’s (the 'Bank's') ‘last man standing’ obligation to the rest of the Pace scheme but an obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section's pension liabilities. The Bank element of Pace is fully funded on both an IAS 19 accounting and a statutory funding basis. At 31 December 2021, the Bank reported an overall defined benefit pension scheme surplus of £833m (2020: £643m). This included £601m (2020: £509m) in relation to the Pace scheme consisting of assets of £2,129m (2020: £2,169m) and liabilities of £1,528m (2020: £1,660m). Given this surplus position then the ‘last man standing’ risk for the Group is very limited.

**Legislative framework for DB schemes - pension scheme governance**

As required by UK legislation, the Group's three DB schemes are run by Trustee boards which operate independently from the Group. The Trustees are responsible for the development and implementation of appropriate policies for the investment of the scheme assets and for negotiating scheme funding with the Group. The Trustees consult with the Group in developing investment strategy and delegates the responsibility for implementing and monitoring the strategy to Investment Committees.

Each Trustee board has at least one professional Trustee and there is also a requirement for the boards to have some member representation. The Pace Trustee Board is made up of three professional independent Trustee Directors appointed by the Group and a further professional Independent Trustee Director appointed by the Bank. Other Trustee Boards are made up of professional independent Trustee Directors, Co-op appointed Trustee Directors and Member Nominated Directors elected by scheme members. The Chair is appointed by the Trustee Directors.

**Legislative framework for DB schemes - scheme funding regime**

Under the scheme specific funding regime established by the Pensions Act 2004, trustees of DB pension schemes have to undertake a full actuarial valuation at least every three years. The purpose of the valuation is to determine if the scheme has sufficient assets to pay the benefits when these fall due. The valuation targets full funding (scheme assets equal to the value of pension liabilities) against a basis that prudently reflects the scheme’s risk exposure. The basis on which DB pension liabilities are valued for funding purposes differs to the basis required under IAS19. The Group may therefore be required to pay contributions to eliminate a funding shortfall even when a surplus is reported in the IAS19 disclosure.

Any shortfall in the assets directly held by the Group’s DB schemes, relative to their funding target, is financed over a period that ensures the contributions are reasonably affordable to the Group.

Deficit contributions over the 2021 financial year totalled £27m (with £16.9m pa paid from October 2021 onwards). Deficit contributions to Pace and Somerfield have now ceased but contributions are still required to the United scheme. All schemes target a more prudent level of funding than the target stipulated under IAS19 which is included in these financial statements. Therefore the funding levels are not comparable and it is possible to have a surplus under IAS19 and yet still be required to pay deficit contributions. We also cannot use a surplus in one scheme to offset the requirement to pay cash contributions to fund a deficit in another scheme. In 2022, deficit contributions will continue at a rate of £16.9m (2021: £25m) until the point at which the United scheme becomes fully funded.

The average duration of the liabilities is approximately 21 years. The benefits expected to be paid from the schemes take the form of a cash lump sum paid at retirement followed by a stream of pension payments.

The effective date of the last full valuations of the schemes are shown below:

| | |
|---|---|
| The Co-operative Pension Scheme ('Pace') | 5 April 2019 |
| Somerfield Pension Scheme ('Somerfield Scheme') | 31 March 2019 |

**Risks associated with DB pension schemes**

The liability associated with the pension schemes is material to the Group, as is the cash funding required. The Group and Trustees work together to address the associated pension risk - in particular, steps have been taken to significantly reduce the investment risk in the schemes.

The key risks in relation to the DB schemes are set out below, alongside a summary of the steps taken to mitigate the risk:

| Risk description | Mitigation |
|---|---|
| **Risk of changes in contribution requirements** - When setting the contributions that are paid to a scheme, the Group and Trustee are required to consider the funding level at a specified valuation date. The funding level at future valuation dates is uncertain and this leads to uncertainty in future cash requirements for the Group. | The closure of the DB schemes has reduced the exposure of the Group to changes in future contributions, as has the merger of Yorkshire and Plymouth into Pace. In addition, the Group and Trustee have taken steps to reduce the volatility of the funding level (as set out below). The Group monitors the funding level of the schemes in order to understand the likely outcome of valuations and the Trustee is required to obtain agreement from the Group to funding assumptions and deficit recovery contributions. |
| **Interest rate risk -** Pension liabilities are measured with reference to yields on bonds, with lower yields increasing the liabilities. The schemes are therefore exposed to the risk of falls in interest rates. | All of the schemes invest in liability-driven investment (LDI) products which increase (decrease) in value when yields on government bonds fall (rise), providing protection against interest rate risk. Across all schemes, approximately 95% of the liability is currently protected from movements in yields on government bonds. LDI involves investing in assets which are expected to generate cashflows that broadly mirror expected benefit payments from the scheme. |
| **Risk associated with volatility in asset value** - The market value of the assets held by the pension schemes, particularly the assets held in return-seeking assets such as equity, can be volatile (and, for example, may be affected by environmental, social or corporate governance ("ESG") failures at investee companies and/or sovereign states - including the physical and transition risks of climate change). This creates a risk of short-term fluctuations in funding level. | This risk has been mitigated by reducing the exposure of the pension schemes to those asset classes which have the most volatile market values. In particular, the schemes have limited allocation to return-seeking assets such as equity. Analysis undertaken by the Pace Trustee shows that the low risk investment strategy of Pace DB means the exposure of the scheme's assets to climate risk is limited. In addition, the Trustees of the Co-op's pension schemes have responsible investment policies in place, and aligned with those policies exclude specific investments (where appropriate and viable). Management of ESG risks is considered when appointing investment managers and in their ongoing monitoring, and the schemes' equity assets are explicitly managed with a consideration of such risks, including climate change. |
| **Inflation risk** - Many of the benefits paid by the schemes are linked to inflation. Therefore, the pension liabilities reflect expectations of future inflation with higher inflation leading to higher liabilities. | All of the schemes invest in liability driven investment products which increase (decrease) in value when expectations of future inflation rates increase (fall), thus providing protection against inflation risk. Across all schemes, approximately 95% of the liability is currently protected from movements in inflation. |
| **Risk associated with changes in life expectancy -** Pensions paid by the schemes are guaranteed for life, and therefore if members are expected to live longer, the liabilities increase. | All of the schemes' funding targets incorporate a margin for prudence to reflect uncertainty in future life expectancy. During 2020, the Group reduced its exposure to longevity risk in the Pace Scheme via three separate pensioner insurance buy-in contracts. |

**Critical accounting estimates**

For IAS 19 disclosure purposes, DB obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice.

| **Financial assumptions** | **2021** | 2020 |
|---|---|---|
| Discount rate | **1.90%** | 1.47% |
| RPI Inflation rate | **3.48%** | 3.10% |
| Pension increases in payment (RPI capped at 5% p.a.) | **3.37%** | 3.04% |
| Future salary increases | **3.73%** | 3.35% |

The discount rate has been derived by reference to market yields on sterling-denominated high quality corporate bonds of appropriate duration consistent with the schemes at that date.

**Demographic assumptions**

The Group has used best estimate base mortality tables which reflect the membership of each scheme. Allowance has been made for future improvements in line with the Continuous Mortality Investigation (CMI) 2020 projections and a long-term future improvement rate of 1.25% p.a. (2020: CMI 2019 1.25% p.a.). The actuaries considered no adjustment necessary in respect of COVID experience.

For illustration, the average life expectancy (in years) for mortality tables used to determine scheme liabilities for Pace is as follows. These are broadly similar to the life expectancies used for other schemes.

| **Life expectancy from age 65** | **2021** | **2020** |
|---|---|---|
| Male currently aged 65 years | **21.0** | 21.0 |
| Female currently aged 65 years | **23.4** | 23.4 |

| | | |
|---|---|---|
| Male currently aged 45 years | **22.0** | 22.0 |
| Female currently aged 45 years | **24.7** | 24.6 |

**Sensitivities**

The measurement of the Group's DB liability is particularly sensitive to changes in certain key assumptions, which are described below. The methods used to carry out the sensitivity analysis presented below for the material assumptions are the same as those the Group has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remained the same. This approach is not necessarily realistic, since some assumptions are related: for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will also increase. However, it enables the reader to isolate one effect from another. It should also be noted that because of the interest rate and inflation hedges, changes in the liability arising from a change in the discount rate or price inflation would be expected to be largely mitigated by a change in assets. It's impossible to predict future discount rates or inflation with any real certainty and so the sensitivities shown are for illustration purposes only and in reality more significant movements could be experienced.

| **Sensitivities** | **2021**<br>**£m** | 2020<br>£m |
|---|---|---|
| Change in liability from a 0.1% increase in discount rate | **(176)** | (197) |
| Change in liability from a 0.1% decrease in RPI inflation | **(122)** | (147) |
| Change in liability from a 0.25% increase in long-term rate of longevity improvements | **122** | 129 |

| **Changes in the present value of the defined benefit obligation (DBO)** | **2021**<br>**£m** | 2020<br>£m |
|---|---|---|
| Opening defined benefit obligation | **9,854** | 9,304 |
| Interest expense on DBO | **157** | 179 |
| Remeasurements: | | |
| a. Effect of changes in demographic assumptions | **(42)** | 22 |
| b. Effect of changes in financial assumptions | **(316)** | 958 |
| c. Effect of experience adjustments | **(57)** | (251) |
| Past service costs | **-** | 3 |
| Settlements (trivial commutation exercises) | **(2)** | - |
| Benefit payments from plan | **(400)** | (361) |
| **Closing defined benefit obligation** | **9,194** | 9,854 |

| **Changes in the fair value of the plan assets** | **2021**<br>**£m** | 2020<br>£m |
|---|---|---|
| Opening fair value of plan assets | **11,708** | 11,168 |
| Interest income | **187** | 216 |
| Return on plan assets (excluding interest income) | **(65)** | 646 |
| Administrative expenses paid from plan assets | **(5)** | (5) |
| Employer contributions | **27** | 44 |
| Benefit payments from plan | **(400)** | (361) |
| **Closing fair value of plan assets** | **11,452** | 11,708 |

The fair value of the plan assets at the period end were as follows. The assets have been split to show those which have a quoted market price in an active market and those which are unquoted.

| | **2021**<br>**Quoted**<br>**£m** | **2021**<br>**Unquoted**<br>**£m** | **2021**<br>**Total**<br>**£m** | 2020 (restated*)<br>Quoted<br>£m | 2020 (restated*)<br>Unquoted<br>£m | 2020 (restated*)<br>Total<br>£m |
|---|---|---|---|---|---|---|
| Equity instruments | **197** | **-** | **197** | 276 | | 276 |
| Liability driven investments | **4,304** | **-** | **4,304** | 4,139 | - | 4,139 |
| Real estate | **-** | **-** | **-** | 17 | - | 17 |
| Investment grade credit | **2,978** | **-** | **2,978** | 3,014 | - | 3,014 |
| Illiquid / other credit | **-** | **1,300** | **1,300** | - | 1,377 | 1,377 |
| Alternative investments** | **-** | **351** | **351** | - | 374 | 374 |
| Cash and cash equivalents* | **63** | **28** | **91** | 69 | 1 | 70 |
| Insurance buy-in contracts* | **-** | **2,231** | **2,231** | - | 2,441 | 2,441 |
| **Fair value of plan assets** | **7,542** | **3,910** | **11,452** | 7,515 | 4,193 | 11,708 |

*The cash and cash equivalents figures in the prior year have been represented in the table above such that the Insurance buy-in contracts value is now shown separately (whereas previously they were disclosed as combined within the unquoted column of cash and cash equivalents line). The impact of the representation is shown in our Accounting Policies and basis of preparation. The insurance buy-in contracts are in respect of Pace and Somerfield £2,231m (2020: £2,441m).

**Alternative investments consist of private equity, private debt and inflation-linked property.

| **Amounts recognised in the balance sheet** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Present value of funded obligations | **(9,190)** | (9,849) |
| Present value of unfunded liabilities | **(4)** | (5) |
| Fair value of plan assets | **11,452** | 11,708 |
| **Net retirement benefit asset** | **2,258** | 1,854 |

| **Amounts recognised in the income statement and other comprehensive income** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Interest expense on defined benefit obligations | **(157)** | (179) |
| Interest income on plan assets | **187** | 216 |
| Administrative expenses and taxes | **(5)** | (5) |
| Settlements (trivial commutation exercises) | **(2)** | - |
| Past service cost | **-** | (3) |
| Total recognised in the income statement | **23** | 29 |
| Remeasurement losses on employee pension schemes | **350** | (83) |
| Total recognised in other comprehensive income | **350** | (83) |
| **Total** | **373** | (54) |

### Accounting policies

The Group operates various defined contribution and defined benefit pension schemes for its colleagues as stated above. A defined contribution scheme is a pension plan under which the Group pays pre-specified contributions into a separate entity and has no legal or constructive obligation to pay any further contributions. A defined benefit scheme is a pension plan that defines an amount of pension benefit that a colleague will receive on retirement. In respect of the defined benefit pension scheme, the pension scheme surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The calculation of the defined benefit obligations is performed annually by qualified actuaries (and half-yearly for Pace) using the projected unit credit method. Plan assets are recorded at fair value. When the calculation results in a potential asset for the Group, the recognised asset reflects the present value of the economic benefits that will arise from the surplus in the form of any future refunds from the plan or reductions in future contributions to the plan. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Remeasurements of the surplus / liability of each scheme (which comprise actuarial gains and losses and asset returns excluding interest income) are included within other comprehensive income. Net interest expense and other items of expense relating to the defined benefit plans are recognised in the income statement. Administrative costs of the plans are recognised in operating profit. Net interest expense is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined asset / liability at that point in time taking into account contributions within the period.

## 28 Financial risk management

**What does this show?** This note explains the main financial risks we face and how we manage them. These include: credit risk, interest rate risk, foreign currency risk and liquidity risk.

### Financial risk management

The main financial risks facing the Group are set out below. Overall Group risks and the strategy used to manage these risks are discussed in the Principal Risks and Uncertainties section.

**Credit risk**

Credit risk arises from the possibility of customers and counterparties failing to meet their obligations. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The

Group does not require security in respect of financial assets. The majority of businesses in the Group have cash-based rather than credit-based sales and so customer credit risk is relatively small.

Co-op will ensure that it earns an appropriate return on its invested cash, whilst ensuring that there is minimal risk over the security of that cash. Investments are only allowed with the Group's syndicate banks or counterparties that have a credit rating of Investment Grade. Transactions involving derivative financial instruments are with counterparties with whom the Group has signed an ISDA agreement (a standard contract used to govern all over-the-counter derivatives transactions) as well as sound credit rating (as per Treasury Policy). Given the policy on credit ratings, management has no current reason to expect that any counterparty will fail to meet its obligations.

Funeral Plan funds are invested in whole-of-life insurance policies which pay out a lump sum when the insured person dies. Any provider of these policies to the Group must be authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. There are also some funds relating to plans taken out prior to 2002 that are held in interest-bearing trustee-administered bank accounts which can only be utilised to meet liabilities in respect of funeral plans.

At the balance sheet date there were no significant concentrations of credit risk. Information regarding the age profile of trade receivables is shown in Note 17. The carrying value of all balances that attract a credit risk, which represents the maximum exposure, is set out below:

| | **Carrying amount** | Carrying amount |
|---|---|---|
| | **2021** | 2020 |
| | **£m** | £m |
| Trade and other receivables (excluding prepayments and accrued income) | **612** | 601 |
| Interest rate swaps | **(2)** | 3 |
| Foreign exchange contracts and commodity swaps (net) | **1** | (1) |
| Funeral plan investments | **1,372** | 1,331 |
| Finance lease receivables | **42** | 45 |
| Cash | **60** | 269 |

**Interest rate risk and hedging**

Interest rate risk arises from movements in interest rates that impact on the fair value of the assets and liabilities and related finance flows. The Group adopts a policy of ensuring that 50-90% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The fixed proportion as at 1 January 2022 was 69% (at 2 January 2021: 86%). Interest rate swaps, denominated exclusively in sterling, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. The swaps mature over the next five years following the maturity of the related bond and have fixed swap rates ranging from 0.10% to 0.72% (at 2 January 2021: 0.72% to 0.80%). At 1 January 2022, the Group had interest rate swaps with a notional contract amount of £105m (at 2 January 2021: £105m).

The Group does not designate interest rate swaps or forward foreign exchange contracts as hedging instruments. Derivative financial instruments that are not hedging instruments are classified as held for trading by default and so fall into the category of financial assets at fair value through the income statement. Derivatives are subsequently stated at fair value, with any gains and losses being recognised in the income statement. See Note 29.

The net fair value of swaps at 1 January 2022 was a net liability of £2m (2020: net asset of £3m) comprising assets of £nil (2020: £3m) and liabilities of £2m (2020: £nil). These amounts are recognised as fair value derivatives on the face of the Consolidated balance sheet.

In-line with the Group's strategic response to the risk of climate change the £400m revolving credit facility (RCF) has been agreed on a sustainable basis with rates of interest linked to the Group's CO2 emission targets. This arrangement demonstrates the Groups' commitment to tackling climate change through the alignment of this strategic goal to our financial performance.

**Foreign currency risk**

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than sterling. The key currencies giving rise to this risk are Euros and US Dollars.

The Group manages the impact of market fluctuations on its currency exposures and future cash flows by undertaking rolling foreign exchange hedges. These are executed on a monthly basis in a layered approach based on forecast requirements.

In respect of other monetary assets and liabilities held in currencies other than sterling, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

At 1 January 2022, the Group had forward currency transactions in Euros and US Dollars with a notional contract amount of £100m (2020: £89m).

**Liquidity risk**

This is the risk that the Group will not have sufficient facilities to fund its future borrowing requirements and will require funding at short notice to meet its obligations as they fall due. The Group's funding maturity profile is managed to ensure appropriate flexibility through a mix of short, medium and long term funding together with diversified sources of finance, at a reasonable cost, to meet the Group's needs.

As at 1 January 2022, the Group had available borrowing facilities totalling £1,168m (2020: £1,170m), which was made up of uncommitted facilities of £nil (2020: £nil) and committed facilities of £1,168m (2020: £1,170m). These are detailed below:

| Bank facilities as at 1 January 2022 | **2021** | | 2020 | |
|---|---|---|---|---|
| | **Expiry** | **£m** | Expiry | £m |
| Sustainable Revolving Credit Facility | **Sept 2024** | **400** | Sept 2023 | 400 |
| £300m 5.125% Sustainability Bond due 2024 (amortised cost) | **May 2024** | **300** | May 2024 | 300 |
| £109m 11% Final repayment subordinated notes due 2025 | **December 2025** | **109** | December 2025 | 109 |
| £20m Instalment repayment notes (final payment 2025) | **December 2025** | **9** | December 2025 | 11 |
| £350m 7.5% Eurobond notes due 2026 | **July 2026** | **350** | July 2026 | 350 |
| | | **1,168** | | 1,170 |

The following are the maturities of financial liabilities as at 1 January 2022:

| | **Carrying amount** | **Contractual cash flows** | **6 months or less** | **6 - 12 months** | **1 - 2 years** | **2 - 5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Non-derivative financial liabilities** | | | | | | | |
| £105m 7.5% Eurobond 2026 (fair value) | **(123)** | **(105)** | **-** | **-** | **-** | **(105)** | **-** |
| £245m 7.5% Eurobond 2026 (amortised cost) | **(267)** | **(254)** | **-** | **(9)** | **-** | **(245)** | **-** |
| £300m Sustainability Bond 2024 (amortised cost) | **(301)** | **(302)** | **(2)** | **-** | **-** | **(300)** | **-** |
| £109m 11% Final repayment subordinated notes 2025 | **(109)** | **(109)** | **-** | **-** | **-** | **(109)** | **-** |
| £20m Instalment repayment notes (final payment 2025) | **(9)** | **(9)** | **-** | **(2)** | **(2)** | **(5)** | **-** |
| Lease liabilities | **(1,516)** | **(2,011)** | **(99)** | **(97)** | **(187)** | **(507)** | **(1,121)** |
| Trade and other payables | **(1,516)** | **(1,516)** | **(1,376)** | **(54)** | **(40)** | **(15)** | **(31)** |

The following are the maturities of financial liabilities as at 2 January 2021:

| | Carrying amount | Contractual cash flows | 6 months or less | 6 - 12 months | 1 - 2 years | 2 - 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **Non-derivative financial liabilities** | | | | | | | |
| £105m 7.5% Eurobond 2026 (fair value) | (128) | (105) | - | - | - | - | (105) |
| £245m 7.5% Eurobond 2026 (amortised cost) | (268) | (254) | - | (9) | - | - | (245) |
| £300m Sustainability Bond 2024 (amortised cost) | (300) | (302) | (2) | - | - | (300) | - |
| £109m 11% Final repayment subordinated notes 2025 | (109) | (109) | - | - | - | (109) | - |
| £20m Instalment repayment notes (final payment 2025) | (11) | (11) | - | (2) | (2) | (7) | - |
| Lease liabilities | (1,425) | (1,948) | (91) | (90) | (179) | (489) | (1,099) |
| Trade and other payables | (1,961) | (1,961) | (1,685) | (64) | (23) | (62) | (127) |

**Sensitivity analysis**

*Interest rate risk*
The valuations of the Group's quoted debt and interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. This is then adjusted by a +1% increase to the interest rate yield curve and a 1% reduction in the interest rate yield curve to show the impact of changes in interest rates on the value of our debt and swaps. At 1 January 2022 if sterling (GBP) market interest rates had been 1% higher / lower with all other variables held constant, there would have been no material impact to post-tax profit. Profit is generally less sensitive to movements in GBP interest rates due to the level of borrowings held at fixed rates as described in the Interest rate risk and hedging section.

*Foreign exchange risk*
At 1 January 2022 and 2 January 2021, if the Euro and US dollar had strengthened or weakened by 10% against sterling (GBP) with all variables held constant, there would have been no material impact to post-tax profit.

**Guarantees**

In the course of conducting its operations, the Group is required to issue bank guarantees and bonds in favour of various counterparties. These facilities are provided by the Group's banking syndicate and as at 1 January 2022 the total amount of guarantees / bonds outstanding is £8m (2020: £38m).

## 29 Financial instruments, derivatives and valuation of financial assets and liabilities

**What does this show?** This note shows how our financial assets and liabilities are valued, including our interest rate swaps.

### Derivatives

Derivatives held for non-trading purposes for which hedge accounting has not been applied are as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Contractual/ notional amount** | **Fair value assets** | **Fair value liabilities** | Contractual/ notional amount | Fair value assets | Fair value liabilities |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Interest rate swaps | **105** | **-** | **(2)** | 105 | 3 | - |
| Foreign exchange contracts | **100** | **-** | **(3)** | 89 | - | (1) |
| Commodity swaps (diesel) | **22** | **4** | **-** | 14 | - | - |
| **Total recognised derivative assets / (liabilities)** | **227** | **4** | **(5)** | 208 | 3 | (1) |

The interest rate swaps mature in 2026 and as such are held in non-current liabilities. The majority of the foreign exchange contracts and diesel swaps mature within 1 year so are shown in current liabilities.

The following summarises the major methods and assumptions used in estimating the value of financial instruments reflected in the annual report and accounts:

### a) Financial instruments at fair value through the income statement

#### Investments in funeral plans

Where there is no active market or the investments are unlisted, the fair values are based on commonly used valuation techniques (refer to accounting policy (section iv) of this note for further details.

#### Derivatives

Forward exchange contracts, such as the Group's interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. The Group's derivatives are not formally designated as hedging instruments but under IFRS 9 (Financial Instruments) they are used to match against a proportion of the Eurobond liabilities carried at fair value through the income statement, showing as a cost of £5m in 2021 (2020: £4m gain) see Note 7 (2020: Note 6).

Through our Co-op Power business the Group enters into forward contracts for the purchase of energy from third party suppliers for use by Co-op itself as well as by the customers of Co-op Power. Energy contracts for own use are not required to be accounted for as derivatives. Any part of the forward contracts that relate to volumes purchased on behalf of third parties are not accounted for as derivatives on the Group's balance sheet as we are not party to the forward contract between the supplier and the end customer. Co-op Power adopts a layered hedging procurement policy for energy contracts over a period of 3 years to a maximum of 80% of Co-op Group forecast demand. At the 2021 year end we had 80% (electricity) and 66% (gas) coverage of our forecast demand for 2022.

#### Fixed rate sterling Eurobonds

The fixed rate sterling Eurobond values are determined in whole by using quoted market prices.

### b) Interest-bearing loans and borrowings - amortised cost

These are shown at amortised cost which presently equate to fair value or are determined in whole by using quoted market prices. Fair value measurement is calculated on a discounted cash flow basis using prevailing market interest rates.

### c) Receivables and payables

For receivables and payables with a remaining life of less than one year, the nominal amount is deemed to reflect the fair value, where the effect of discounting is immaterial. For further details see the Accounting Policy section at the end of this note.

The table below shows a comparison of the carrying value and fair values of financial instruments for those liabilities not carried at fair value.

| **Financial liabilities** | **Carrying value 2021** | **Fair value 2021** | Carrying value 2020 | Fair value 2020 |
|---|---|---|---|---|
| | **£m** | **£m** | £m | £m |
| Interest-bearing loans and borrowings | **853** | **915** | 691 | 769 |

The table below analyses financial instruments by measurement basis:

| 2021 | Fair value through income statement | Amortised cost | Loans and receivables | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Assets** | | | | |
| Other investments | **1,372** | **-** | **-** | **1,372** |
| Trade and other receivables | **-** | **-** | **612** | **612** |
| Derivative financial instruments | **4** | **-** | **-** | **4** |
| Cash and cash equivalents | **-** | **56** | **-** | **56** |
| **Total financial assets** | **1,376** | **56** | **612** | **2,044** |
| **Liabilities** | | | | |
| Interest-bearing loans and borrowings | **123** | **853** | **-** | **976** |
| Derivative financial instruments | **5** | **-** | **-** | **5** |
| Trade and other payables | **-** | **1,133** | **-** | **1,133** |
| **Total financial liabilities** | **128** | **1,986** | **-** | **2,114** |

| 2020 | Fair value through income statement | Amortised cost | Loans and receivables | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Assets | | | | |
| Other investments | 1,331 | - | - | 1,331 |
| Trade and other receivables | - | - | 601 | 601 |
| Derivative financial instruments | 3 | | | 3 |
| Cash and cash equivalents | - | 269 | - | 269 |
| Total financial assets | 1,334 | 269 | 601 | 2,204 |
| Liabilities | | | | |
| Interest-bearing loans and borrowings | 128 | 691 | - | 819 |
| Derivative financial instruments | 1 | - | | 1 |
| Trade and other payables | - | 1,457 | - | 1,457 |
| Total financial liabilities | 129 | 2,148 | - | 2,277 |

The following table provides an analysis of financial assets and liabilities that are valued or disclosed at fair value, by the three-level fair value hierarchy as defined within IFRS 13 (Fair Value Measurement):

| | |
|---|---|
| • Level 1 | Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. |
| • Level 2 | Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). |
| • Level 3 | Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). |

As pricing providers cannot guarantee that the prices they provide are based on actual trades in the market then all of the corporate bonds are classified as Level 2.

**Valuation of financial instruments**

| 2021 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Assets** | | | | |
| Financial assets at fair value through the income statement | | | | |
| - Funeral plan investments | **-** | **-** | **1,372** | **1,372** |
| - Derivative financial instruments | **-** | **4** | **-** | **4** |
| **Total financial assets at fair value** | **-** | **4** | **1,372** | **1,376** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through the income statement | | | | |
| - Fixed rate sterling Eurobond | **-** | **123** | **-** | **123** |

| | | | | |
|---|---|---|---|---|
| - Derivative financial instruments | - | 5 | - | 5 |
| **Total financial liabilities at fair value** | **-** | **128** | **-** | **128** |

Funeral plan investments are classified as level 3 under the IFRS 13 hierachy. Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs). The vast majority of our funeral plan investments are held in Whole of Life (WoL) insurance policies. The plan investments are financial assets which are recorded at fair value each period using valuations provided to Co-op by the policy provider. The plan values reflect the amount the policy provider would pay out on redemption of the policy at the valuation date with the main driver being underlying market and investment performance.

The value of the Eurobonds carried at amortised cost is disclosed in Note 21. The equivalent fair value for the unhedged proportion of bonds that are now carried at amortised cost would be £287m (2020: £296m) for the 2026 Eurobond.

There were no transfers between Levels 1 and 2 during the period and no transfers into and out of Level 3 fair value measurements. For other financial assets and liabilities of the Group including cash, trade and other receivables / payables then the notional amount is deemed to reflect the fair value.

| 2020 | Level 1<br>£m | Level 2<br>£m | Level 3<br>£m | Total<br>£m |
|---|---|---|---|---|
| Assets | | | | |
| Financial assets at fair value through the income statement | | | | |
| - Funeral plan investments | - | - | 1,331 | 1,331 |
| - Derivative financial instruments | - | 3 | - | 3 |
| Total financial assets at fair value | - | 3 | 1,331 | 1,334 |
| Liabilities | | | | |
| Financial liabilities at fair value through the income statement | | | | |
| - Fixed rate sterling Eurobond | - | 128 | - | 128 |
| - Derivative financial instruments | - | 1 | - | 1 |
| Total financial liabilities at fair value | - | 129 | - | 129 |

**Interest rates used for determining fair value**
Third-party valuations are used to fair value the Group's bond and interest rate derivatives. The valuation techniques use inputs such as interest rate yield curves with an adequate credit spread adjustment.

## Accounting policies

The Group classifies its financial assets as either:
• fair value through the income statement; or
• loans and receivables at amortised cost.

**i) Recognition of financial assets**
Financial assets are recognised on the trade date which is the date it commits to purchase the instruments. Loans are recognised when the funds are advanced. All other financial instruments are recognised on the date that they are originated. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value, with the exception of trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them. For financial assets which are not held at fair value through the income statement, transaction costs are also added to the initial fair value. Trade receivables that don't contain a significant financing component or where the customer will pay for the related goods or services within one year of receiving them are measured at the transaction price determined under IFRS 15 (Revenue from Contracts with Customers). See accounting policies for revenue and IFRS 15 in Note 2.

**ii) Derecognition of financial assets and financial liabilities**
Financial assets are derecognised (removed from the balance sheet) when:

• the rights to receive cash flows from the assets have ceased; or
• the Group has transferred substantially all the risks and rewards of ownership of the assets.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing liability is replaced by the same counterparty on substantially different terms or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability is recognised, with any difference in carrying amounts recognised in the income statement.

**iii) Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market which we do not intend to sell immediately or in the near term. These are initially measured at fair value plus transaction costs that are directly attributable to the financial asset. Subsequently these are measured at amortised cost. The amortised cost is the initial amount at recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, less impairment provisions for incurred losses.

**iv) Financial investments and instruments at fair value through the income statement**

*Funeral plans*
When a customer takes out a funeral plan the initial plan value is recognised as an investment asset in the balance sheet and at the same time a liability is also recorded in the balance sheet representing the deferred income to be realised on performance of the funeral service covered by each of the funeral plans. The investments are held in insurance policies or cash-based trusts and attract interest and bonus payments throughout the year dependent upon market conditions. The plan investment is a financial asset, which is recorded at fair value each period through the income statement using valuations provided by the insurance policy provider or reflecting the trust cash balances. The performance obligation to deliver the funeral is treated as a contract liability (deferred income) under IFRS 15. The deferred amount is subject to adjustment to reflect a significant financing component which is charged to the income statement each period. The liability accretes interest in-line with the discount rate applied to the plan on inception. The discount rate applied is based on an estimated borrowing rate between the customer and the Group at the point the contract is entered into. The contract liability is held on the balance sheet as additional deferred income until the delivery of the funeral at which point the revenue is recognised.

*Funeral benefit options (FBOs)*
FBOs are attached to Guaranteed Over 50's life insurance plans (GOFs) sold by the Group's third party insurance partners. An FBO is the assignment of the sum-assured proceeds of a GOF policy to Funeralcare for the purposes of undertaking their funeral. In exchange the GOF customer is awarded a discount on the price of the funeral.

No revenue is recognised by the Group at the point of assignment and instead an element of the costs that have been incurred in obtaining the FBO are deferred onto the balance sheet. These are then expensed at the point of redemption when the revenue is recognised. Any plans that are cancelled are written off at the point at which Funeralcare are made aware of the cancellation. A separate provision is also made to cover the expected cancellations of FBOs. No investment or liability is recognised for FBOs as the option does not guarantee a funeral and the liability for which remains with the insurance partner. Any difference between the funeral price and the sum assured at the point of redemption is the liability of the deceased estate or whoever takes responsibility for arranging the funeral.

*Low Cost Instalment Funeral Plans (LCIPs)*
LCIPs can be paid for by instalments over between 2 and 25 years or they can be paid off in full at any time during this period without any penalties. If the plan holder dies before the instalments have been made in full (and provided that the plan has been in place for at least 12 months or the cause of death was as a result of an accident) then the funeral will still be provided by Funeralcare and the customer will not have to settle the outstanding balance on any instalments and the balance of any monies owed will be waived. Any outstanding amounts owed to Funeralcare (the difference between the full value of the plan and the amount paid up to death by the customer) are covered by an assured benefit from a third party insurer. The assured benefit is between Funeralcare and the 3rd party insurer and has nothing to do with the customer. Funeralcare continue to apply instalment monies received against customers' individual funeral plans until such time as a plan is redeemed and/or cancelled.

Until fully paid, LCIPs are judged to represent insurance contracts and as such fall under the scope of IFRS 4 (Insurance Contracts). The assured benefit between Funeralcare and the 3rd party is judged to represent a reinsurance contract under IFRS 4. In line with IFRS 4 Funeralcare account for the LCIPs in the same way as a normal funeral plan (see accounting policy above).

*Interest rate swaps*
The Group uses derivative financial instruments to provide an economic hedge to its exposure to interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives entered into include swaps, forward rate agreements, commodity (diesel) swaps and energy contracts. Derivative financial instruments are measured at fair value and any gains or losses are included in the income statement. Fair values are based on quoted prices and where these are not available, valuation techniques such as discounted cash flow models are used.

Interest payments or receipts arising from interest rate swaps are recognised within finance income or finance costs in the period in which the interest is incurred or earned.

**v) Credit risk, liquidity risk and Impairment of financial assets**

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk from balances with banks and financial institutions is managed by the Group's Treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Board on an annual basis, and may be updated throughout the year subject to approval of the Risk and Audit Committee. The limits are set to minimise the concentration of risk. Financial assets held at fair value through the income statement are primarily held in low-risk investments.

**Liquidity risk**
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, Eurobonds and leases.

**Trade receivables and contract assets**
An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (for example, by business division, customer, coverage by letters of credit or other forms of credit insurance).

The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not insured or subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in trade and other receivables (Note 17).

**Impairment of financial assets carried at amortised cost**
The amount of the impairment loss on assets carried at amortised cost is recognised immediately through the income statement and a corresponding reduction in the value of the financial asset is recognised through the use of an allowance account.

A write-off is made when all or part of an asset is deemed uncollectable or forgiven after all the possible collection procedures have been completed and the amount of loss has been determined. Write-offs are charged against previously established provisions for impairment or directly to the income statement.

Any additional recoveries from borrowers, counterparties or other third parties made in future periods are offset against the write-off charge in the income statement once they are received.

Provisions are released at the point when it is deemed that following a subsequent event the risk of loss has reduced to the extent that a provision is no longer required.

## 30 Commitments and contingencies

**What does this show?** This note shows the value of capital expenditure that we're committed to spending in the future as at the end of the period. If appropriate then it also shows potential liabilities which aren't included in our balance sheet as it's only possible, rather than probable, that we'll have to pay them.

a) Capital expenditure that the Group is committed to but which has not been accrued for at the period end was £6m (2020: £14m).

b) In common with other retailers, the Group has received Employment Tribunal claims from current and former food store colleagues alleging their work is of equal value to that of distribution centre colleagues and differences in pay and other terms are not objectively justifiable. The claimants are seeking the differential in pay (and other terms) together with equalisation going forward. There are circa 1,600 claims. The claims are at an early stage; the number of claims, merit, outcome and impact are all highly uncertain. No provision has been made as it is not possible to assess the likelihood nor quantum of any outcome. There are substantial factual and legal defences to the claims and the Group intends to defend them robustly.

## 31 Related party transactions and balances

**What does this show?** Related parties are companies or people which are closely linked to the Co-op, such as members of our Board or Executive (or their families), or our associates and joint ventures. This note explains the nature of the relationship with any related parties and provides information about any material transactions and balances with them.

| | Relationship | **2021** **£m** | 2020 £m |
|---|---|---|---|
| Subscription to Co-operatives UK Limited | (i) | **0.7** | 0.7 |

i) The Group is a member of Co-operatives UK Limited.

The Group's Independent Society Members (ISMs) include consumer co-operative societies which, in aggregate, own the majority of the corporate shares with rights attaching as described in Note 25. The Co-operative Group has a 76% shareholding in Federal Retail and Trading Services Limited which is operated as a joint buying group by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this and the arrangement is run on a cost recovery basis and therefore no profit is derived from its activities. Sales to ISMs, on normal trading terms, were £1,756m (2020: £1,813m) and the amount due from ISMs in respect of such sales was £134m at 1 January 2022 (2020: £138m). No distributions have been made to ISMs based on their trade with the Group in either the current or prior periods.

**Transactions with directors and key management personnel**

Disclosure of key management compensation is set out in the Remuneration Report. A number of small trading transactions are entered into with key management in the normal course of business and are at arm's length. Key management are considered to be members of the Executive and directors of the Group. No such key management personnel transactions were noted in the year (2020: £2,000). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2020: £nil). Total compensation paid to key management personnel is shown below.

| Key management personnel compensation | **2021**<br>**£m** | 2020<br>£m |
|---|---|---|
| Short-term employee benefits | **3.8** | 6.4 |
| Post-employment benefits | **0.3** | 0.4 |
| Other long-term benefits | **1.3** | 1.6 |
| **Total** | **5.4** | 8.4 |

## 32 Principal subsidiary undertakings

**What does this show?** This note shows the main companies and societies we own, what percentage we own and the type of business they are involved in.

All of the principal subsidiary undertakings as at the period end are registered in England and Wales and their principal place of business is the UK. See general accounting policies section for a Group structure diagram.

| | **Society holding %** | **Nature of business** |
|---|---|---|
| Angel Square Investments Ltd* | 100 | Holding company |
| CFS Management Services Ltd* | 100 | Service company |
| Co-operative Group Holdings (2011) Ltd | 100 | Property management |
| Co-operative Group Food Ltd | 100 | Food retailing |
| Co-operative Foodstores Ltd | 100 | Food retailing |
| Nisa Retail Ltd | 100 | Food wholesaling |
| Co-op Insurance Services Limited* | 100 | Insurance (marketing) |
| Funeral Services Ltd | 100 | Funeral directors |
| Co-op Funeral Plans Ltd | 100 | Funeral plan services |
| Co-operative Legal Services Ltd | 100 | Legal services |
| Rochpion Properties (4) LLP | 100 | Holds property |

All of the above have been fully consolidated into the Group's accounts. There are no non-controlling interests in any of these entities.

**Notes**

i) All of the principal subsidiaries are audited by EY LLP.

ii) *Entities noted with an asterisk have a year end of 31 December as they report on a monthly cycle rather than a periodic Saturday close cycle which is used by the other Group businesses. See also general accounting policies section for further details on accounting dates. CFS Management Services Ltd ceased trading on 31 December 2021.

iii) All transactions between entities are in the usual course of business and are at arm’s length.

## 33 Membership and community reward

**What does this show?** This note shows the number of active members that we have at the end of the period as well as the benefits earned by those members for themselves and their communities during the period. Active members are defined as those members that have traded with one or more of our businesses within the last 12 months.

| Members | **2021**<br>**(unaudited)**<br>**m** | 2020<br>(unaudited)<br>m |
|---|---|---|

| | | |
|---|---|---|
| **Active members** | **4.2** | 4.3 |

| **Membership and community rewards (within the income statement)** | **£m** | £m |
|---|---|---|
| Member reward earned | **21** | 45 |
| Community reward earned | **19** | 13 |
| **Total reward** | **40** | 58 |

From October 2020 Member and Community rewards are earned at 2% (prior to that Member reward was 5% and Community was 1%).

Full details of our overall investment in our Communities can be found in our Co-operate Report.

### 34 Events after the reporting period

**What does this show?** This note gives details of any significant events that have happened after the balance sheet date but before the date that the accounts are approved. These are things that are of such significance that it is appropriate to give a reader of the accounts further detail as to the impact of such events on the financial statements or any expected likely impact in future periods.

**Conflict in Ukraine -** the Group continues to monitor the ongoing tragic conflict in Ukraine and resulting international relationships, to understand how we can respond as a Co-op and potential effects upon our Group. Our immediate direct financial exposure to the fallout from the conflict is limited and we do not expect there to be a material impact on the valuation of the Group's assets or liabilities going forward.

**IBM** - post the balance sheet date, on 4 April 2022, the Court of Appeal handed down judgment in a claim brought by CIS General Insurance Limited (CISGIL), a former subsidiary of Co-operative Group Limited, against IBM United Kingdom Limited on appeal from the Technology and Construction Court, relating to a failed programme to implement an IT platform. CISGIL was awarded an amount of approximately £80.5m plus an interim payment on account for costs, less an amount of approximately £13m which was awarded by the Technology and Construction Court in 2021 and has already been paid by IBM in 2021. During 2019, CISGIL assigned in equity the proceeds of the litigation with IBM to Co-operative Group Limited, resulting in a payment being due to Co-operative Group Limited of approximately £68m as a result of the judgment. £68m has not been recorded as an asset in the financial statements as the outcome of the judgment was not known at the year end date.

## Accounting policies and basis of preparation

**What does this show?** This section outlines the general accounting policies that relate to the financial statements as a whole. Details of other accounting policies are included within the notes to the financial statements to which they relate. This allows readers easy access to the relevant policy. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

**Status of financial information**

The financial information, which comprises the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and related notes, is derived from the full Group financial statements for the 52 weeks to 1 January 2022 prepared in accordance with International Financial Reporting Standards.

The Group Annual Report and Financial Statements 2021, on which the auditors have given an unqualified report and which does not contain a statement under part 7, section 87(4) or (7) of the Co-operative and Community Benefit Societies Act 2014, will be submitted to the Financial Conduct Authority following the 2021 Annual General Meeting.

**General information**

Co-operative Group Limited ('the Group') is a registered co-operative society domiciled in England and Wales. The address of the Group's registered office is 1 Angel Square, Manchester, M60 0AG, and the trading locations of all stores and branches can be located on our website https://finder.coop.co.uk/food.

**Basis of preparation**
The Group accounts have been prepared in accordance with international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 and additionally in accordance with international financial reporting standards adopted in the UK for the 52 week period ended 1 January 2022. As permitted by statute, a separate set of financial statements for the Society are not included.

The accounts are presented in pounds sterling and are principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy in the notes. Amounts have been rounded to the nearest million.

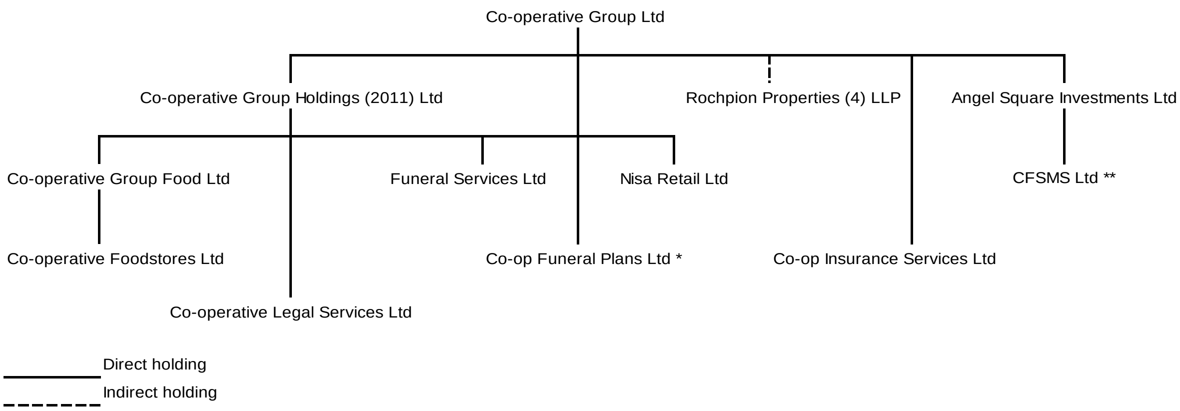
The accounting policies set out in the notes have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

The accounts are prepared on a going concern basis. See later section on **'Going Concern'.**

In preparing the Groups' Consolidated Financial statements management has considered the impact of climate change covering both the financial statements and the disclosures included in the Strategic report. This included an assessment of the potential impact of, and associated responses to, climate change, and how that could impact the non-current assets that we hold as well as our expectations of future trading conditions. This assessment did not identify any requirement to shorten asset lives of the Group's asset base and neither did it identify any material risks arising from climate change, accordingly there has been no material impact on the valuation of the Group's assets or liabilities or the cashflow forecasts used to assess the going concern basis and the viability statement. Furthermore, our forecasts do not include any material spend in relation to climate change. The Group will keep this assessment under review and continue to monitor developments in the future.

**Basis of consolidation**
The financial statements consolidate Co-operative Group Limited, which is the ultimate parent society, and its subsidiary undertakings. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The diagram below shows the composition of the Group and its principal subsidiaries. Further details can be found in note 32. A full list of subsidiaries that make up the Group for the purposes of these financial statements can be found at: http://www.co-operative.coop/corporate/aboutus/oursubsidiaries/




All shareholdings are 100% owned unless otherwise stated.

* Co-op Funeral Plans Ltd is owned 33% by Co-operative Group Ltd and 67% by Co-operative Group Holdings Ltd.

** CFSMS Ltd ceased trading on 31 December 2021.

**Accounting dates**
The Group and its main trading subsidiaries prepare their accounts to the first Saturday of January unless 31 December is a Saturday. These financial statements are therefore prepared for the 52 weeks ended 1 January 2022. Comparative information is presented for the 52 weeks ended 2 January 2021. Since the financial periods are virtually in line with calendar years, the current period figures are headed 2021 and the comparative figures are headed 2020.

Co-operative Insurances Services Limited and certain small holding companies have prepared accounts for the period ended 31 December 2021. This differs from the Group and the other subsidiaries. For the period ending 1 January 2022, there are no significant transactions or events which need to be adjusted for to reflect the difference in reporting dates.

**One-off items and non-GAAP (Generally Accepted Accounting Procedures) measures**
One-off items include costs relating to activities such as large restructuring programmes and costs or income which would not normally be seen as costs or income relating to the underlying principal activities of the Group.

To help the reader make a more informed judgement on the underlying profitability of the Group, a non-GAAP measure: underlying profit before tax, has been presented. This is shown at the bottom of the income statement and we show the adjustments between this measure and operating profit. In calculating this non-GAAP measure, property and business disposals (including individual store impairments), the change in value of investment properties, net finance income/costs from funeral plans and one-off items are adjusted for.

**Offsetting**
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**Significant accounting judgements, estimates and assumptions**
The preparation of financial statements that comply with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

<u>Key judgements:</u>

In the process of applying the Group's accounting policies, management has made the following key judgements which have the most significant impact on the consolidated financial statements:

- *Determination of accretion rate: Funeral plans*

A significant accounting judgement is present in deriving a suitable accretion rate to apply to the monies received from a customer when they purchase a funeral plan. The accretion rate is required to reflect the borrowing rate that would be applied between the Group and the customer in a separate financing transaction reflecting similar credit characteristics and similar security at the point the contract is entered into. These rates are then fixed for the duration of the plan and we have plans which are up to 36 years old. We derive the relevant accretion rates based upon UK AA rated average corporate bond yields. When a customer enters into a funeral plan, the monies they pay to the Co-op, less an admin fee, are invested in whole of life insurance policies with FCA regulated institutions protected by the Government's financial services compensation scheme. For further protection, the proceeds of the investments are held on trust by an independent trustee, Apex Corporate Trustees (UK) Limited, to ensure that the customer is entitled to the benefit of the invested monies in the event that the Group goes out of business. Given this protection and security, a UK AA rated average corporate bond yield is considered to have a similar risk profile as that of a separate financing transaction between the Group and a customer and hence a suitable reference point for an accretion rate.

- *Determining the lease term of contracts with extension and termination options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

- *Co-op Power energy contracts – agent versus principal*

Through our Co-op Power business the Group enters into forward contracts for the purchase of energy from third party suppliers for use by Co-op itself as well as by the customers of Co-op Power. Energy contracts for own use are not required to be accounted for as derivatives. For any part of a forward contract that relates to volumes purchased on behalf of third parties the Group applies a judgement that we are not party to the forward contract between the supplier and the end customer and that Co-op instead acts as an agent rather than as the principal in the arrangement. Consequently we do not account for contracts on behalf of third parties as derivatives on the Group's balance sheet. If our judgement was different and we deemed Co-op to be acting as principal in these arrangements then we would have recognised a derivative asset of £11m on the Group balance sheet as at 1 January 2022 with a corresponding liability due from the customers for whom the energy contract had been entered into.

<u>Key estimates and assumptions:</u>

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Group based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

• *Pensions (note 27)* – the Group's defined benefit pension obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The most significant assumptions relate to the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the Group's defined benefit obligation is highly sensitive to changes in these assumptions. Further details of the financial and demographic assumptions that have been used are shown in note 27 along with associated sensitivities to those assumptions.

• *Impairment of non-financial assets (notes 11, 12 & 13)* - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets, goodwill and intangibles) are reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated.

The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

The Group has considered whether the COVID-19 pandemic and the accompanying economic uncertainty has the potential to represent a significant impairment indicator as at 1 January 2022. Despite additional associated costs of responding to the pandemic, which are expected to be temporary, the Group's main business areas have proved resilient and the performance of the Group's cash-generating units has remained strong. Therefore, management conclude that the impact of COVID-19 on the longer term outlook for these cash-generating units does not constitute an indicator of significant impairment and hence a full impairment test across all CGUs is not required.

The Group estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a pre-tax rate of between 7-9% (2020: 8-10%) dependent on the business.

The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in notes 11 and 13.

The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.

• *Provisions (note 24)* – a provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Group relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See note 24 for further details.

• *Pre-need funeral plan obligations (note 14 & note 23)* – the Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts.

The investments are also subject to an annual actuarial valuation at a portfolio level. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The headroom (pre-tax) is estimated to be £295m (2020: £129m), see note 14. The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. It's not possible to reasonably forecast future inflation rates with any certainty but to aid the reader and for illustrative purposes a 0.1% increase in the inflation assumptions would reduce the surplus by approximately £23m (2020: £24m).

The "wholesale" actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Group fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus. At 30 September 2021, on a pre-tax marginal cost basis, liabilities would reduce to £662m, giving a £735m surplus (111% of liabilities). On this pre-tax marginal cost basis, a 0.1% increase in the inflation assumptions would reduce the surplus by approximately £12m.

**Representation**

The comparative figures presented within these financial statements for the financial year ended 2 January 2021 have been restated. Full detail of the restatements is shown in Note 35. Additionally, the comparative figures presented within these financial statements for the financial year ended 2 January 2021 have been represented in the following areas of the 2020 accounts:

**Co-op Insurance** - the results of our Insurance business (marketing and distribution) are now shown as a separate operating segment (note 1). For the 52 weeks ended 2 January 2021 they were included in Other Businesses. This follows the sale in December 2020 of our insurance underwriting business (CISGIL) and now that our Insurance business (marketing and distribution) has reached sufficient maturity. This is in-line with the way that information is now reported to our Board. The tables below show the impact on those line items in the Consolidated income statement affected by the representations:

**Operating Segments (for period ended 2 January 2021)**

| £'m | Other Businesses | CISL | Other Businesses |
|---|---|---|---|

| | (as reported) | (presented separately) | (represented) |
|---|---|---|---|
| Revenue from external customers | 8 | 6 | 2 |
| Underlying segment operating profit | (11) | (2) | (9) |
| Operating profit / (loss) | (12) | (2) | (10) |
| Additions to non-current assets | - | - | - |
| Depreciation and amortisation | - | - | - |

**Pensions – plan assets and Insurance buy-in contracts -** in the prior year the value of Insurance buy-in contracts was included within the unquoted cash and cash equivalent figures noted in the table of fair value of pension assets. These are now shown on a separate line and the prior period figure for cash and cash equivalents has been adjusted accordingly. There is no net impact on the overall pension asset values and no impact on the Consolidated balance sheet, the Consolidated income statement or the Consolidated statement of cashflows.

| £'m | Pension plan assets (as reported) | Representation | Pension plan assets (represented) |
|---|---|---|---|
| Cash and cash equivalents (unquoted) | 2,442 | (2,441) | 1 |
| Insurance buy-in contracts | - | 2,441 | 2,441 |
| Total | 2,442 | - | 2,442 |

**New and amended standards adopted by the Group:**

The Group has considered the following standards and amendments that are effective for the Group for the period commencing 3 January 2021 and concluded that they are either not relevant to the Group or do not have a significant impact on the financial statements :

- Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)
- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16)
- Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

**Standards, amendments and interpretations issued but not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 1 January 2022 reporting periods and the Group has not early adopted the following standards and statements.
The adoption of these standards is not expected to have a material impact on the Group's accounts:

- Amendments to IFRS 3 Reference to the Conceptual Framework *
- Amendments to IAS 16 Property, Plant and Equipment (Proceeds before Intended Use) *
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, and IAS 41 Agriculture) *
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current **
- Amendments to IAS 8 Definition of Accounting Estimates **
- Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies **
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction **
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture **

* Effective for annual periods beginning on or after 1 January 2022 and ** 1 January 2023.

The adoption of the following standards will or may have a material impact on the Group's accounts when adopted and the Group's assessment of the impact of these new standards and interpretations is set out below:

| Title | IFRS 17 Insurance Contracts |
|---|---|
| **Nature of the change** | IFRS 17 is a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts.<br>In contrast to IFRS 4, the new standard provides a comprehensive model (the general model) for insurance contracts, supplemented by the premium allocation approach (which is mainly for short-duration contracts such as certain non-life insurance contracts). IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. |
| **Impact** | The standard will be effective for annual periods beginning on or after 1 January 2023 and management are currently assessing the impact of the new standard. |

| | |
|---|---|
| | Should the Group determine that any of its funeral products fall fully in scope of IFRS 17 then the impact will likely be material from a balance sheet perspective. The area most likely to potentially be impacted by the new standard would be our low cost instalment funeral plans (LCIPs) which are currently shown within Contract Liabilities (Note 23) of the financial statements to a value of £348m. |
| **Date of adoption by the Group** | Applicable to annual reporting periods beginning on or after 1 January 2023 - for the Group this is not next year's financial statements (2022) but the following years being (2023). |
| **Title** | **IAS 37 Onerous contracts (amendments re cost of fulfilling contract)** |
| **Nature of the change** | IAS 37 requires an entity to recognise an onerous contract where the unavoidable costs of meeting a contractual obligation exceeds the economic benefits expected to be received under a contract. In such circumstances the present value of the obligation under the contract is recognised as a provision. In May 2020 the IASB issued a revision to IAS 37. The IASB now specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'; both the incremental costs of fulfilling that contract as well as an allocation of other costs that relate directly to fulfilling a contract. |
| **Impact** | Management is currently assessing the impact of the amendment to the standard upon the Group's funeral plans. Based on an initial assessment using 2021 costs, the wholesale cost would be lower than the revised IAS 37 cost, and so that would be the appropriate basis for the assessment. Our initial assessment is that the revision to the accounting standard could result in an onerous contract being recognised in relation to one plan type, however there would remain an overall significant surplus across the portfolio as a whole. This will be revisited in the next financial year based on 2022 actual costs. |
| **Date of adoption by the Group** | Applicable to annual reporting periods beginning on or after 1 January 2022 - for the Group this will be next year's financial statements (2022). |

**Going concern**

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in note 21 to the accounts. In addition, notes 21 and 28 also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities. The directors have specifically considered the ongoing impact of Covid-19, the Ukraine / Russia conflict, rising energy costs and inflation as explained in more detail in the Directors' Report.

In making their assessment the Directors have noted that the consolidated group accounts show a net current liability position. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in note 28, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Group, prepared for the period to 30 June 2023 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due. Sensitivities have been applied to the market conditions of each of our trading businesses, as well as applying sensitivities to our key strategic activities and in respect to the ongoing energy cost increases, inflation and supply constraints.

Further details of the Director's assessment can be found in the Going concern and Longer term viability sections of the Directors' report.

After making all appropriate enquiries, the Directors have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.