Co-operative Group Limited
News release

5th April 2023

Full Year Results Announcement: 52 weeks to 31 December 2022.

Co-op delivers against strategy and targets one million new members

- Early and targeted action against tough economic backdrop leads to strong operational performance and robust financial returns
- Focus on cash flow results in strong cash generation and significant reduction in net debt.
- Significant Co-op value returned to members, colleagues and communities in line with vision
- New focus to attract one million active new members over the next 5 years, with improved membership proposition to be rolled out in H1

Financial Highlights in brief

- **Revenue £11.5bn*,** up £0.3bn (2021: £11.2bn)
- **Underlying operating profit £100m**,** maintained (2021: £100m)
- **Underlying EBITDA £490m,** down by £15m (2021: £505m)
- **Group profit before tax £247m***,** up by £190m (2021: £57m)
- **Net cash from operating activities £455m,** up by £277m (2021: £178m)
- **Group net debt £333m,** improved by £587m (2021: £920m)

** revenue also impacted by the sale of the petrol forecourt business which completed in October, reducing 2022 revenue by £150m*

***underlying profit also impacted by the sale of the petrol forecourt business which completed in October, on a like for like basis profit increased by £10m from £90m in 2021 to £100m in 2022.*

**** includes £319m of profit from the sale of the petrol forecourt business, which completed in October*

Financial and Business Development Highlights

- Despite very challenging markets, delivered a strong sales performance and maintained underlying profitability
    - £100m of additional energy and salary inflation absorbed
    - £37m invested in Q4 in holding prices on key products
    - Also includes impact of sale of petrol forecourts on revenue and profitability, with revenue £150m lower and underlying profit £10m lower as a result of the sale
- Entered 2022 with targeted cost savings of £50m, increasing to £101m at half year in recognition of challenging cost environment
    - Met target, delivering £101m of cost savings
    - Cost savings mitigated impact of energy and salary inflation landing this year.
- Cashflow has been a focus, resulting in strong cash flows and a significant reduction in net debt
    - Net debt down to £333m from £920m in 2021
    - Represents a £587m reduction - a significant shift when compared to an increase in net debt of £370m during prior year
    - Significant increase in cash generated from operating activities (£455m vs £178m in 2021) puts us in a good position as we enter 2023

- Sale of our petrol forecourt business completed in October
    - Overall generated net proceeds of £408m, and further reduced our lease commitments by £171m
- Active Co-op Membership grown for the first time in 5 years to 4.41 million members

Vision Highlights - Co-operating for a fairer world

- Continued to support our colleagues with cost of living challenges, and overall wellbeing, including:
    - £55 million overall YOY investment into colleague pay including maintaining commitment to the real living wage.
    - £12 million invested in payments onto colleague membership cards during the cost of living crisis.
    - Colleague discount extended to 30% on own brand products.
    - Further increased the amount colleagues could access from their basic pay in advance via partners Wagestream.
    - Provided further tailored support with partners including Grocery Aid, Keep Credit Union, Stepchange and Salary Finance.
    - Implemented new refreshed colleague policies including fertility treatment policy, and menopause policy.

- Provided support through challenging times for local communities, including :
    - £24.6m raised for local communities, taking total to £117m raised for our local communities since Local Community Fund launched in 2016.
    - First retailer to launch a £1 million 'Warm Spaces' funding boost, to support local communities navigating rising energy costs.
    - New partnership launched with Your Local Pantry, set to see its network triple within three years from 75 to 225 pantries across the UK.
    - Also continued work with Hubbub to help expand its community fridge network to 500 locations by summer 2023.
    - More than 1.5 million people signposted to information, activity, and support for mental wellbeing since 2020, through activity supported by our Co-op, including £8m raised for Mind, SAMH and Inspire.
    - Added 2 new schools to our Co-op Academies Trust, taking the total to 29 schools, and 18,500 students with a focus on schools in the most economically deprived areas in the UK.
    - Commitment to supporting British farmers maintained - 100% of our fresh and frozen meat is British – and we only use British meat as an ingredient in our products.

- Recognition of our wider support for sustainability and the planet including :
    - Recipient of the Queen's Award for Enterprise for Sustainable Development 2022.
    - Awarded the Relex Responsible Retailer Award for commitment to sustainability.

Outlook

- The Board remains confident in the strategy, as we drive growth through our core businesses via physical and digital routes to market, ambitiously grow our membership, whilst maintaining financial discipline and deliver upon our vision of co-operating for a fairer world.
- The confidence and strength of the strategy was evidenced by the recent amendment and extension of the Revolving Credit Facility to March 2026. We have also begun early repayments of our 2024 bond maturity, with £100m repaid in February.
- We expect the volatile external environment and turbulent economic headwinds, including inflationary pressures to continue. However, the early action taken last year to strengthen the Co-op's financial position, leaves our Co-op well placed to face into, whilst not being immune from, such headwinds. Costs arising from this are expected to dampen profitability in the short-term.
- Despite this short-term impact, we look forward with confidence in driving strong performances across our business areas and our Co-op over the longer term.
- Importantly, as a member owned co-operative business, our Co-op is able to actively and consciously, prioritise and channel support for colleagues, members, and communities during the current cost of living environment.

- Delivery against our strategy will run in parallel with the clear succession plan in place for both our Chair Allan Leighton, whose 9 year maximum term ends in February 2024 and Senior Independent Director, Chris Kelly, whose maximum term also ends within the next 12 months.

Allan Leighton, Chair, Co-op comments

“The inflationary challenges facing most consumer-facing businesses are well known, so for our Co-op to have delivered this level of performance over the year is encouraging.

“We are, rightly, judged by our members on both the financial and social value we can create and it’s clear that we’ve delivered on both sides of this equation. The future focus on growing membership is vital for ensuring the future success of our Co-op for generations to come.

“I’d like to thank Shirine, her management team and our 57,000 colleagues for delivering this performance at a time when our members needed a strong, resilient, and differentiated Co-op to shine.”

Shirine Khoury-Haq, Chief Executive Co-op comments

“It’s clear that our early action to significantly reduce our debt, improve our cash position, and tighten cost controls, has made a significant difference to the financial strength of our Co-op and has enabled us to look forward with confidence, despite continuing market uncertainty.

“We now have an even better foundation upon which to grow our businesses. We’re also looking to grow our membership, putting membership at the heart of our Co-op, with ambitious plans to both attract new members, and deepen relationships with our existing members.

“And we will continue to bring our vision to life to make a genuine difference for our colleagues, members, and communities through these challenging times.

“I’d like to thank each and every one of our amazing colleagues for all of their hard work and support over the last year.”

Business Highlights

Food / Wholesale

- Food revenue up by £134m to £7.81bn (2021: 7.67bn), and Wholesale revenue up by £53m to £1.44bn (2021: £1.39bn)
- Refreshed strategy ‘Pure Convenience’ launched in September, renews focus on convenience and continued commitment to offer great value – driven through our four routes to market across Retail, Franchise, Quick commerce and Wholesale
- Number of transactions a week increased by 5% to 16.4 million
- Continued expansion of online business, through website, and partners – revenues up 24% to £222m (2021: £179m). Online delivery services available in more than 1,800 individual food stores, and able to reach 81% of the population before year end
- Cost control measures, including reduction of energy consumption in stores, and tight prioritisation of spending, have ensured we continue to manage the external headwinds
- Our new largest regional distribution centre in Biggleswade became fully operational in 2022, with capacity to handle over two million cases of frozen, ambient, and fresh products a week
- Nisa’s sales of Co-op branded products grew by 12.5% in 2022 to £199m (2021: £176.6m) and now represents 20% of total sales, excluding tobacco. 91% of Nisa partners now stock Co-op own brand products

Funeralcare

- Overall revenue increased by £7m to £271m (2021: £264m)
- Growth in share of the market for funerals, more than offset the lower death rate, with 93,867 funerals carried out (2021: 90,731)
- Direct Cremation and Direct Burial funeral options continue to grow in popularity making up 11.7% of our funerals (2021: 7.9%), as people continued to opt for unattended, lower cost services

- Funeral plan sales down to 16,774, (2021: 44,751), mainly driven by lower consumer confidence in overall market, ahead of regulation, as well as exiting some third party distribution arrangements due to changes in regulation
- Achieved Financial Conduct Authority (FCA) approval to sell, service and redeem funeral plans
- Continue to be recognised as providing one of the best funeral plans in the market, and awarded best funeral plan provider for the fifth year running by Moneynet

Insurance

- Overall income down to £24m (2021: £34m) reflecting the contracting motor insurance market following decline in new car sales and advent of new product and pricing regulation
- 164,620 new policy sales with refreshed products offering better cover, choice and prices (2021:167,176)
- While it was a challenging year in home and motor, due to external pressures, the business delivered a strong performance in travel, pet and life
- One of the first three insurers to be available through Amazon UK's new insurance platform
- New pet partnership with Markerstudy has seen number of customers holding a Co-op pet insurance product doubling over 12 months.
- New travel insurance partnership with AllClear has led to industry recognition and consumer champion Which? nominating Co-op as one of their recommended providers.
- Motor insurance campaign offering new and renewing members £50 to spend on their Co-op membership card saw us share £1.3m with individual members and raise over £130,000 for Co-op's Local Community Fund.

Legal

- Overall revenue increased by 19% to £46.3m (2021: £39.0m)
- Probate saw significant growth, taking on 24% more cases than in 2021, leading to revenues increasing by 28% year-on-year.
- The estate planning business had a very strong second half to the year, resulting in a 9% increase in revenue in 2022.
- Continued focus on digital with new tools and services, resulted in ability to serve a wider range of clients and 50% of clients coming to us through one of our digital channels
- Partnerships continued to drive growth - new contracts agreed with M&G, Newcastle Building Society, Saffron Building Society, Cancer Research UK and The Co-operative Bank.

ENDS

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Co-operative Group Limited

Annual Report and Accounts 2022

Chair's introduction

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

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

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

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

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

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

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

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

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

For us to maintain a lasting Co-op impact, we need to be clear in terms of our Vision, be commercially successful and have the underlying financial strength to face into whatever short or longer-term headwinds confront us. Over the past year, Shirine and her team have brought this clarity to fruition and this report will detail how we have become financially stronger and commercially sustainable, whilst continuing to deliver on our Vision commitments. For the number of active members to increase for the first time in five years, from 4.27 million to 4.41 million, is a testimony to the increased confidence we hope our members have in our Co-op, and the improvements we're making to the way our businesses are run, but also the products and services they offer.

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

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

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

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

Allan Leighton

Chair, The Co-op Group

Chief Executive’s overview

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

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

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

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

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

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

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

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

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

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

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

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

I am very glad that we were able to foresee the impacts that economic upheaval and international events would have on our businesses. We have the advantage of being a member owned organisation and, as such, we were not only able to speak publicly about these challenges very early on, but we were also able to start addressing them at pace and engaging our members.

In March 2022, we set some short-term strategic priorities that would allow us to focus on what matters most to our members, colleagues, customers and communities, while protecting our Co-op from external headwinds.

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

These focus areas were:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Improving operational efficiency

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

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

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

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

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

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

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

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

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

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

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

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

In 2022, we celebrated our members generating over £117m for local communities since 2016, when the Local Community Fund launched, followed by the Communities Partnership Fund in 2020 - £24.6m was

raised through the Local Community Fund, Community Partnerships Fund and Carrier Bag Levy in 2022 alone and, during the year, the Local Community Fund supported over 4,000 individual community projects.

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

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

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

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

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

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

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

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

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

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

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

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

2022 saw our first ever ethnicity pay gap report, the establishment of a new colleague fertility policy and refreshed menopause policy, offering greater support for colleagues.

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

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

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

Thank you

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

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

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

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

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

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

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

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

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

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

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

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

Shirine Khoury-Haq

CEO, The Co-op Group

Financial overview – from Mike Hazell, Interim Chief Financial Officer

Our headline performance

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

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

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

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

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

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

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

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

Group financial metrics

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

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

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

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

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

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

Membership update

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

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

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

Recruitment and rewards

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

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

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

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

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

Engaging our members

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

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

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

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

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

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

- In September, Crumbs - the gingerbread character available in our Food stores - was given a skeleton makeover for Halloween, thanks to design winner Lorcan Smith from North Hykeham in Lincoln.
- Co-op members played an important role in designing our new Co-op Irresistible Rosé wine. Based on member feedback during online wine events and a fizz and rosé masterclass, Co-op Solo Pale Spanish Rosé was developed based on what our members told us they prefer in terms of wine colour, bottle shape and label information.
- Announced in March, our first ever member-inspired ice cream hit Co-op freezers, after more than 90,000 members shared ideas on flavour combinations in 2022. Members who had been involved were invited to a special tasting event in Manchester before 900ml tubs of Raspberry Pavlova ice cream landed in our Food stores. The ice cream went on to sell more than 285,000 tubs before the end of the financial year.

To read more about how our Co-op rewards members, including 2p back for every £1 spent on selected Co-op branded products and services, as well as personalised and exclusive offers, please see our page 60 of our Co-operate Report.

Business unit updates

Food – from Matt Hood, Managing Director, Co-op Food

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

Our performance

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

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

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

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

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

Sales for the full year were £7.8bn; representing a slight increase on the previous year (2021: £7.7bn). Based on our own data (comparing the 2022 average selling price to that of 2021), our food sales

(excluding fuel) were heavily impacted by increased cost prices driven by market wide inflationary pressures, with full year inflation of 5.9%, peaking at 8.9% in December 2022. In response, to support members, customers and colleagues, £37m was invested in our prices, across a series of popular products.

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

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

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

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

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

In our Wholesale business, Nisa has had a successful 2022, despite these same economic challenges impacting all retailers.

Key highlights

- **Refreshed strategy – Pure Convenience**

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

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

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

- **Product range**

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

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

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

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

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

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

- **Online**

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

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

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

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

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

- **Distribution**

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

A better way of doing business

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

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

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

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

**Wholesale – ** from Peter Batt, Managing Director, Nisa Retail

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

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

Sales in our Wholesale business were 3.8% higher than the prior year at £1,439m (2021: £1,386m). This represents a solid performance in light of significant inflationary pressures and tough economic headwinds, impacting consumers and retailers alike. Of that total, sales in our Nisa business were £1,385m and although retail like-for-like performance was down 2.5%, new member recruitment remained strong.

The performance and improving profitability of Wholesale demonstrates the underlying strength of the synergies between Co-op and Nisa. Ensuring the profitability of the business is important, so that we can continue to invest in Nisa in 2023 and beyond, and pass on associated benefits to our customers.

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

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

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

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

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

**Funeralcare – ** from Gillian Stewart, Managing Director, Co-op Funeralcare

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

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

Business performance

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

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

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

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

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

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

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

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

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

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

We're passionate about giving our clients truly unique and personal ways to remember their loved ones, so in November we led the market by becoming the first funeral provider to offer a service where ashes can be scattered by drone. Families now have the option to scatter their loved one's ashes by drone in memorable locations over land or sea. More than a third (35%) of those who have cremated a loved one in the past five years opted to scatter ashes in a location of significance.

Partnerships

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

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

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

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

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

Vision

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

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

Colleagues

Throughout 2022, we continued the work we began last year of looking into our culture. Our Funeralcare colleagues pioneered the launch of an All Colleague Code, with the purpose of creating a workplace where everyone feels they belong and has a safe space to work together. Both the Code and the launch approach have been positively received and we're seeing the difference it's making in how colleagues feel about working in Funeralcare. There was significant improvement in our annual colleague survey results across engagement, enjoyment with working for Co-op, empowerment and a decline in those colleagues who have witnessed or experienced bullying, harassment or discrimination at work since 2021.

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

Insurance – from Charles Offord, Managing Director, Co-op Insurance

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

We achieved revenue of £24m (2021: £34m) and profit of £8m, after an adjustment of £4m relating to the accounting treatment of deferred income following the sale of the underwriting business in 2020 (2021:

£15m). This is as expected - our new distribution model continued to establish itself and – since the sale of our underwriting business and as part of the agreement – we continued to process those policies that were owned by our underwriting business before its sale to Markerstudy, and see, and have seen policies to their end.

Home and Motor insurance products

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

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

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

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

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

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

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

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

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

Travel, Pet and Life insurance products

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

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

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

Partnerships and distribution

Our new Pet insurance partnership with Markerstudy has gone from strength to strength since the new proposition was launched at the start of the year. Customer feedback has been positive, and this has been

reflected in the sales of the products, with customers holding a Co-op Pet insurance product doubling in the space of 12 months.

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

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

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

Members and communities

In July, we launched our Motor insurance campaign, offering both new and renewing members £50 to spend on their Co-op membership card when they took out a policy directly with us. We ensured this applied to new members so more people could take advantage, while supporting the further growth of Co-op's membership base. Given the economic climate and cost of living crisis in the UK, we wanted to make sure our communities also benefited, so for each policy sold we also gave £5 to local causes.

By the time the offer came to an end in December 2022, we had shared £1.3m with individual members and raised over £130,000 for Co-op's Local Community Fund.

Legal Services - from Caoilionn Hurley, Managing Director, Co-op Legal Services

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

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

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

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

Digital and accessible services

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

Partnerships

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

Client Service

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

Supporting our growth through recruitment and D&I

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

Charity and community

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

Vision update: Co-operating for a Fairer World

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

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

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

Sharing with our members and communities

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

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

Raising funds

At a time where the finances of our members and their communities had been so sorely tested, in 2022 our Co-op celebrated raising £117m for local communities, since 2016. This amount has been generated when members buy selected Co-op branded products and services, with 2p in every pound spent split between supporting:

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

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

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

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

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

July saw the culmination of three years of fundraising across our Co-op on behalf of our charity partners Mind, SAMH (Scottish Association for Mental Health) and Inspire – three organisations well known for their work supporting mental wellbeing across the UK. After setting an initial fundraising target of £6m, our members, colleagues and customers raised £8.3m for these three causes in total. The money raised helped to launch more than 50 new mental wellbeing services in local communities across the UK, supporting over 22,000 people in 2022. 82% of service users said that they felt their mental wellbeing had improved as a result, and that they were better able to cope with the challenges they faced.

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

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

was made to remove Russian-made vodka from sale in our Food stores, and introduce Chernigivske Ukrainian Lager on to shelves in April, to support a business seeking safety and security for its employees.

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

Key partnerships and our Community Missions

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

- **Fair access to food**

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

And in September, we announced our significant new partnership with Your Local Pantry, intended to help improve household finances, while bringing people together around food.
The partnership will see Your Local Pantry network triple within three years from 75 to 225 pantries across the UK, with the addition of 150 new pantries, expected to see almost 650,000 visits by July 2025. The partnership will focus on communities where additional food solutions will make a significant difference to the cost of living. The first 20 Your Local Pantry locations had been identified, as part of the partnership, by the end of 2022.

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

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

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

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

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

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

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

- **Fair access to mental wellbeing support**

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

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

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

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

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

- **Fair access to opportunities for young people**

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

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

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

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

Co-op Academies Trust

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

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

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

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

Co-op Foundation

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

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

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

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

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

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

Working with others

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

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

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

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

- **Beyond the cheque**

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

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

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

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

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

Colleague policies

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

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

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

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

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

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

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

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

Even greater inclusivity for colleagues

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

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

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

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

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

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

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

- Access to important new resources was made available to our colleagues, to support greater inclusivity across our Co-op.
  - We shared an information pack ahead of International Non-Binary Day (14 July) with colleagues, explaining the event's significance and the best ways to role-model inclusive behaviours and bring our ambition for 'endless inclusion' to life.
  - Packs were also available for International Women's Day in March and programmes of events, activities and resources were shared with our colleagues in support of South Asian Heritage Month, Black History Month and other dates of significance.
  - In November, a new disability inclusion module was launched with the support of our Represent network for line managers and colleagues, aligned with Disability History Month. It includes insight from colleagues living with disabilities, helps line managers learn how they can better support disabled colleagues and offers signposts to those working to unlock their potential and thrive at work. Represent also placed within The Shaw Trust's Disability Power 100 in 2022, which celebrates Britain's most influential disabled people and organisations.
  - Namratta Bedi, co-chair of Rise, our colleague network for ethnic minority, hosted the network's first Vaisakhi session in April, raising awareness and discussing how the festival is celebrated for different reasons by different faiths and cultures. This day also marks the founding of the Sikhism faith by Guru Gobind Singhji in 1699. A related live cooking session with Co-op chef Ed Fraser was also made available to colleagues in our support centre and to all colleagues virtually.

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

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

The wellbeing of our colleagues

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

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

In September, we took the decision to offer further support as part of the rising cost of living, the ongoing risk of energy cap increases and increased inflation. Our work during the year to increase cashflow and stabilise our business made a one-off additional investment of £12m possible, with the most support going to those who weren't eligible to participate in our bonus plan, including many of our frontline colleagues. A payment of £50 was loaded on to eligible colleague membership cards in November and December, with plans to do so again in January, making £150 in total. Later in the year, the decision was also made to offer the majority of colleagues another financial boost, with a further £75 added to colleague membership cards in December – this reached more than 55,000 colleagues. Payments were structured so that they would not impact any universal credit payments and we also covered the benefit in kind tax due so colleagues would receive the full benefit.

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

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

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

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

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

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

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

Recognising our efforts for the planet

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

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

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

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

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

Our Co-op also continued to play a role in key conversations, using its influence to engage and inspire others to be 'Fairer for our Planet.' Leaders encouraged all colleagues to participate in Great Big Green Week, as the UK's biggest celebration of community action to tackle climate change and protect nature. Starting in September, resources were provided to support colleagues in organising related events, such as a plastic-free picnic or a nature trail; writing to their MP or finding local events or groups they could support, including a series of Sustainability Live events hosted by our Member Pioneer network.

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

- Leveraging our position as a retailer with its own brand charity water - having shared £17m over the past 15 years with clean water and sanitation projects - Shirine Khoury-Haq joined other influential

leaders via video at COP27 to work through how UK businesses could come together, co-operatively, and use water more responsibly, as a precious resource.
- Shirine also represented our Co-op at the WWF Retailer's Commitment for Nature Steering Group with other retail CEOs, to make our members' voices heard on how we can come together and halve the environmental impact of UK shopping baskets by 2030.
- As chair of the British Retail Consortium's Climate Action Roadmap Steering Group, Shirine addressed other businesses at a Climate Action Showcase towards the end of October. It was a celebration of everything that has been achieved by the steering group, but also by our Co-op, in terms of reducing harmful emissions, waste and driving towards net zero.
- Our Co-op joined other retailers and some of the biggest co-operatives in the UK alongside Community Energy England in December to call on the Government to prioritise incentives that encouraged investment in renewable energy. The group's signed letter pressed for an overhaul of the planning regime to fast-track new wing and solar schemes and create fairer pricing for green energy used by households and industry. For more information on our energy strategy, see the Co-operate Report 2022.

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

Task Force on Climate-Related Financial Disclosures

As a large organisation, our Co-op is committed to complying with the UK Government's mandate to disclose Task Force on Climate-Related Financial Disclosures (TCFD) aligned financial information – we signalled an intention to do just that in our 2021 Annual Report and Accounts and we will do by 2023.

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

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

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

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

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

Governance

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

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

Strategy

Our Co-op has carried out an initial, high level risk and opportunity identification with the assistance of DNV – providers of risk management services across multiple industry sectors. Our technical and sustainability teams continue to have a good understanding of the climate-related risks we face in different parts of our business. However, in the second quarter of 2022, we went through a structured process to test and

challenge our thinking as we prepared for our first disclosure. Supported by experts from DNV, we worked with colleagues across the business to map our risks and opportunities and explore possible responses.

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

Physical risks principally relate to:

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

Transitional risks are made up of several components:

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

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

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

Risk management

Climate change is recognised as a principal risk to our Co-op. The way we identify, assess, manage and monitor risk is explained within our report in full.

Metrics and targets

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

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

In 2021, we reported that we had met our target to reduce our operational (Scope 1 and 2) emissions by 50% compared to 2016 reduction, three years early. You can read about how we have reduced our Scope 1 and 2 emissions during 2022. We measure and report our indirect greenhouse gas emissions (Scope 3)

every two years. The most recent report was in 2021 (for emissions over the period 2020/21), where we quantified an 8% reduction in Scope 3 emissions since 2016. In the 2023 Co-operate Report, we will publish an updated Scope 3 inventory, covering the period 2021/22. We align to the Greenhouse Gas Protocol Corporate Standard and the Science Based Targets Initiative Criteria. Our Basis of Reporting is published online here: www.co-operative.coop/sustainability-reporting-our-reporting

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

Looking Ahead

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

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

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

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

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

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

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

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

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

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

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

Delivering on our financial plan

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

Accelerating growth

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

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

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

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

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

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

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

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

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

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

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

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

Operating our business efficiently

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

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

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

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

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

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

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

In summary

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

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

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

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

Our financial performance

Economic backdrop

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

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

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

Our headline performance

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

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

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

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

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

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

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

Our Group financial metrics

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

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

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

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

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

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

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

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

- **Net debt:** our net debt improved significantly to £333m (2021: £920m) - a decrease of £587m (2021: net debt increased by £370m). Net debt saw significant reduction in H1, and was anticipated to do the same in H2, before net proceeds of £408m from the sale of our petrol forecourt estate and an additional £72m following the judgement on the IBM legal case. We also generated cash from

continuing operations of £383m (2021: £165m) driven by a solid trading performance and careful working capital management. Furthermore, we also transferred lease liabilities of £171m as part of the forecourt disposal.

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

How our businesses have performed

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

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

- **Food**

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

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

Throughout 2022, the squeeze on household budgets impacted customer choices, dampening volumes and transaction frequency, although this was offset by food price inflation. Like-for-like sales in our core convenience estate were up 3.2% and we maintained our market share. This demonstrates the resilience of our core convenience business and how our customer offer continues to resonate with our members.

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

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

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

- **Wholesale**

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

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

- **Funeralcare**

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

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

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

- **Insurance**

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

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

- **Legal Services**

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

- **Central Support Centre costs**

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

Property and business disposals, impairments and investment properties

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

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

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

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

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

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

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

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

One-off items

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

- **Organisational changes:** we've recorded a significant one-off charge of £26m, reflecting redundancy costs we've incurred. These follow some changes we have made to colleague structures in our support centre, to ensure that we are set up in the best way to efficiently support our customer facing colleagues.

- **Colleague support:** due to the unprecedented pressures our colleagues are facing from the cost of living crisis, we have also directly helped those member colleagues who need it the most with one-off support totalling £12m added to their membership cards.

- **Prior year (2021):** one-off items included a £17m charge reflecting the costs of organisational changes we made to colleague structures in our Food stores as part of the Fit for Future programme.

Sales of Petrol forecourts

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

Financing costs/ income

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

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

- **Pensions interest:** net finance income is based on the pension scheme surplus on an accounting basis at the start of each year. The £13m increase reflects the increase in the accounting surplus at the start of 2022.

- **Funeral plans net finance cost:** the valuation gains on funeral plan investments of £29m in 2022 were outweighed by the interest we accrued on our plan liabilities of £54m - so we show net finance costs of £25m in our income statement. The charge is higher as returns on plan assets are lower than in 2021 due to market conditions.

- **FX contracts:** we saw favourable market valuation movements of £20m (2021: £5m) on the forward contracts we have in place for commodities (mainly diesel), which we use to hedge our exposure to future prices rises.

- **Quoted debt / swaps:** the net market valuation of some of the Group's debt instruments and interest rate swaps moved in our favour generating a net gain of £17m (2021: £nil).

- **Group Relief Creditor:** the £99m gain in the prior year relates to the settlement of the Group Relief Creditor owed to The Co-operative Bank PLC, which generated a one-off gain in 2021.

Net debt and cash

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

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

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

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

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

Tax

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

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

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

See Notes 8 and 15 for more detail on Tax.

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

Our balance sheet

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

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

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

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

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

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

Going forward

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

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

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

Consolidated income statement

for the period ended 31 December 2022

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

Continuing Operations	Notes	2022 £m	2021 £m
Revenue	2	**11,480**	11,151
Operating expenses	3	**(11,484)**	(11,097)
Other income	5	**9**	10
Operating profit	1	**5**	64
Profit on sale of petrol forecourts	35	**319**	-
Finance income*	6	**125**	196
Finance costs	7	**(202)**	(203)
Profit before tax	1	**247**	57
Taxation	8	**(4)**	(25)
Profit from continuing operations		**243**	32
Discontinued Operation			
Profit on discontinued operation (after tax)	9	**67**	13
Profit for the period (all attributable to members of the Society)		**310**	45

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

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

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

Continuing Operations	Notes	2022 £m	2021 £m
Operating profit (as above)		**5**	64
Add back / (deduct):			
One-off items	1	**39**	15
Property, business disposals, closures and impairments	1	**41**	30
Change in value of investment properties	26	**15**	(9)
Underlying operating profit	1	**100**	100
Less underlying net interest on loans and deposits	7	**(55)**	(56)
Less underlying net interest expense on lease liabilities	6, 7	**(76)**	(76)
Underlying loss before tax		**(31)**	(32)

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

** Refer to Note 1 for a definition of Underlying operating profit and Underlying loss before tax.

Consolidated statement of comprehensive income

for the period ended 31 December 2022

What does this show? Our statement of comprehensive income includes other income and costs that are not included in the consolidated income statement. These generally relate to revaluations of our pension schemes.

	Notes	2022 £m	2021 £m
Profit for the period		**310**	45
Items that will never be reclassified to the income statement:			
Remeasurement (losses) / gains on employee pension schemes	27	**(732)**	350
Related tax on items above	8	**183**	(130)
		(549)	220
Items that are or may be reclassified to the income statement:			
Gain on revaluation of right-of-use assets prior to transfer to investment property		**-**	5
		-	5
Other comprehensive (losses) / profits for the period net of tax		**(549)**	225
Total comprehensive (loss) / profit for the period (all attributable to members of the Society)		**(239)**	270

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

Consolidated balance sheet

as at 31 December 2022

What does this show? Our balance sheet is a snapshot of our financial position as at 31 December 2022. It shows the assets we have and the amounts we owe.

	Notes	2022 £m	2021 £m
Non-current assets			
Property, plant and equipment	11	**1,631**	1,912
Right-of-use assets	12	**882**	1,086
Goodwill and intangible assets	13	**934**	1,075
Investment properties	26	**40**	55
Investments in associates and joint ventures		**5**	4
Funeral plan investments	14	**1,369**	1,372
Derivatives	29	**1**	-
Pension assets	27	**1,584**	2,262
Trade and other receivables	17	**171**	214
Finance lease receivables	12	**34**	30
Contract assets (funeral plans)	18	**40**	43
Total non-current assets		**6,691**	8,053
Current Assets			
Inventories	16	**433**	488
Trade and other receivables	17	**637**	551
Finance lease receivables	12	**9**	12
Contract assets (funeral plans)	18	**5**	5
Derivatives	29	**7**	4
Cash and cash equivalents	20	**447**	60
Assets held for sale	19	**-**	7
Total current assets		**1,538**	1,127
Total assets		**8,229**	9,180
Non-current liabilities			
Interest-bearing loans and borrowings	21	**763**	796
Lease liabilities	12	**1,124**	1,306
Trade and other payables	22	**31**	44

Contract liabilities (funeral plans)	23	**1,540**	1,614
Derivatives	29	**14**	2
Provisions	24	**59**	74
Pension liabilities	27	**3**	4
Deferred tax liabilities	15	**156**	314
Total non-current liabilities		**3,690**	4,154
Current liabilities			
Overdrafts	20	**-**	4
Interest-bearing loans and borrowings	21	**17**	180
Lease liabilities	12	**182**	210
Trade and other payables	22	**1,403**	1,472
Contract liabilities (funeral plans)	23	**183**	164
Derivatives	29	**2**	3
Provisions	24	**34**	52
Liabilities held for sale	19	**-**	2
Total current liabilities		**1,821**	2,087
Total liabilities		**5,511**	6,241
Equity			
Members' share capital	25	**75**	74
Retained earnings	25	**2,637**	2,859
Other reserves	25	**6**	6
Total equity		**2,718**	2,939
Total equity and liabilities		**8,229**	9,180

The accompanying notes 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

Shirine Khoury-Haq
Chief Executive

Dominic Kendal-Ward
Group Secretary

4 April 2023

Consolidated statement of changes in equity

for the period ended 31 December 2022

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

For the 52 weeks ended 31 December 2022	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 1 January 2022		**74**	**2,859**	**6**	**2,939**
Profit for the period		**-**	**310**	**-**	**310**
Other comprehensive income / (loss):					
Remeasurement losses on employee pension schemes	27	**-**	**(732)**	**-**	**(732)**
Tax on items taken directly to other comprehensive income	8	**-**	**183**	**-**	**183**
Total other comprehensive loss		**-**	**(549)**	**-**	**(549)**
Items taken directly to Retained earnings:					
Shares issued less shares withdrawn	25	**1**	**-**	**-**	**1**
Adjustment to historic funeral plan liabilities	23	**-**	**23**	**-**	**23**
Tax on items taken directly to retained earnings	8	**-**	**(6)**	**-**	**(6)**
Total of items taken directly to retained earnings		**1**	**17**	**-**	**18**
Balance at 31 December 2022	25	**75**	**2,637**	**6**	**2,718**

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

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

Consolidated statement of cash flows

for the period ended 31 December 2022

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

	Notes	**2022** £m	2021 £m
Net cash from operating activities	10	**455**	178
Cash flows from investing activities			
Purchase of property, plant and equipment		**(132)**	(297)
Proceeds from sale of property, plant and equipment		**47**	80
Purchase of intangible assets		**(15)**	(28)
Acquisition of businesses, net of cash acquired		**(4)**	(30)
Disposal of businesses		**10**	22
Disposal of petrol forecourts	35	**408**	-
Payments to funds for pre-paid funeral plan sales		**(76)**	(93)
Receipts from funds for pre-paid funeral plans performed or cancelled		**108**	105
Net cash generated / (used) in investing activities		**346**	(241)
Cash flows from financing activities			
Interest paid on borrowings		**(59)**	(57)
Interest paid on lease liabilities		**(78)**	(79)
Interest received on subleases		**2**	3
Interest received on deposits		**2**	-
Settlement of Group Relief Creditor owed to The Co-operative Bank PLC		**-**	(48)
(Repayment) / issue of corporate investor shares	21	**(1)**	1
Repayment of borrowings (net)	21	**(1)**	(2)
RCF (repayment) / drawdown	21	**(163)**	163
Payment of lease liabilities		**(128)**	(134)
Derivative settlements		**16**	3
Net cash used in financing activities		**(410)**	(150)
Net increase / (decrease) in cash and cash equivalents		**391**	(213)
Cash and cash equivalents at beginning of period		**56**	269
Cash and cash equivalents at end of period		**447**	56
Analysis of cash and cash equivalents			
Cash and cash equivalents (per balance sheet)	20	**447**	60
Overdrafts (per balance sheet)	20	**-**	(4)
		447	56

The balances above include cashflows from Discontinued operations.

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

Group Net Debt	Notes	2022 £m	2021 £m
Interest-bearing loans and borrowings:			
- current		**(17)**	(180)
- non-current		**(763)**	(796)
Total Interest-bearing loans and borrowings		**(780)**	(976)
Lease liabilities:			
- current		**(182)**	(210)
- non-current		**(1,124)**	(1,306)
Total Lease liabilities		**(1,306)**	(1,516)
Total Debt		**(2,086)**	(2,492)
- Group cash		**447**	60
- Overdrafts		**-**	(4)
Group Net Debt	21	**(1,639)**	(2,436)
Group Net Debt (excluding lease liabilities)		**(333)**	(920)

Notes to the financial statements

Section A - where do our profits come from?

1 Operating segments

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

2022	Food £m	Wholesale £m	Funeral £m	Insurance £m	Legal £m	Other businesses (c) £m	Federal (f) £m	Costs from supporting functions £m	Total £m
Revenue from external customers	7,805	1,439	271	24	46	-	1,895	-	11,480
Underlying operating profit / (loss) (a)	139	22	16	8	8	-	-	(93)	100
One-off items (a) (i)	(21)	(2)	(2)	-	-	-	-	(14)	(39)
Property, business disposals and closures (a) (ii)	7	(1)	(1)	-	-	-	-	59	64
Impairments (a) (ii)	(71)	-	(3)	-	-	-	-	(31)	(105)
Change in value of investment properties	-	-	-	-	-	-	-	(15)	(15)
Operating profit / (loss) (b)	54	19	10	8	8	-	-	(94)	5
Depreciation and amortisation	331	8	27	-	1	-	-	23	390
EBITDA (h)	385	27	37	8	9	-	-	(71)	395
Underlying EBITDA (h)	470	30	43	8	9	-	-	(70)	490
Additions to non current assets (d, e)	115	4	14	-	-	-	-	18	151

2021	Food	Wholesale	Funeral	Insurance	Legal	Other businesses (c)	Federal (f)	Costs from supporting functions	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue from external customers	7,671	1,386	264	34	39	1	1,756	-	11,151
Underlying operating profit / (loss) (a)	156	7	12	15	5	(1)	-	(94)	100
One-off items (a) (i)	(17)	-	-	-	-	-	-	2	(15)
Property, business disposals and closures (a) (ii)	(14)	-	2	-	-	(1)	-	13	-
Impairments (a) (ii)	(22)	-	-	-	-	-	-	(8)	(30)
Change in value of investment properties	-	-	-	-	-	-	-	9	9
Operating profit / (loss) (b)	103	7	14	15	5	(2)	-	(78)	64
Depreciation and amortisation	332	9	32	-	1	-	-	31	405
EBITDA (e)	435	16	46	15	6	(2)	-	(47)	469
Underlying EBITDA (e)	488	16	44	15	6	(1)	-	(63)	505
Additions to non current assets (d, e)	288	5	28	-	-	-	-	34	355

a) Underlying operating profit / (loss) is a non-GAAP measure of segment operating profit before the impact of property and business disposals (including impairment of non-current assets within our businesses), the change in the value of investment properties, and one-off items. This is the non-GAAP measure of segmental profitability that is monitored by the Group Board (which is the Chief Operating Decision Maker (CODM)).

(i) One-off items totalling a £39m charge (2021: £15m charge) are made up of £26m of redundancy charges primarily within our Support Centre, £12m of discretionary costs (membership spend added to colleagues' membership cards) helping to support them through the Winter cost-of-living crisis and net £1m other. In the prior period the £15m charged comprised £17m of redundancy charges within our food store teams (under the Fit for Future programme) net of a £2m gain in relation to a reduction in the value of deferred consideration from our acquisition of Nisa.

(ii) Gains from property and business disposals of £64m (2021: net £nil) comprise a £6m gain on food stores, £1m loss on funeral branches and a £59m gain on non-trading properties sold during the year.

(iii) Impairment charges of £105m (2021: £30m) are split: Food £71m (2021: £22m), Funerals £3m (2021: £nil) and Costs from supporting functions of £31m (2021: £8m) and relates to £30m (2021: £5m) of Property, plant and equipment, £60m (2021: £25m) of Right-of-use assets and £15m (2021: £nil) of Intangible assets.

b) Each segment earns its revenue and profits from the sale of goods and provision of services, mainly from retail activities. Transactions between operating segments excluded in the analysis are £nil (2021: £nil).

c) The Group identifies its operating segments based on its divisions, which are organised according to the different products and services it offers its customers. The operating segments (and the captions) reported above are based on the periodic results reported into the Chief Operating Decision Maker which is the Board and whether the respective division's results meet the minimum reporting thresholds set out in IFRS 8 (Operating Segments). The Other businesses segment includes activities which are not reportable per IFRS 8. In the comparative period then this mainly comprised the results of Co-op Health which was sold on 6 April 2021. Our other holding and support companies are included within costs from supporting functions.

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

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

f) Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities. In the current period revenue in the Federal segment includes £40m (2021: £nil) of sales at nil margin for goods supplied to AFS (Arthur Foodstores Limited - the entity that was sold to Asda as part of the disposal of our petrol forecourt estate during the year). See footnote (i) below for further details of the transitional service agreement covering the post disposal period.

g) Operating profit in 2021 included £20m of government assistance received through business rates relief in response to the CV-19 pandemic (£18m in Food and £2m in Funerals).

h) EBITDA (earnings before interest, tax, depreciation and amortisation) and underlying EBITDA are non-GAAP measure of performance which help us to understand the profits our business segments are generating before capital investment and interest charges. EBITDA is calculated by adding back depreciation and amortisation charges to Operating profit (which is calculated before interest charges). Underlying EBITDA is calculated in a similar way but starting from underlying operating profit.

i) On 30th October we sold our petrol forecourt estate to Asda and as part of the sale process the petrol sites will transfer across on a rolling basis during a handover period of approximately 12 months which is governed by a transitional service agreement. The Group have assessed the nature of the arrangement and concluded that Co-op are acting as agent in the facilitation of the transaction for the end customer, but as a principal for supplying goods to AFS (Arthur Foodstores Limited - the entity that was sold to Asda) under the service agreement, and consequently will record the revenue and costs of supplying the goods gross, as well as recording the outsourcing fee charged to AFS in revenue.

j) A reconciliation between Underlying operating profit, Underlying loss before tax and Profit before tax (Continuing operations) is provided below:

Continuing Operations	Notes	2022 £m	2021 £m
Underlying operating profit		**100**	100
Underlying net interest on loans and deposits	6, 7	**(55)**	(56)
Underlying net interest expense on lease liabilities	6, 7	**(76)**	(76)
Underlying loss before tax		**(31)**	(32)
One-off items	1	**(39)**	(15)
Gain on property, business disposals and closures (see table below)	1	**64**	-
Impairment of non-current assets (see table below)	1	**(105)**	(30)
Profit on disposal of petrol forecourts	1	**319**	-
Change in value of investment properties	26	**(15)**	9
Finance income (net pension income)	6	**43**	30
Fair value movement on derivatives (net)	6, 7	**9**	-
Fair value movement on quoted Group debt	6, 7	**28**	5
Finance income (one-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc)	6	**-**	99
Finance income (funeral plans)	6	**29**	54
Finance costs (funeral plans)	7	**(54)**	(58)
Other non-cash finance costs	7	**(1)**	(5)
Profit before tax from continuing operations		**247**	57

Profit / (loss) from property, business disposals, closures and impairment of non-current assets	**2022**		2021	
	£m	**£m**	£m	£m
Disposals, closures and onerous contracts:				
- proceeds	**47**		80	
- less net book value written off	**(15)**		(71)	
- provisions released / (recognised)	**32**		(9)	
		64		-
Impairment of property, plant and equipment, right-of-use assets and goodwill		**(105)**		(30)
Total		**(41)**		(30)

See (a) (iii) for details of the impairments.

2 Revenue

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

	2022 £m	2021 £m
Retail sales	**7,822**	7,689
Member reward earned on sale of goods	**(17)**	(18)
Provision of services	**344**	341
Member reward earned on provision of services	**(3)**	(3)
Wholesale sales	**1,439**	1,386
Federal sales	**1,895**	1,756
Revenue (as shown in the Consolidated income statement)	**11,480**	11,151

Accounting policies

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

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

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

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

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

Member rewards
The member rewards earned as part of our membership offer are recognised as a reduction in sales at the point they are earned with a corresponding liability being held on the balance sheet. The liability is reduced when the rewards are redeemed. Member rewards are earned at 2% of sales value. The Community reward on member's spend is recognised as an operating expense in the income statement when it is earned. Community rewards are also earned at 2% of sales value.

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

3 Operating expenses

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

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

	2022	2021
	£m	£m
Cost of inventories recognised as an expense	**(8,056)**	(7,894)
Employee benefits expense (see below)	**(1,444)**	(1,484)
Distribution costs	**(501)**	(508)
Gain on property, business disposals and closures (before impairments)	**64**	-
Impairment of plant, property and equipment and goodwill	**(45)**	(5)
Impairment of right-of-use assets	**(60)**	(25)
Impairment reversal on subleases	**-**	1
Net gain on other plant and equipment disposals	**2**	2
Change in value of investment properties	**(15)**	9

Depreciation of plant, property and equipment	**(244)**	(254)
Depreciation of right-of-use assets	**(119)**	(122)
Amortisation of intangible assets	**(27)**	(29)
Furlough repayment	**-**	(16)
Business rates relief received	**-**	20
Subscriptions and donations	**(6)**	(4)
Community reward earned	**(18)**	(19)

Employee benefits expense

	2022	2021
	£m	£m
Wages and salaries	**(1,293)**	(1,332)
Social security costs	**(90)**	(86)
Pension costs - defined benefit schemes	**(6)**	(5)
Pension costs - defined contribution schemes	**(55)**	(61)
Total employee benefits expense	**(1,444)**	(1,484)

Employee benefits expense includes executive directors.

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

	2022	2021
	Number	Number
Full-time	**18,627**	19,618
Part-time	**40,463**	42,919
Total	**59,090**	62,537

Auditor remuneration and expenses	**2022**	2021
	£m	£m
Audit of these financial statements	**2.4**	2.1
Amounts receivable by the Society's auditor in respect of:		
- Audit of financial statements of subsidiaries in respect of the Society	**0.4**	0.4
Services relating to:		
- Audit-related assurance services	**-**	-
- All other services	**0.1**	0.1
Total	**2.9**	2.6

Accounting policies

Operating expenses

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

4 Supplier income

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

Supplier income	**2022**	2021
	£m	£m
Food - Long-term agreements	**156**	158

Food - Bonus income	**66**	82
Food - Promotional income	**281**	341
Total Food supplier income	**503**	581
Wholesale - Long-term agreements	**27**	27
Wholesale - Bonus income	**15**	19
Wholesale - Promotional income	**81**	99
Wholesale supplier income	**123**	145
Total supplier income	**626**	726

Percentage of Cost of Sales before deducting Supplier income	**%**	%
Food - Long-term agreements	**2.6%**	2.6%
Food - Bonus income	**1.1%**	1.4%
Food - Promotional income	**4.7%**	5.7%
Total Food supplier income percentage	**8.4%**	9.7%
Wholesale - Long-term agreements	**2.0%**	2.0%
Wholesale - Bonus income	**1.1%**	1.4%
Wholesale - Promotional income	**6.1%**	7.3%
Total Wholesale supplier income percentage	**9.2%**	10.7%

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

Accounting policies

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

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

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

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

5 Other income

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

	2022	2021
	£m	£m
Rental income from non-investment property	**6**	7
Rental income from investment property	**3**	3
Total other income	**9**	10

Accounting policies

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

6 Finance income

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

	2022	2021
	£m	£m
Net pension finance income	**43**	30
Underlying interest income from finance lease receivables	**2**	3
Interest receivable on deposits	**3**	-
Fair value movement on foreign exchange contracts and commodity derivatives	**20**	5
Fair value movement on quoted Group debt (Note 21)	**28**	5
One-off gain on settlement of Group Relief Creditor owed to The Co-operative Bank Plc*	**-**	99
Unrealised fair value movement on funeral plan investments (Note 14)	**28**	54
Discount unwind on funeral plan debtors	**1**	-
Total finance income	**125**	**196**

*The one-off gain of £99m in 2021 relates to the settlement of the Group Relief Creditor owed to the Co-operative Bank Plc.

7 Finance costs

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

	2022	2021
	£m	£m
Loans repayable within five years	**(58)**	(56)
Loans repayable wholly or in part after five years	**-**	-
Underlying loan interest payable	**(58)**	(56)
Underlying interest expense on lease liabilities	**(78)**	(79)
Total underlying interest expense	**(136)**	(135)
Fair value movement on interest rate swaps (Note 29)	**(11)**	(5)
Other non-underlying finance interest	**(1)**	(5)
Interest accruing on funeral plan liabilities (Note 23)	**(54)**	(54)
Discounting on funeral plan debtors	**-**	(4)
Total finance costs	**(202)**	(203)

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

Total interest expense on financial liabilities (including lease liabilities) that are not at fair value through the income statement was £125m (2021: £127m).

8 Taxation

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

	Footnote	**2022** £m	2021 £m
Current tax credit / (charge) - current period	(i)	**11**	(1)
Current tax credit - adjustment in respect of prior periods	(iii)	**2**	-
Net current tax charge - in respect of continuing operations		**13**	(1)
Net current tax credit - in respect of discontinued operations		**(14)**	1
Total current tax charge		**(1)**	-
Deferred tax charge - current period	(iv)	**(11)**	(5)
Deferred tax charge - adjustments in respect of prior periods	(v)	**(2)**	(6)
Deferred tax charge - impact of rate change (see note below)		**(4)**	(13)
Net deferred tax charge - in respect of continuing operations		**(17)**	(24)
Net deferred tax charge - in respect of discontinued operations		**-**	-
Total deferred tax charge		**(17)**	(24)
Total tax charge reported in the income statement		**(4)**	(25)
Total tax (charge) / credit attributable to a discontinued operation		**(14)**	1
Total tax charge		**(18)**	(24)

The tax on the Group's net profit before tax differs from the theoretical amount that would arise using the standard applicable rate of corporation tax of 19% (2021:19%) as follows:

	Footnote	**2022** £m	2021 £m
Profit before tax from continuing operations		**247**	57
Profit before tax from discontinued operation		**81**	12
Total profit before tax		**328**	69
Tax charge at 19% (2021: 19%)		**(62)**	(13)
Current tax reconciliation:			
Expenses not deductible for tax (including one-off costs)	(vi)	**(2)**	(2)
Credits not taxable on the Co-operative Bank settlement	(ii)	**-**	19
Depreciation and amortisation on non-qualifying assets	(vii)	**(10)**	(11)
Non-taxable profits arising on business disposals	(viii)	**61**	3
Capital gains arising on property disposals	(ix)	**(1)**	(1)
Adjustments in respect of prior periods	(iii)	**2**	-
Impact on current tax for movement in temporary tax differences (see below)		**11**	5
Total current tax charge		**(1)**	-
Deferred tax reconciliation:			
(Utilisation) / increase of temporary tax differences - see Note 15 footnote (vii):			
Utilisation of capital allowances in excess of depreciation on qualifying assets		**(2)**	-
Utilisation of brought forward tax losses		**(1)**	(1)
Pension timing differences		**(10)**	(10)
Unwind of restatement adjustment on adoption of IFRS 16		**(3)**	(3)
Impact of restatement adjustment in relation to IFRS 15		**-**	-
Unrealised gains on investment properties, rolled-over gains and historic business combinations		**10**	6
Other timing differences		**(5)**	3
Subtotal of deferred tax reconciling items	(iv)	**(11)**	(5)
Other deferred tax items:			
Adjustment in respect of previous periods	(v)	**(2)**	(6)
Impact of restatement of deferred tax to enacted rate	(x)	**(4)**	(13)
Total deferred tax charge		**(17)**	(24)

Total tax charge	**(18)**	(24)

The net tax charge of £4m on a continuing profit before tax of £247m gives an effective tax rate of 2%, which is lower than the standard rate of 19%. The main reason for this being lower is the £319m profit arising on the disposal of Arthur Food Stores Limited (the entity that was sold to Asda as part of the disposal of our petrol forecourt estate) which is exempt from tax as the disposal qualifies under the Substantial Shareholding Exemption Budget that reduces the expected tax charge by £61m. There are other factors as detailed in the disclosure, the main one being the £10m impact of depreciation on non-qualifying assets, that in total then increase the net expected tax charge by £14m. See footnotes for more detail.

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

	2022 **£m**	2021 £m
Actuarial gains and losses on employee pension scheme	**183**	(128)
Investment property revaluation through other comprehensive income	**-**	(2)
Tax on items taken directly to consolidated statement of comprehensive income	**183**	(130)
Adjustment to historic funeral plan liabilities (see Note 23)	**(6)**	-
Total tax on changes in equity	**177**	(130)

Of the £183m tax taken directly to the consolidated statement of comprehensive income, £139m credit (2021: £66m charge) arises on the actuarial movement on employee pension schemes. There is also a £44m credit (2021: £62m charge) being the impact of the 25% rate on the deferred tax related to the employee pension schemes as noted below. There was no movement this year directly to the consolidated statement of comprehensive income in respect of investment property revaluations.

A tax charge of £6m has been attributed to the IFRS 15 adoption adjustment in respect of funeral plan liabilities taken directly to Retained earnings in equity, of which £1m charge is rate impact.

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

The impact in 2022 of recognising the net deferred tax movements at 25% rather than 19% has meant the equity credit is increased by £44m and the tax charge through the income statement is increased by £4m.

Tax policy

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

Footnotes to taxation note 8:

i) The Group is not tax-paying in the UK in respect of 2022 due to the fact it has a number of brought forward capital allowances (£198m gross claimed in 2022) and tax losses (£5m gross utilised in 2022) that offset its taxable profits for the period. These allowances and losses are explained in more detail in Note 15. The current tax charge nets to £1m, this is partly due to profits earned by Arthur Food Stores Limited that could not be fully covered by the above allowances. The corporation tax liability in respect of this, of £3m, was accrued in the company's balance sheet at disposal. Off-setting this is a credit of £2m in respect of a claim made to HMRC to convert an equivalent amount of deferred tax reliefs into a cash settlement. This is shown as adjustment in respect of prior periods. In addition, the discontinued disclosure requirements require the tax impact of discontinued operations to be split out resulting in a £14m tax credit and £14m tax charge in continuing and discontinued respectively.Outside of the UK, our Isle of Man resident subsidiary, Manx Co-operative Society, a convenience retailing business in the Isle of Man showed a small profit in 2022, giving rise to a small current tax liability of £0.1m (2021: £0.2m). This is the Group's only non-UK resident entity for tax purposes, which employs 104 part-time and 142 full-time colleagues out of our total Group headcount figure. All other income in the consolidated income statement is generated by UK activities and all other colleagues are employed in the UK. The 2022 revenue of Manx Co-operative Society is £35m and all other revenue reflected in the consolidated income statement is generated by UK trading activities. The net assets of Manx Co-operative Society at 31 December 2022 were £11.8m, compared to net assets of the consolidated Group of £2,803m. The Manx assets represent the only overseas trading assets within the Group. A full copy of the most recent accounts is available here https://www.co-operative.coop/investors/rules. The presence of this IOM resident subsidiary has not resulted in any additional tax charge in 2022 over and above that payable to the Isle of Man authorities stated above. If these activities had been carried out in the UK, these profits would have been included within the Group's taxable profit prior to the availability of capital allowances and tax losses.In addition the Group has one dormant company registered in the Cayman Islands, Violet S Propco Limited. This is a legacy dormant company and is UK resident for tax purposes, as it is managed and controlled entirely within the UK. All tax obligations in respect of this company are therefore reported in the UK. It should be noted that we have engaged with the Cayman Counsel and are in the process of completing the relevant due diligence that will allow the commencement of the formal striking off of Violet S Propco Ltd as a Cayman Isle registered company.

ii) As noted in last year's financial statements, the accounting gain in the 2021 income statement of £99m arising from the settlement of a creditor balance in relation to group relief claimed from The Co-operative Bank was not subject to corporation tax in accordance with UK tax legislation.

iii) There were minimal adjustments in respect of the current year in respect of prior years for both 2022 and 2021, other than as noted above.

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

The £11m deferred tax charge represents the net utilisation of temporary differences throughout the current year that are offset against the Group's taxable profits, reducing the Group's current tax liabilities. The £11m primarily relates to deferred tax arising on movements on our pension assets. Note 15 gives further detail on how each deferred tax balance has moved in the year.

As the Group is not tax-paying in respect of 2022, the reconciling items between the tax charge at the standard rate and the actual tax charge mostly affect the deferred tax we carry as they will result in us having more or less capital allowances or losses to offset against future profits.

v) There was a £2m tax charge adjustment in the current year relating to prior years. This mainly resulted from a claim made to HMRC to convert some of the Group's deferred tax reliefs into a cash settlement reported as a £2m tax credit to current year tax in respect of prior years (see footnote (i) above). In 2021 the £6m tax charge resulted from changes to the taxable profits reported in the individual subsidiary accounts compared to the Group's tax charge as a whole in 2020.

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

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

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

viii) In 2022 the Group disposed of its shares in Arthur Food Stores Limited (the entity that was sold to Asda as part of the disposal of our petrol forecourt estate). The disposal falls within the substantial shareholder exemptions (SSE) which means any gain or losses arising on the disposal are not brought into tax. The amount shown for 2021 was in connection to the disposal of shares in Co-operative Care Limited that was also covered by SSE.

ix) During the year a number of properties were sold, where the net taxable profit was less than the accounting profit.

x) It is a requirement to measure deferred tax balances at the substantively enacted corporation tax rate at which they are expected to unwind. As noted above the impact of recognising deferred tax at 25% has been to increase the tax charge by £4m this year.

Accounting policies

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

9 Profit on discontinued operation (net of tax)

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

Discontinued operation - disposal of Insurance (underwriting) business

The sale of our insurance underwriting business (CISGIL) completed on 3 December 2020. The results of that business have been classified as a discontinued operation from 2018 and shown in a separate line at the bottom of the consolidated income statement under Discontinued Operations. As part of the sale agreement Co-op continued to supply CISGIL with certain agreed services in the first half of 2021 under a service agreement (TSA). The costs and recoveries associated with that agreement are included in the table below within Operating expenses and Operating income respectively and are shown within Discontinued operations in the Consolidated Income statement. Operating expenses in 2022 includes the release of any remaining provisions associated with the disposal. Other income includes £72m of income following payments received in respect of a legal claim.

Results of discontinued operation - Insurance (underwriting business)	2022	2021
	£m	£m
Operating income	-	12
Operating expenses (net)	3	(13)
Other income	78	13
Profit before tax	**81**	12

	2022	2021
Tax	**(14)**	1
Profit for the period from discontinued operation	**67**	13

Segmental analysis - Insurance (underwriting business)	**Revenue from external customers**	**Underlying segment operating (loss) / profit**	**Profit before tax**	**Additions to non-current assets**	**Depreciation and amortisation**
	£m	**£m**	**£m**	**£m**	**£m**
52 weeks ended 31 December 2022	**-**	**-**	**81**	**-**	**-**
52 weeks ended 1 January 2022	12	(1)	12	-	-

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

Cash flows used in discontinued operations:	**2022**	2021
	£m	£m
Net cash from discontinued operations	**72**	13

Cash flows from financing and 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.

	2022	2021
	£m	£m
Operating profit (Note 1)	**5**	64
Depreciation and amortisation charges	**390**	405
Non-current asset impairments	**105**	30
Profit on closure and disposal of businesses and non-current assets	**(66)**	(2)
Change in value of investment properties	**15**	(9)
Retirement benefit obligations	**(12)**	(24)
Decrease / (increase) in inventories	**36**	(28)
Increase in receivables	**(88)**	(17)
Decrease in contract assets (funeral plans)	**3**	18
Increase in contract liabilities (funeral plans)	**(87)**	(19)
Increase / (decrease) in payables and provisions	**80**	(253)

Tax received	**2**	-
Net cash flow from operating activities before net cash operating inflow from discontinued operations	**383**	165
Net cash flow from operating activities relating to discontinued operations	**72**	13
Net cash flow from operating activities	**455**	178

Accounting policies

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

Section B - what are our major assets?

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

11 Property, plant and equipment

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

For the period ended 31 December 2022	**Property**	**Plant and equipment**	**Total**
	£m	**£m**	**£m**
Cost or valuation:			
At 1 January 2022	**1,442**	**2,731**	**4,173**
Additions	**8**	**96**	**104**
Disposal of petrol forecourts (see Note 35)	**(60)**	**(121)**	**(181)**
Disposals	**(31)**	**(87)**	**(118)**
At 31 December 2022	**1,359**	**2,619**	**3,978**
Depreciation:			
At 1 January 2022	**610**	**1,651**	**2,261**
Charge for the period	**27**	**217**	**244**
Impairment	**2**	**28**	**30**
Disposal of petrol forecourts (see Note 35)	**(16)**	**(76)**	**(92)**
Disposals	**(14)**	**(82)**	**(96)**
At 31 December 2022	**609**	**1,738**	**2,347**
Net book value:			
At 31 December 2022	**750**	**881**	**1,631**
At 1 January 2022	**832**	**1,080**	**1,912**
Capital work in progress included above	**10**	**28**	**38**

The impairment charge of £30m (2021: £5m) primarily relates to poor performing food stores (see also Critical accounting estimates and judgements section of this note for further detail on impairment).

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 as assets held for sale (see note 19)	(2)	-	(2)
Disposals	(24)	(57)	(81)
At 1 January 2022	610	1,651	2,261
Net book value:			
At 1 January 2022	832	1,080	1,912
At 2 January 2021	860	1,095	1,955
Capital work in progress included above	21	37	58

Critical accounting estimates and judgements

Impairment
In the context of considering potential impairment of plant, property and equipment; the recoverable amount for Food and Funeral cash generating units (CGUs) is the greater of the fair value of the CGU (less costs to sell) and the value in use (VIU) of the CGU. The value in use for Food and Funeral CGUs has been determined using discounted cash flow calculations. The key assumptions in the value in use calculations are as follows:

Assumption	Food Segment	Funeral Segment
Structure of a CGU	Each individual food store is deemed to be an individual CGU.	A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub.
Cash flow years / assumptions	Future cash flows derived from Board approved four-year plan cash flow assumptions. These forecasts are based on budget for FY23, four- year plan for FY24 and then subject to a long term growth rate of 1.9% (2021: 1.9%) reflecting the UK's long-term post war growth rate which is in-line with industry norms for the period of the lease. Where lease terms are shorter than this, the remaining lease terms have been used. Perpetuities are included in cash flows with 0% growth (2021: 0%) where stores are expected to be operated beyond their current lease term. Cash flows include estimated store capital maintenance costs based on the square footage of the store. The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.	Future cash flows derived from Board approved four-year plan cash flow projections. These cash flows are extrapolated over the remaining lease term for leasehold properties or into perpetuity for freehold properties. Perpetuities included in cash flows where the Hub is expected to be operational beyond its current lease terms. A growth rate of 1.9% (2021: 1.9%) is applied beyond Board approved four-year plan horizon (reflecting the UK's long-term post war growth rate which is in-line with industry norms). The Group is currently working to identify the physical risk to our business and supply chains from the changing climate, along with the potential impact of policy, technology and market changes as we transition to a lower carbon future. This is a developing area with inherent uncertainty which is constantly evolving. The work being undertaken will help inform our overall response to the risks and opportunities that are identified. Our assessment of the impact of climate-related risk and related expenditure is reflected in the financial models and plans and will continue to be monitored in future periods.

Discount rate and Sensitivity analysis	A post tax discount rate has been calculated for impairment purposes, with the Food segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 10.1% (2021: 7.3%). The post-tax discount rate has been calculated using the capital asset pricing model. Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material. In each of the current and comparative years, sensitivity analysis has been performed in relation to our store impairment testing, testing for a 2% increase in discount rate and a decrease in growth to minus 2%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions. Sensitivity analysis has also been performed on our goodwill impairment testing, see note 13.	A post tax discount rate has been calculated for impairment purposes, with the Funeralcare segment's weighted average cost of capital (WACC) deemed to be an appropriate rate, subsequently grossed up to a pre-tax rate of 10.9% (2021: 8.8%). The post-tax discount rate has been calculated using the capital asset pricing model. Certain inputs into the capital asset pricing model are not readily available for non-listed entities. As such, certain inputs have been obtained from industry benchmarks which carries a measure of estimation uncertainty. However, as discussed in the sensitivity section below, this estimation uncertainty level is not deemed to be material. In each of the current and comparative years, sensitivity analysis has been performed in relation to our Funeralcare Hub impairment testing, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities no additional material impairment was calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions. Sensitivity analysis has also been performed on our goodwill impairment testing, see note 13.

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 1st January 2022	**1,014**	**72**	**1,086**
Depreciation charge for the year	**(102)**	**(17)**	**(119)**
Additions	**116**	**7**	**123**
Disposals	**(16)**	**(1)**	**(17)**
Disposal of petrol forecourts (see Note 35)	**(131)**	**-**	**(131)**
Impairment	**(60)**	**-**	**(60)**
Balance at 31st December 2022	**821**	**61**	**882**
Balance at 2nd January 2021	952	79	1,031
Depreciation charge for the year	(105)	(17)	(122)
Additions	226	10	236
Disposals	(5)	-	(5)
Reclassified to Investment properties (see Note 26)*	(28)	-	(28)
Transfer to assets held for sale (see Note 19)	(1)	-	(1)
Impairment	(25)	-	(25)
Balance at 1st January 2022	1,014	72	1,086

The Group leases many assets, principally it leases properties for its food retail stores and funeral branches as well as some vehicles and other equipment. The leases of retail stores are typically between 1 and 20 years in length (2021: 1 and 20 years), and leases of funeral branches are typically between 1 and 10 years in length (2021: 1 and 8 years). Vehicle and equipment leases are typically between 1 and 4 years in length (2021: 1 and 4 years) and in some cases the Group has options to purchase the assets at the end of the contract term.

In the context of potential impairment then the critical accounting estimates and judgments set out in Note 11 (Property, plant and equipment) are also applicable for right-of-use assets. Impairment of £60m (2021: £25m) comprises £33m against food stores where future cashflow forecasts do not support the carrying value of the right-of-use assets we hold and £27m in the Corporate centre which includes a £20m reduction in the value of the right-of-use asset that we hold against our central support centre at Angel Square as our utilisation has changed following the transition to hybrid working.

Lease liabilities	2022	2021
	£m	£m
Current	**(182)**	(210)
Non-current	**(1,124)**	(1,306)
Lease liabilities included in the Consolidated balance sheet	**(1,306)**	(1,516)

Lease liabilities	2022	2021
	£m	£m
At the start of the period	**(1,516)**	(1,425)
Additions	**(120)**	(244)
Disposals	**31**	17
Disposal of petrol forecourts (see Note 35)	**171**	-
Interest expense	**(78)**	(79)
Transfer to liabilities held for sale (see note 19)	**-**	2
Payments	**206**	213
Total lease liabilities	**(1,306)**	(1,516)

The Group recognised rent expense from short-term leases of £2m (2021: £2m).

Extension and termination options

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

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

As at 31 December 2022, potential discounted future cash outflows of £141m (2021: £150m) have not been included in the lease liability because it is not reasonably certain that the Group will exercise the extension option. Included within the lease liability are discounted future cash outflows of £99m (2021: £107m) where the group holds termination options, but it is not reasonably certain to execute those termination options.

Sale and leaseback

During the year the Group completed sale and leaseback transactions on some of its freehold buildings used within food retail and our funerals business. Aggregate consideration of £6m (2021: £12m) was received, a net lease liability of £1m (2021: £6m) was recognised and net book value of £5m (2021: £3m) disposed creating a profit on disposal of £nil (2021: £3m).

B. As a lessor

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

	2022 £m	2021 £m
Operating lease (i)		
Lease income	**9**	10
Finance lease (ii)		
Finance income on the net investment in the lease	**2**	3

i. Operating lease

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

	2022 £m	2021 £m
Less than one year	**5**	6
One to two years	**4**	5
Two to three years	**4**	4
Three to four years	**3**	4
Four to five years	**3**	3
More than five years	**31**	35
Total undiscounted lease payments receivable	**50**	57

ii. Finance lease

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

	2022 £m	2021 £m
Less than one year	**11**	12
One to two years	**10**	9
Two to three years	**9**	9
Three to four years	**8**	8
Four to five years	**7**	7
More than five years	**24**	23
Total undiscounted lease payments receivable	**69**	68
Less: Unearned finance income	**(17)**	(17)
Present value of minimum lease payments receivable	**52**	51
Impairment loss allowance	**(9)**	(9)
Finance lease receivable (net of impairment allowance)	**43**	42

	2022 £m	2021 £m
Current	**9**	12
Non-current	**34**	30
Finance lease receivable as per Consolidated balance sheet	**43**	42

The average term of finance leases entered into is 13 years (2021: 10 years).

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

Accounting policies

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

13 Goodwill and intangible assets

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

For period ended 31 December 2022	Goodwill	Computer software	Acquired customer relationships and other intangibles	Total
	£m	£m	£m	£m
Cost:				
At 1 January 2022	1,245	346	43	1,634
Additions	-	15	-	15
Disposal of petrol forecourts (see Note 35)	(107)	-	-	(107)
Disposals	(7)	-	-	(7)
At 31 December 2022	1,131	361	43	1,535
Accumulated amortisation and impairment:				
At 1 January 2022	383	138	38	559
Charge for the period	-	27	-	27
Impairment	4	11	-	15
At 31 December 2022	387	176	38	601
Net book value:				
At 31 December 2022	744	185	5	934

The impairment charge of £15m (2021: £nil) primarily relates to software licenses in our Food business that we no longer intend to use.

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

Goodwill

The components of goodwill are as follows:

	2022	2021
	£m	£m
Food	**723**	840
Other businesses	**21**	22
	744	862

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

Critical accounting estimates and judgements

Goodwill impairment - sensitivity testing

For the Food goodwill impairment review, the Food segment's future cash flow projections have been taken from the board approved four-year plan, taken into perpetuity and discounted to present value at a pre-tax rate of 10.1% (2021: 7.3%). A long-term growth rate of 1.9% has been applied beyond the four-year plan period (2021: 1.9%). In each of the current and comparative years, sensitivity analysis has been performed on this assumption, testing for a 1% increase in discount rate and a decrease in revenue growth / cashflow to minus 1%; within both these sensitivities the cash flows remain well in excess of the current carrying value. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

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

For the Funerals goodwill impairment review, average selling price increases and wage and cost inflation have been applied in line with the assumptions in the four-year plan. Although inherently uncertain this also includes our best estimate of future death rates including the recent impact of Covid-19. Cash flows have been projected based on the four-year plan and into perpetuity from year four and discounted back to present value using a pre-tax discount rate of 10.9% (2021: 8.8%). A long term growth rate of 1.9% has been applied beyond the four-year plan period (2021: 1.9%). Sensitivity analysis has been performed with the discount rate increased by 1% and a decrease in revenue growth / cashflow to minus 1%, and under these sensitivities no further material amounts of impairment are calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

We continue to allocate goodwill to CGUs, which are determined as a local network of independent branches (known as a Funeralcare Hub), however in the year the allocation of branches to networks has been reorganised to better align to how cashflows are monitored internally. An impairment test was carried out prior to this reorganisation to ensure the change did not result in a materially different impairment result under the new and previous methods.

Accounting policies

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

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

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

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

Acquisition costs are expensed to the income statement when incurred.

Computer software

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

Subsequent expenditure

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

Amortisation

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

- Software development costs: 3 – 7 years
- Other intangible assets: 1 - 10 years

Impairment

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

Food:

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

Other businesses:

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

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

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

14 Funeral plan investments

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

Funeral plan investments as per the balance sheet:	2022	2021
	£m	£m
Current	-	-
Non-current	1,369	1,372
Funeral plan investments	1,369	1,372

Funeral plan investments held by the Group are as follows:	2022	2021
	£m	£m
Fair value through the income statement:		
Funeral plan investments (see below)	1,369	1,372
Total Funeral plan investments	1,369	1,372

Funeral plan investments:	2022	2021
	£m	£m
At start of period	1,372	1,331
Net plan investments (including ongoing instalments)	76	92
Plans redeemed	(91)	(96)
Plans cancelled	(17)	(9)

Unrealised fair value movement on funeral plan investments (Note 6)	**29**	54
At end of period	**1,369**	1,372

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

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

Funeral plan actuarial position as at 30 September 2022:

The Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts (<5% of total). The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the underlying funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funerals on a portfolio basis. The most recent valuation was performed as at 30 September 2022 and the headroom achieved on a portfolio basis is shown in the table below before allowance for taxation.

Funeral Plan Investments Actuarial Valuation (pre tax)	**30th September 2022**	30th September 2021
	£m	£m
Total Assets	**1,258**	1,397
Liabilities:		
Present value (wholesale basis)	**787**	1,102
Total Liabilities (pre tax)	**787**	1,102
Headroom (pre-tax)	**471**	295
Headroom as a % of liabilities (pre-tax)	**60%**	27%

Broadly, a significant increase in expected investment returns (used to derive the discount rate) has reduced future liabilities this year. This has only partly been offset by reduced asset valuations, so increasing the surplus overall. The group continues to manage funeral plans for the medium to long term given, in the normal course of business, this is when the majority of the liability will crystallise. We estimate that the pre-tax "wholesale" cost actuarial valuation surplus (used under IAS 37) at 31 December 2022 would be approximately £517m, an increase of £46m over the 30 September 2022 position reflecting modest favourable changes in assumptions including increased asset values and decreased expected inflation.

Key assumption	**30th September 2022**	30th September 2021
Average total wholesale costs per plan funeral	**£2,704**	£2,652
Average future cost inflation	**3.4%**	3.9%
Average discount rate (before tax and after allowance for investment management costs)	**4.7%**	2.3%

Sensitivities
The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. The headroom percentage is expressing the surplus as a percentage of total liabilities. Each 0.5% (50 basis points) increase in the inflation assumption would reduce the surplus by approximately £53m (2021: £94m). Each 0.5% (50 basis points) reduction in the discount rate would reduce the surplus by approximately £34m (2021: £70m). Both of these sensitivities include allowance for assets held that would move in line with liabilities.

Under the revised IAS 37 approach the actuarial cost to be used in the assessment of onerous liabilities should be the lower of the wholesale cost and the internal cost per redemption calculated under the standard (and on this basis the "wholesale" cost has been used). The wholesale actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. The future Group administrative costs of maintaining the current funeral plans are allowed for, but no allowance is made for any incremental overheads of the third party because it's assumed that the provider could absorb these funerals into their existing infrastructures. These costs do not represent the expected internal cost of fulfilling the funeral and allowing for these costs in the valuation may materially affect the results.

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

15 Deferred taxation

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

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 25.0% (2021: 19.0%). Temporary differences arise because sometimes accounting and tax requirements mean that transactions are treated as happening at a different time for accounting purposes than they are for tax purposes.

Net deferred tax in the balance sheet comprises:		**2022**	2021
		£m	£m
Deferred tax asset - continuing operations		**400**	429
Deferred tax liability - continuing operations		**(556)**	(743)
Net deferred tax liability		**(156)**	(314)
Comprised of:	Footnote:		
Other temporary differences	(i)	**(6)**	1
Retirement benefit obligations	(ii)	**(395)**	(565)
Capital allowances on fixed assets	(iii)	**314**	327
Unrealised gains on investment properties, rolled-over gains and historic business combinations	(iv)	**(138)**	(155)
Tax losses	(v)	**22**	23
IFRS 16 transition adjustment taken through Opening Reserves	(vi)	**47**	55
		(156)	(314)

The movements in the net deferred tax liability during the period are set out below:		**2022**	2021
		£m	£m
At beginning of the period		**(314)**	(161)
Income statement (charge) / credit:			
Group (see Note 8)	(vii)	**(17)**	(24)
Additions / disposals		**(2)**	1
Charged to equity:			
Retirement benefit obligations (see Note 8)	(ii)	**183**	(128)
Investment property revaluation movement		**-**	(2)
Items taken directly to Retained earnings:			
Adjustment to historic funeral plan liabilities (See Notes 8 and 23)		**(6)**	-
At end of the period (continuing operations)		**(156)**	(314)

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

The impact in 2022 of recognising the net deferred tax movements at 25% rather than 19% has meant the equity credit is increased by £44m, the tax charge through the income statement is increased by £4m and the tax charge in respect of amounts taken straight to Retained earnings is increased by £1m.

Footnotes:

i) This amount includes deferred tax liabilities that arose on the acquisition of Nisa Retail Limited in 2018 and the adoption of IFRS 9, also in 2018. These are partially offset by a deferred tax asset in respect of provisions. Expenses that have not yet been incurred are able to be recorded in the accounts as provisions. However, of these certain expenses don't receive tax relief until they have been paid for and so the related tax relief is delayed to a future period. During 2022 the amount of expense provisions deferred for tax purposes reduced meaning a larger net liability is shown.

ii) This amount represents the theoretical future tax cost to the Group in respect of the current pension scheme surplus. The overall decrease in 2022 was £170m. This is due to the movement in the total schemes' surpluses during the year.

iii) A deferred tax asset arises on capital allowances where the tax value of assets is higher than the accounts value of the same fixed assets. The reason the Group has a higher tax value for these fixed assets is due to the fact the Group has not made a claim to its maximum entitlement to capital allowances since 2013 due to reduced levels of trading profits in the intervening years. However, impairment, disposals and depreciation have continued to reduce the

accounts value for our assets. The Group expects to use these allowances to reduce future trading profits. The £13m decrease in the asset over the year is due mainly to the increased use of capital allowances.

iv) This amount represents the theoretical amount of tax that would be payable by the Group on (a) the sale of all investment properties, (b) the sale of properties that have been restated at their fair value on historic mergers and transfers of engagements and (c) the sale of any property that has had an historic capital gain 'rolled into' its base cost (which is an election available by statute designed to encourage businesses to reinvest proceeds from the sale of trading properties into new trading properties and ventures). The £17m decrease in the liability over the year is mainly due to disposal of properties under class (c) above.

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

The decrease in asset of £1m is in respect of amounts offset against taxable profits this year.

vi) Deferred tax that arose on the adoption of IFRS 16 in 2019 will unwind over a number of years and reduce taxable profits in those future years. The decrease in asset of £8m is mainly in respect of the unwind during the year.

vii) This movement is made up of a net £11m current year utilisation of temporary differences, £2m prior year adjustments and £4m impact from rate change, see Note 8 for more detail.

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

16 Inventories

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

Inventories include the following:	**2022** **£m**	2021 £m
Raw materials, consumables and work in progress	**4**	4
Finished goods and goods for resale	**429**	484
	433	488

The period end inventory provision is £44m (2021: £29m) and a net charge of £15m (2021: £6m) has been made within operating expenses in the income statement. Inventory held at fair value less cost to sell is not material in either period. There was no inventory pledged as security for liabilities in the current or prior period.

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

17 Trade and other receivables

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

	2022	2021

	£m	£m
Non-current	**171**	214
Current	**637**	551
	808	765

	2022	2021
	£m	£m
Trade receivables	**371**	309
Prepayments	**28**	25
Accrued income	**132**	128
Other receivables	**288**	313
	819	775
Allowance for expected credit losses	**(11)**	(10)
	808	765

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

Non-current debt includes £166m (2021: £199m) that relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £38m (2021: £37m) of current debt also relates to pre-paid funeral plan instalments which are £204m (2021: £236m) in total. Non-current debt also includes £5m (2021: £15m) of deferred consideration receivable in respect of the agreement with Markerstudy to provide marketing and distribution services for motor and insurance products with an additional £10m (2021: £10m) included in current. These balances are all included within Other receivables.

Within trade receivables is £60m (2021: £52m) of supplier income that is due from Food and Wholesale suppliers. Accrued income includes £116m (2021: £116m) in relation to supplier income that has been recognised but not yet billed. As at 5th April 2023, £45m (2021: £45m) of the trade receivables balance had been invoiced and settled and £102m (2021: £112m) of the accrued income balance has been invoiced and settled.

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

	2022	2021
	£m	£m
Opening allowance for expected credit losses	**10**	12
Charge to the income statement	**12**	7
Credit to the income statement	**(11)**	(9)
Closing allowance for expected credit losses	**11**	10

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

Accounting policies

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

18 Contract assets

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

	2022	2021
	£m	£m
Current	**5**	5
Non-current	**40**	43
Total	**45**	48

	2022	2021
	£m	£m
Opening contract assets	**48**	66

Fulfilment costs - incurred on new funeral plan sales	**2**	12
Fulfilment costs - transferred to contract liabilities in respect of membership discount*	**-**	(24)
Fulfilment costs - transferred to the income statement on funeral plan redemptions	**(1)**	(3)
Fulfilment costs - transferred to the income statement on funeral plan cancellations	**(4)**	(3)
Closing contract assets	**45**	48

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

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

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

19 Assets and liabilities held for sale

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

Assets and liabilities classified as held for sale	**2022** £m	2021 £m	**2022** £m	2021 £m
	Assets held for sale		**Liabilities held for sale**	
Goodwill and Intangible assets	**-**	3	**-**	-
Right-of-use assets (leases)	**-**	1	**-**	-
Lease liabilities	**-**	-	**-**	(2)
Property, plant and equipment	**-**	3	**-**	-
	-	7	**-**	(2)

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

20 Cash and cash equivalents

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

Cash and cash equivalents	**2022** £m	2021 £m
Cash in hand	**63**	59
Cash at banks	**384**	1
Cash and cash equivalents	**447**	60
Cash and cash equivalents (as above)	**447**	60

Bank overdrafts	**-**	(4)
Net cash and cash equivalents	**447**	56

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

The Cash at banks (prior year Bank overdrafts) figures include amounts receivable from customers or banks for debit or credit card payment transactions made by customers of £39m (2021: £38m) in the two days before year-end which don't clear the bank (and show on our bank statement) until the first working day of the new year.*

Cash at banks (2021: Bank overdrafts) includes £3m (2021: £6m) of non-distributable cash held on behalf of customers in the process of purchasing funeral plans.

Accounting policies

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

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

Amounts held in trustee-administered bank accounts of the Group of £27m (2021: £25m), which can only be utilised to meet liabilities in respect of funeral plans, are classed as Funeral plan investments (see Note 14) and not Cash and cash equivalents.

* At its meeting on 15 September 2021, the IFRS Interpretations Committee (IFRS IC) reached a tentative agenda decision (TAD) on a submission concerning Cash received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9 Financial Instruments). The TAD looks at the timing of when it is appropriate to recognise a financial asset (the cash) in relation to EFT transactions that are not received in the bank until a few days later (although the TAD was not explicitly covering credit and debit card transactions). Subsequently, in June 2022 the IFRS IC voted to finalise the agenda decision and not to recommend that the IASB undertake standard-setting in this area as they remain of the view that the principles and requirements in IFRS 9 provide an adequate basis for an entity to determine when to derecognise a trade receivable and recognise cash received via an electronic transfer system as settlement for that receivable.

However, the IFRS IC acknowledged and reported back some practical concerns with that approach to the IASB accompanying its technical analysis. In light of this at its September 2022 meeting, the IASB decided to explore narrow-scope standard-setting instead of approving the agenda decision. As the IASB have not yet concluded on this matter the Group continue to treat amounts received via credit or debit card as cash at the point the transaction is enacted in store and the goods are sold to the customer (rather than initially recognising them as amounts due from customers).

Section C - what are our major liabilities?

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

21 Interest-bearing loans and borrowings

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

Non-current liabilities:	**2022** **£m**	2021 £m
£105m 7.5% Eurobond Notes due 2026 (fair value)	**95**	123
£245m 7.5% Eurobond Notes due 2026 (amortised cost)	**255**	258
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	**299**	299
£109m 11% Final repayment subordinated notes due 2025	**109**	109
£20m 11% Instalment repayment notes (final payment 2025)	**5**	7
Total (excluding lease liabilities)	**763**	796
Lease liabilities	**1,124**	1,306
Total Group interest-bearing loans and borrowings	**1,887**	2,102

Current liabilities:	**2022**	2021
	£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 revolving credit facility (RCF)	**-**	163
Other borrowings	**1**	-
Corporate investor shares	**3**	4
Total (excluding lease liabilities)	**17**	180
Lease liabilities	**182**	210
Total Group interest-bearing loans and borrowings	**199**	390

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

Reconciliation of movement in net debt

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

For period ended 31 December 2022	**Start of period**	**Non cash movements**		**Cash flow**	**End of period**
		New leases	**Other**		
	£m	**£m**	**£m**	**£m**	**£m**
Interest-bearing loans and borrowings:					
- current	**(180)**	**-**	**-**	**163**	**(17)**
- non-current	**(796)**	**-**	**31**	**2**	**(763)**
Lease liabilities					
- current	**(210)**	**(17)**	**(161)**	**206**	**(182)**
- non-current	**(1,306)**	**(103)**	**285**	**-**	**(1,124)**
Total Debt	**(2,492)**	**(120)**	**155**	**371**	**(2,086)**
Group cash:					
- cash & overdrafts	**56**	**-**	**-**	**391**	**447**
Group Net Debt	**(2,436)**	**(120)**	**155**	**762**	**(1,639)**

For period ended 1 January 2022	**Start of period**	**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)

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

Terms and repayment schedule

The Group has two bonds in issue. A £300m Sustainability Bond issued in May 2019, and repayable in May 2024 and with an interest rate of 5.125%. The bond proceeds were fully allocated against the cost of purchasing Fairtrade products for resale by the end of 2020. On the 1st March 2023 the Group repurchased £100m of the bond (see Note 34 (Events after the reporting period)).

The other bond is a £350m Bond issued in May 2011, and repayable in May 2026; it has an interest rate of 7.5%. This bond has been paying an additional 1.25% coupon since 8 July 2013 following the downgrade of the Group's credit rating to sub-investment grade. On maturity this bond will be repaid at par.

The Group also has two subordinated debt instruments in issue: £109m 11% final repayments notes due December 2025 and £20m 11% instalment repayment notes, with final repayment in December 2025. As at 31 December 2022 the £109m 11% final repayments notes had an outstanding value of £109m. The £20m 11% instalment repayment notes had an outstanding value of £7m.

The Group has a £400m revolving credit facility (RCF) which matures in September 2024.

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

Corporate investor shares

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

Accounting policies

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

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

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

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

22 Trade and other payables

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

	2022	2021
	£m	£m
Current	**1,403**	1,472
Non-current	**31**	44
	1,434	1,516

	2022	2021
	£m	£m
Trade payables	**967**	1,013
Value Added Tax, PAYE and social security	**14**	16
Accruals	**300**	317
Deferred income	**53**	66
Deferred consideration	**-**	6
Other payables	**100**	98
	1,434	1,516

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

Deferred income includes £39m (2021: £55m) in relation to the 13 year marketing and distribution arrangement entered into with Markerstudy following the sale of our Insurance underwriting business (CISGIL). Accruals includes capital expenditure accruals of £25m (2021: £52m), payroll accruals of £103m (2021: £110m) as well as standard cost accruals of £172m (2021: £155m).

Deferred consideration includes £nil (2021: £6m) in respect of the Nisa acquisition and is contingent on the level of trade that passes through Nisa.

Other payables also include £32m (2021: £30m) of rewards earned through our membership offer that have either not been redeemed by members or have not yet been paid out to local causes. During the year a £1m charge (2021: £1m charge) of member reward earned has been charged / written back to the income statement in line with a prudent assessment of the likelihood that members won't redeem their rewards.

The Group operates a supplier financing arrangement with Prime Revenue, under which suppliers can obtain accelerated settlement on invoices from the finance providers signed up to the programme. The Group settles these amounts in accordance with each supplier's agreed payment terms. The Group's trade creditors balance includes £40m (2021: £33m) relating to payments due to Co-op suppliers under these arrangements. During the year ended 31 December 2022, the maximum facility was £110m (2021: £120m).

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

23 Contract liabilities

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

	2022	2021
	£m	£m
Contract liabilities - Funeral plans	**1,723**	1,778
Current	**183**	164
Non-current	**1,540**	1,614
	1,723	1,778

Contract liabilities - Funeral plans comprise £1,392m (2021: £1,366m) relating to fully paid plans, £200m (2021: £253m) on instalment plans and £131m (2021: £159m) of deferred income. Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £328m (2021: £348m). This relates to 62,948 live plans (2021: 65,754 live plans). Refer to Note 29 for further details of the accounting policies for funeral plans, contract liabilities and LCIPs.

Contract Liabilities:	**2022**	2021**
	£m	£m
Opening contract liabilities	**1,778**	1,737
Adjustment to historic funeral plan liabilities*	**(23)**	-
New plan additions	**72**	221
Interest accruing on funeral plan liabilities	**54**	61
Transferred from Contract assets in respect of membership discount (see Note 18)	**-**	(24)
Plans cancelled or redeemed outside of the Group	**(48)**	(105)
Recognised as revenue in the period	**(110)**	(112)
Closing contract liabilities	**1,723**	1,778

*A historic adjustment of £23m has been taken directly to retained earnings to more accurately reflect the contract liability balance recognised on initial transition to IFRS 15 (see also the Consolidated Statement of Changes in Equity). The adjustment is not material for restatement in the context of the overall contract liability balance.

**The line-item categorisation has been represented in the comparative period to better reflect the movements in the prior year. There is no change to the overall liability value.

24 Provisions

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

	2022	2021
	£m	£m
Non-current	**59**	74
Current	**34**	52
	93	126

2022	**Uninsured claims £m**	**Property provisions £m**	**Restructuring & integration £m**	**Regulatory / other £m**	**Total £m**
At beginning of the period	**37**	**72**	**3**	**14**	**126**
Credit / release to income statement	**(1)**	**(37)**	**(3)**	**(1)**	**(42)**
Charge to income statement	**19**	**8**	**-**	**3**	**30**
Payments	**(17)**	**(2)**	**-**	**(2)**	**(21)**
At end of the period	**38**	**41**	**-**	**14**	**93**

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

Critical accounting estimates and judgements

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

Property provisions
Property provisions are held for onerous contractual obligations for leasehold properties that are vacant or not planned to be used for ongoing operations. The provisions represent the least net cost of exiting from the contracts. Provisions include an assessment of dilapidation and return of lease obligations, and other service costs that are explicitly excluded from the measurement of lease liabilities in accordance with IFRS 16. The Group considers that where it has entitlement to possession of a property, even if vacant, it retains a statutory obligation to pay the related business rates that have been determined to be levies as defined in IFRIC 21. Accordingly, the estimate of the least net costs of exiting from the contracts excludes future business rates which instead under IFRIC 21 are recognised when the event that triggers the payment of the levy arises (as a periodic cost). Property provisions are expected to be utilised over the remaining periods of the leases which range from 1 to 97 years. In each of the current and comparative years, sensitivity analysis has been performed in relation to the provision, testing for a 2% increase in inflation related to costs expected to be incurred; this sensitivity does not lead to a material additional provision being calculated. The sensitivity analysis performed considers reasonably possible changes in the inflation assumption.

Restructuring and integration
The remaining provisions are expected to be utilised within one year.

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

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

Section D - other notes to the accounts

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

25 Members' share capital and reserves

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

	2022	2021
	£m	£m
Individual shares of £1 each	**66**	65
Corporate shares of £5 each	**9**	9
Share capital	**75**	74
Other reserves	**6**	6
Retained earnings	**2,637**	2,859
Total Retained earnings and Other reserves	**2,643**	2,865
Total Capital resources	**2,718**	2,939

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

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

Both classes of share maintain a fixed nominal value with corporate shares attracting a limited rate of interest. Under the Society's current rules, voting for Independent Society Members is in proportion to trade with the Society, with Independent Society Members totalling 21.9% (2021: 21.9%) of the vote at the Annual General Meeting. Each individual member has one vote with individual members totalling 78.1% (2021: 78.1%) of the vote at the Annual General Meeting.

For individual shares, new members are required to contribute a minimum of £1 when they join the Society. Each member has 1 individual share although contributions of up to £100,000 per member are allowed. No interest is earned on member capital. Members can withdraw money from their share account upon request (to a minimum of £1) or they can withdraw their £1 when they leave the Society. Share capital increased by £0.5m in the period being the net of new member contributions of £0.6m and withdrawals of £0.1m. There are 17.5m individual member records on the share register.

Other reserves (2022)	Revaluation Reserve £m	**Total £m**
Balance at 1 January 2022	**6**	**6**
Balance at 31 December 2022	**6**	**6**

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

Revaluation reserve - property, plant and equipment

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

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

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

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

Distribution of reserves in the event of a winding-up

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

Capital management

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

The Group manages capital to make sure we have the right balance between investing in the future growth of the Group and making member and community payments. Following the launch of the membership offer in 2016, the Group has made payments to members and communities of £38m in 2022 (2021: £40m). See Note 33 for more details. It has also invested in future growth through cash capital expenditure additions of £147m (2021: £325m) and still kept within its net debt limits. Total member funds decreased during the period by £221m (2021: increased £270m).

26 Investment properties

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

	2022 **£m**	2021 £m
Valuation at beginning of period	**55**	17
Disposals	**-**	(9)
Reclassification from Property, plant and equipment (Note 11)	**-**	5
Reclassification from Right-of-use assets (Note 12)	**-**	28
Revaluation (loss) / gain recognised in the Consolidated income statement	**(15)**	9
Revaluation gain recognised in the Consolidated statement of comprehensive income	**-**	5
Valuation at end of period	**40**	55

Accounting policies

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

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

27 Pensions

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

	2022 £m	2021 £m
Pension schemes in surplus	**1,584**	2,262
Pension schemes in deficit	**(3)**	(4)
Closing net retirement benefit surplus	**1,581**	2,258

Defined benefit (DB) plans

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

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

Defined contribution (DC) plans

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

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

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

Balance sheet position for DB plans

The table below summarises the net surplus in the balance sheet by scheme. The main feature over the year has been a material rise in interest rates and this comes through in a reduced balance sheet surplus as both assets and liabilities have fallen (albeit a slight improvement in funding levels in percentage terms).

All of the schemes use segregated liability driven investment (LDI) mandates which hold government and corporate bonds, along with derivatives. These investments increase (decrease) in value when yields on government bonds fall (rise), and are designed to have similar interest rate and inflation sensitivities to the schemes' liabilities so that the funding position is protected against movements in interest rate and inflation expectations. The schemes' liabilities are in aggregate broadly fully hedged against from movements in yields on government bonds. Against a backdrop of market uncertainty, investment returns and asset values fell significantly in 2022, in particular as government bond yields rose. However, scheme liabilities also reduced markedly following a significant increase in the discount rate, which is used to calculate the present value of the scheme obligations, as AA corporate bond yields rose significantly over the year. The IAS19 surplus on our largest pensions scheme, PACE, decreased by £0.6bn with asset values falling by £3.5bn whilst liabilities decreased by £2.9bn. Despite the surplus reducing, the funding level across all our schemes has increased, from 125% to 129%, as the percentage fall in assets was marginally lower than that of the liabilities.

	Net 2022 £m	Net 2021 £m
Schemes in surplus		
The Co-operative Group Pension Scheme (Pace)	**1,524**	2,087
Somerfield Pension Scheme	**32**	108
United Norwest Co-operatives Employees' Pension Fund	**28**	67
Total schemes in surplus	**1,584**	2,262
Schemes in deficit		
Other unfunded obligations	**(3)**	(4)
Total schemes in deficit	**(3)**	(4)
Total schemes	**1,581**	2,258

Recognition of accounting surplus

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

Pace - nature of scheme

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

Pace - funding position

A valuation of the Group section of Pace DB was carried out as at 5 April 2019, in accordance with the scheme specific funding requirements of the Pensions Act 2004. The results of the valuation showed that the Group section of Pace DB had a surplus of £907m. On completion of the actuarial valuation in July 2020 the Group and the Trustee agreed that no contributions would be required. The 5 April 2022 valuation is currently being carried out, to be finalised in mid 2023.

Pace - multi-employer provisions following sectionalisation

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

As a multi-employer pension scheme, Pace exposes the participating employers to the risk of funding the pension obligations associated with the current and former colleagues of other participating employers. The sectionalisation of Pace largely removes The Co-operative Bank's (the 'Bank's') 'last man standing' obligation to the rest of the Pace scheme but an obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section's pension liabilities. The Bank element of Pace is fully funded on both an IAS 19 accounting and a statutory funding basis. At 31 December 2022, the Bank reported an overall defined benefit pension scheme surplus of £154m (2021: £833m). This included £17m (2021: £601m) in relation to the Pace scheme consisting of assets of £930m (2021: £2,129m) and liabilities of £913m (2021: £1,528m).

Legislative framework for DB schemes - pension scheme governance

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

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

Legislative framework for DB schemes - scheme funding regime

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

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

Deficit contributions over the 2022 financial year totalled £17m (2021: £27m). Deficit contributions to Pace and Somerfield have now ceased but contributions are still required to the United scheme. All schemes target a more prudent level of funding than the target stipulated under IAS19 which is included in these financial statements. Therefore the funding levels are not comparable and it is possible to have a surplus under IAS19 and yet still be required to pay deficit contributions. We also cannot use a surplus in one scheme to offset the requirement to pay cash contributions to fund a deficit in another scheme. In 2023, deficit contributions will continue at a rate of £16.9m (2021: £16.9m) until the point at which the United scheme becomes fully funded.

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

The effective date of the last full valuations of the schemes are shown below:	
The Co-operative Pension Scheme ('Pace')	5 April 2019
Somerfield Pension Scheme ('Somerfield Scheme')	31 March 2019
United Norwest Co-operatives Employees' Pension Fund ('United Fund')	31 January 2020

Risks associated with DB pension schemes

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

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

Risk description	Mitigation
Risk of changes in contribution requirements - When setting the contributions that are paid to a scheme, the Group and Trustee are required to consider the funding level at a specified valuation date. The funding level at future valuation dates is uncertain and this leads to uncertainty in future cash requirements for the Group.	The closure of the DB schemes has reduced the exposure of the Group to changes in future contributions, as has the merger of Yorkshire and Plymouth into Pace. In addition, the Group and Trustee have taken steps to reduce the volatility of the funding level (as set out below). The Group monitors the funding level of the schemes in order to understand the likely outcome of valuations and the Trustee is required to obtain agreement from the Group to funding assumptions and deficit recovery contributions.

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

Critical accounting estimates

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

Financial assumptions	**2022**	2021
Discount rate	**4.76%**	1.90%
RPI Inflation rate	**3.50%**	3.48%
Pension increases in payment (RPI capped at 5% p.a.)	**3.25%**	3.37%
Future salary increases	**3.75%**	3.73%

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

Demographic assumptions

The Group has used best estimate base mortality tables which reflect the membership of each scheme. Allowance has been made for future improvements in line with the Continuous Mortality Investigation (CMI) 2021 projections and a long-term future improvement rate of 1.25% p.a. (2021: CMI 1.25% p.a.). The actuaries have made an adjustment to the scaling factors, increasing them by 2%, to reflect recent COVID experience.

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

Life expectancy from age 65	**2022**	**2021**
Male currently aged 65 years	**21.1**	21.0
Female currently aged 65 years	**23.1**	23.4
Male currently aged 45 years	**22.2**	22.0
Female currently aged 45 years	**24.2**	24.7

Sensitivities

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

Sensitivities	**2022** **£m**	2021 £m
Change in liability from a 0.5% decrease in discount rate	**474**	960

	2022	2021
Change in liability from a 0.5% increase in RPI inflation	**329**	652
Change in liability from a 0.25% increase in long-term rate of longevity improvements	**44**	122

The sensitivities performed and shown in the table above for the discount rate and RPI assumptions have been changed in the current year to more realistically reflect the scale of fluctuations that are currently being experienced. The comparative figures have also been re-calculated on a similar basis for comparability. Previously the sensitivities shown reflected the potential changes to the liability from a 0.1% increase in discount rate and a 0.1% decrease in RPI inflation.

Changes in the present value of the defined benefit obligation (DBO)	**2022**	2021
	£m	£m
Opening defined benefit obligation	**9,194**	9,854
Interest expense on DBO	**171**	157
Remeasurements:		
a. Effect of changes in demographic assumptions	**(51)**	(42)
b. Effect of changes in financial assumptions	**(3,870)**	(316)
c. Effect of experience adjustments	**450**	(57)
Settlements (trivial commutation exercises)	**-**	(2)
Benefit payments from plan	**(351)**	(400)
Closing defined benefit obligation	**5,543**	9,194

Changes in the fair value of the plan assets	**2022**	2021
	£m	£m
Opening fair value of plan assets	**11,452**	11,708
Interest income	**214**	187
Return on plan assets (excluding interest income)	**(4,203)**	(65)
Administrative expenses paid from plan assets	**(6)**	(5)
Employer contributions	**18**	27
Benefit payments from plan	**(351)**	(400)
Closing fair value of plan assets	**7,124**	11,452

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

	2022	**2022**	**2022**	2021	2021	2021
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£m
Equity instruments	**35**	**-**	**35**	197	-	197
Liability driven investments	**2,418**	**-**	**2,418**	4,304	-	4,304
Investment grade credit	**1,735**	**-**	**1,735**	2,978	-	2,978
Illiquid / other credit	**-**	**944**	**944**	-	1,300	1,300
Alternative investments*	**-**	**360**	**360**	-	351	351
Cash and cash equivalents	**53**	**3**	**56**	63	28	91
Insurance buy-in contracts	**-**	**1,576**	**1,576**	-	2,231	2,231
Fair value of plan assets	**4,241**	**2,883**	**7,124**	7,542	3,910	11,452

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

Amounts recognised in the balance sheet	**2022**	2021
	£m	£m
Present value of funded obligations	**(5,540)**	(9,190)
Present value of unfunded liabilities	**(3)**	(4)
Fair value of plan assets	**7,124**	11,452
Net retirement benefit asset	**1,581**	2,258

Amounts recognised in the income statement and other comprehensive income	**2022**	2021
	£m	£m
Interest expense on defined benefit obligations	**(171)**	(157)
Interest income on plan assets	**214**	187
Administrative expenses and taxes	**(6)**	(5)

Settlements (trivial commutation exercises)	**-**	(2)
Total recognised in the income statement	**37**	23
Remeasurement losses on employee pension schemes	**(732)**	350
Total recognised in other comprehensive income	**(732)**	350
Total	**(695)**	373

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.

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

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

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

	Carrying amount 2022 £m	Carrying amount 2021 £m
Trade and other receivables (excluding prepayments and accrued income)	**648**	612
Interest rate swaps	**(13)**	(2)
Foreign exchange contracts and commodity swaps (net)	**5**	1
Funeral plan investments	**1,369**	1,372
Finance lease receivables	**43**	42
Cash	**447**	60

Interest rate risk and hedging

Interest rate risk arises from movements in interest rates that impact the fair value of assets and liabilities and related finance flows. The Group adopts a policy of ensuring that 50-90% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The fixed proportion as at 31 December 2022 was 86% (at 1 January 2022: 69%). Interest rate swaps, denominated exclusively in Sterling, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. At 31 December 2022, the Group had interest rate swaps with a notional contract amount of £105m (at 1 January 2022: £105m).

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

The net fair value of swaps at 31 December 2022 was a net liability of £13m (2021: net liability of £2m) comprising assets of £nil (2021: £nil) and liabilities of £13m (2021: £2m). These amounts are recognised as fair value derivatives on the face of the Consolidated balance sheet.

Foreign currency risk

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

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

At 31 December 2022, the Group had forward currency transactions in Euros and US Dollars with a notional contract amount of £88m (2021: £100m).

Liquidity risk

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

As at 31 December 2022, the Group had available borrowing facilities totalling £1,166m (2021: £1,168m), which was made up of uncommitted facilities of £nil (2021: £nil) and committed facilities of £1,166m (2021: £1,168m). These are detailed below:

Bank facilities as at 31 December 2022	**2022**		2021	
	Expiry	**£m**	Expiry	£m
Revolving Credit Facility	**Sept 2024**	**400**	Sept 2024	400
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	**May 2024**	**300**	May 2024	300
£109m 11% Final repayment subordinated notes due 2025	**December 2025**	**109**	December 2025	109
£20m Instalment repayment notes (final payment 2025)	**December 2025**	**7**	December 2025	9
£350m 7.5% Eurobond notes due 2026	**July 2026**	**350**	July 2026	350
		1,166		1,168

The following are the maturities of financial liabilities as at 31 December 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)	**(95)**	**(105)**	**-**	**-**	**-**	**(105)**	**-**
£245m 7.5% Eurobond 2026 (amortised cost)	**(255)**	**(254)**	**-**	**(9)**	**-**	**(245)**	**-**
£300m Sustainability Bond 2024 (amortised cost)	**(301)**	**(302)**	**(2)**	**-**	**(300)**	**-**	**-**
£109m 11% Final repayment subordinated notes 2025*	**(109)**	**(109)**	**-**	**-**	**-**	**(109)**	**-**
£20m Instalment repayment notes (final payment 2025)	**(7)**	**(7)**	**-**	**(2)**	**(2)**	**(3)**	**-**
Lease liabilities	**(1,306)**	**(1,763)**	**(97)**	**(97)**	**(183)**	**(475)**	**(911)**
Trade and other payables	**(1,434)**	**(1,434)**	**(1,338)**	**(47)**	**(16)**	**(19)**	**(14)**

* Interest on the £109m (11% Final repayment subordinated notes 2025) is settled annually in December such that any interest accrual as at 31 December is not material for disclosure in the contractual cashflows in the table above.

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

	Carrying amount	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)	(2,090)	(109)	(107)	(204)	(542)	(1,128)
Trade and other payables	(1,516)	(1,516)	(1,376)	(54)	(40)	(15)	(31)

Sensitivity analysis

Interest rate risk
The valuations of the Group's quoted debt and interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. This is then adjusted by a +1% increase to the interest rate yield curve and a 1% reduction in the interest rate yield curve to show the impact of changes in interest rates on the value of our debt and swaps. At 31 December 2022 if sterling (GBP) market interest rates had been 1% higher / lower with all other variables held constant, there would have been no material impact to post-tax profit. Profit is generally less sensitive to movements in GBP interest rates due to the level of borrowings held at fixed rates as described in the Interest rate risk and hedging section.

Foreign exchange risk
At 31 December 2022, if the Euro and US dollar had strengthened or weakened by 10% against sterling (GBP) with all variables held constant, the impact to post-tax profit would be a £2m loss (2021: £1m loss) and £1m gain respectively (2021: £1m gain).

Guarantees

In the course of conducting its operations, the Group is required to issue bank guarantees and bonds in favour of various counterparties. These facilities are provided by the Group's banking syndicate and as at 31 December 2022 the total amount of guarantees / bonds outstanding is £17m (2021: £8m).

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

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

Derivatives

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

	2022			2021		
	Contractual/ notional amount	**Fair value assets**	**Fair value liabilities**	Contractual/ notional amount	Fair value assets	Fair value liabilities
	£m	**£m**	**£m**	£m	£m	£m
Interest rate swaps	**105**	**-**	**(13)**	105	-	(2)
Foreign exchange contracts	**88**	**3**	**-**	100	-	(3)
Commodity swaps (diesel)	**38**	**5**	**(3)**	22	4	-
Total recognised derivative assets / (liabilities)	**231**	**8**	**(16)**	227	4	(5)

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

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

a) Financial instruments at fair value through the income statement

Investments in funeral plans

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

Derivatives

Forward exchange contracts, such as the Group's interest rate swaps have been determined by discounting expected future cash flows associated with these instruments at the market interest rate yields as at the Group's year end. The Group's derivatives are not formally designated as hedging instruments but under IFRS 9 (Financial Instruments) they are used to match against a proportion of the Eurobond liabilities carried at fair value through the income statement, showing as a cost of £11m in 2022 (2021: £5m cost) see Note 7.

The Group enters into forward contracts for the purchase of energy from third party suppliers for use by Group. Energy contracts for own use are not required to be accounted for as derivatives. We adopt a layered hedging procurement policy for energy contracts over a period of 3 years to a maximum of 80% of Group forecast demand. At the 2022 year end we had 78% electricity (2021: 80%) and 76% gas (2021:66%) coverage of our forecast demand for 2023.

Fixed rate sterling Eurobonds

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

b) Interest-bearing loans and borrowings - amortised cost

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

c) Receivables and payables

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

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

Financial liabilities	**Carrying value 2022**	**Fair value 2022**	Carrying value 2021	Fair value 2021
	£m	**£m**	£m	£m
Interest-bearing loans and borrowings	**685**	**645**	853	915

The table below analyses financial instruments by measurement basis:

2022	**Fair value through income statement**	**Amortised cost**	**Loans and receivables**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Other investments	**1,369**	**-**	**-**	**1,369**
Trade and other receivables	**-**	**-**	**648**	**648**
Derivative financial instruments	**8**	**-**	**-**	**8**
Cash and cash equivalents	**-**	**447**	**-**	**447**
Total financial assets	**1,377**	**447**	**648**	**2,472**
Liabilities				
Interest-bearing loans and borrowings	**95**	**685**	**-**	**780**
Derivative financial instruments	**16**	**-**	**-**	**16**
Trade and other payables	**-**	**1,081**	**-**	**1,081**
Total financial liabilities	**111**	**1,766**	**-**	**1,877**

2021	Fair value through income statement	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	-	1,139	-	1,139
Total financial liabilities	128	1,992	-	2,120

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

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

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

Valuation of financial instruments

2022	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	**-**	**-**	**1,369**	**1,369**
- Derivative financial instruments	**-**	**8**	**-**	**8**
Total financial assets at fair value	**-**	**8**	**1,369**	**1,377**
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed rate sterling Eurobond	**-**	**95**	**-**	**95**
- Derivative financial instruments	**-**	**16**	**-**	**16**
Total financial liabilities at fair value	**-**	**111**	**-**	**111**

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

The value of the Eurobonds carried at amortised cost is disclosed in Note 21. The equivalent fair value for the unhedged proportion of bonds that are now carried at amortised cost would be £222m (2021: £287m) for the 2026 Eurobond.

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

2021	Level 1	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

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.

The Group is currently reviewing the impact of IFRS 17 (Insurance Contracts) on the accounting for funeral plans. The new standard will be applicable to the Group for next year's reporting (2023). Details of the expected impact on the Group is shown in our Accounting Policies and Basis of Preparation section.

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).

The Group is currently reviewing the impact of IFRS 17 (Insurance Contracts) on the accounting for LCIPs. The new standard will be applicable to the Group for next year's reporting (2023). Details of the expected impact on the Group is shown in our Accounting Policies and Basis of Preparation section.

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.

Commitments:

a) Capital expenditure that the Group is committed to but which has not been accrued for at the period end was £12m (2021: £6m).

Contingent liabilities:

b) i) In common with other retailers, the Group has received Employment Tribunal claims from current and former food store colleagues alleging their work is of equal value to that of distribution centre colleagues and differences in pay and other terms are not objectively justifiable. The claimants are seeking the differential in pay (and other terms) together with equalisation going forward. There are currently circa 4,000 claims and it is anticipated that this number will rise, though it is not possible to predict the point to which this may increase or the rate of increase.

These equal pay claims are initiated in the Employment Tribunal and claimants will need to succeed in three stages to succeed. The first stage concerns whether the roles of store colleagues can be compared with those of warehouse colleagues. In light of European and Supreme Court decisions, Co-op Group has conceded that it will not contest this point. The second and third stages are concerned with an equal value assessment between comparator roles and if this is shown to be the case, a subsequent consideration of Co-op Group's material factor defences (which are the non-discriminatory reasons for any pay differential). It is expected this litigation will take a number of years to final resolution.

The claims are still at an early stage; the number of claims, merit, outcome and impact are all highly uncertain. No provision has been made as it is not possible to assess the likelihood nor quantum of any outcome. There are substantial factual and legal defences to the claims and the Group intends to defend them robustly.

b) ii) In early February 2023 a claim was issued against Co-operative Group Limited and certain of its subsidiaries (Co-operative Group Food Limited, Co-operative Foodstores Limited and Rochpion Properties (4) LLP) by the liquidators of The Food Retailer Operations Limited in connection with transactions which took place in 2015 and 2016 relating to the Somerfield supermarket business acquired by Co-op in 2009.
The amount claimed is approximately £450m plus further unquantified amounts of interest and costs. Co-op strongly disputes both liability and quantum of the claim and the claim will be vigorously defended.

31 Related party transactions and balances

What does this show? Related parties are companies or people which are closely linked to the Co-op, such as members of our Board or Executive (or their families), or our associates and joint ventures. This note explains the nature of the relationship with any related parties and provides information about any material transactions and balances with them.

	Relationship	**2022** **£m**	2021 £m
Subscription to Co-operatives UK Limited	(i)	**0.7**	0.7

i) The Group is a member of Co-operatives UK Limited.

The Group's Independent Society Members (ISMs) include consumer co-operative societies which, in aggregate, own the majority of the corporate shares with rights attaching as described in Note 25. The Co-operative Group has a 76% shareholding in Federal Retail and Trading Services Limited which is operated as a joint buying group by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this and the arrangement is run on a cost recovery basis and therefore no profit is derived from its activities. Sales to ISMs, on normal trading terms, were £1,855m (2021: £1,756m) and the amount due from ISMs in respect of such sales was £144m at 31 December 2022 (2021: £134m). No distributions have been made to ISMs based on their trade with the Group in either the current or prior periods.

Transactions with directors and key management personnel

Disclosure of key management compensation is set out in the Remuneration Report. A number of small transactions (such as the purchase of funeral services) are entered into with key management in the normal course of business and are at arm's length. Key management are considered to be members of the Executive and directors of the Group. Key management personnel transactions noted in the year are £29,000 (2021: £nil). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2021: £nil). Total compensation paid to key management personnel is shown below.

Key management personnel compensation	**2022** **£m**	2021 £m
Short-term employee benefits	**3.1**	3.8
Post-employment benefits	**0.1**	0.3
Other long-term benefits	**1.1**	1.3
Termination benefits	**1.6**	-
Total	**5.9**	5.4

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) *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	**2022 (unaudited) m**	2021 (unaudited) m
Active members	**4.4**	4.2

Membership and community rewards (within the income statement)	**£m**	£m
Member reward earned	**20**	21
Community reward earned	**18**	19
Total reward	**38**	40

Member and Community rewards are both earned at 2% (4% in total) of eligible spend.

Full details of our overall investment in our Communities can be found in our Co-operate Report.

34 Events after the reporting period

What does this show? This note gives details of any significant events that have happened after the balance sheet date but before the date that the accounts are approved. These are things that are of such significance that it is appropriate to give a reader of the accounts further detail as to the impact of such events on the financial statements or any expected likely impact in future periods.

Bond liability management exercise – on the 1st March 2023 the Group repurchased £100m of the £300m 5.125% Sustainability Bond (due May 2024) from bond holders following an over-subscribed tender exercise. This was announced to the market on 27th February 2023. The bonds were bought back at 99% of par value.

Rolling Credit facility (RCF) refinancing – on the 20th of March 2023 we concluded an amendment and extension exercise for our Revolving Credit Facility. As a result, our £400m RCF will increase in size to £442.5m until September 2024 when it will fall to £360m. The £360m facility will mature in March 2026. New sustainability metrics will be added into the facility during 2023, linking Co-op's commitment to sustainability with its financial facilities.

35 Disposal of petrol forecourt sites

What does this show? We have sold our petrol forecourt sites during the year. Given the scale of the disposal we have provided some additional information in this note to help our members to understand the impact of the sale on our financial statements. This includes the profit that we have recorded on the disposal as well as the impact on our year-end Balance sheet and Income statement going forward.

On 31 August 2022 the Group announced its intention to sell its 129 petrol forecourt sites to Asda. The deal completed as planned on 30th October 2022 for an enterprise value of £438m (£609m including IFRS 16 lease liabilities) with a purchase price of £458m, including £24m of non-cash consideration and the sale is therefore not impacted by the ongoing CMA review.

For Interim (HY22) reporting the assets and liabilities associated with the sites were classified as held for sale in our consolidated balance sheet as their disposal was highly probable at the half-year date. For full-year reporting and as the sale has now completed then the assets and liabilities associated with the disposal have been removed from the Group's consolidated balance sheet and the profit on sale has been recognised in our Consolidated income statement.

The results of our petrol forecourt sites, up to the point of disposal on the 30th October, are classified as Continuing operations within our Income statement and are included within the results of our Food business (see Note 1; Operating Segments). The disposal of our petrol forecourt sites does not meet the threshold for classification within Discontinued Operations (see the Key Judgements section of our Accounting Policies and Basis of Preparation section).

As part of the sale process the petrol sites will transfer on a rolling basis during a handover period of approximately 12 months which is governed by a transitional service agreement. The Group have assessed the nature of the arrangement and concluded that Co-op are acting as agent in the facilitation of the transaction for the end customer, but as a principal for supplying goods to AFS under the service agreement, and consequently will record the revenue and costs of supplying the goods gross, as well as recording the outsourcing fee charged to AFS (Arthur Foodstores Limited - the entity that was sold to Asda) in income.

Balance Sheet on disposal (petrol forecourt sites)	**Oct 30th 2022 £m**
Property, plant and equipment	89
Right-of-use assets (leases)	131
Goodwill and intangibles	107
Inventories	19
Trade and other receivables	43
Cash in hand	5
Deferred tax assets	2
Total assets	**396**
Lease liabilities	171
Trade and other payables	97
Total liabilities	**268**
Net book value disposed	**128**

Profit on disposal (petrol forecourt sites)	**£m**
Consideration - cash received	434
Consideration - non-cash*	29
Costs to sell	(16)
Net book value disposed (as above)	(128)
Profit on disposal (petrol forecourt sites)	**319**

*Non-cash consideration comprised £24m of intercompany loan novation from Co-operative Foodstores Limited to Asda. Total consideration of £463m differs from the purchase price of £458m stated above due to £5m of corporation tax group relief written off.

** Proceeds received in 2022 per the Cashflow statement of £408m comprise the £434m cash proceeds noted above (net of £10m not yet received pending final completion accounts) less costs to sell of £16m as noted above.

Income statement result from petrol forecourt sites - year to point of disposal on 30th October 2022	**£m**

Sales	842
Operating profit	47

Cashflows from petrol forecourt sites - year to point of disposal on 30th October 2022	£m
Net cash from operating activities	78

Accounting policies and basis of preparation

What does this show? This section outlines the general accounting policies that relate to the financial statements as a whole. Details of other accounting policies are included within the notes to the financial statements to which they relate. This allows readers easy access to the relevant policy. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

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 31 December 2022 prepared in accordance with International Financial Reporting Standards.

The Group Annual Report and Financial Statements 2022, 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 2022 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://www.coop.co.uk/store-finder.

Basis of preparation

The Group accounts have been prepared in accordance with UK adopted international accounting standards for the 52 week period ended 31 December 2022 and in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014. As permitted by statute, a separate set of financial statements for the Society are not included.

The accounts are presented in pounds sterling and are principally prepared on the basis of historical cost. Areas where other bases are applied are explained in the relevant accounting policy in the notes. Amounts have been rounded to the nearest million. The accounting policies set out in the notes have been applied consistently to all periods presented in these financial statements, except where stated otherwise. The accounts are prepared on a going concern basis. See later section on '**Going Concern'.**

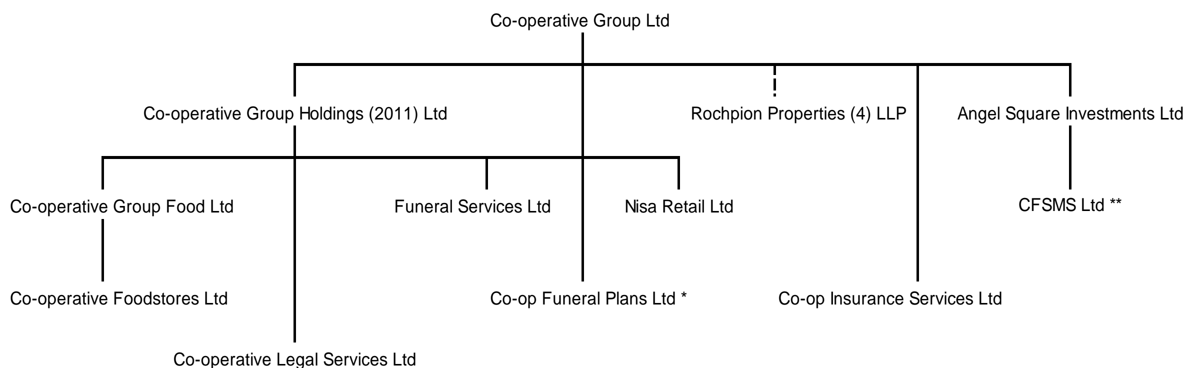
Climate Change Considerations

In preparing the Groups' Consolidated Financial statements management has considered the impact of climate change covering both the financial statements and the disclosures included in the Strategic report. This included an assessment of the potential impact of, and associated responses to, climate change, and how that could impact the non-current assets that we hold as well as our expectations of future trading conditions. This assessment did not identify any requirement to shorten asset lives of the Group's asset base and neither did it identify any material impact on the valuation of the Group's assets or liabilities or the cashflow forecasts used to assess the going concern basis and the viability statement. Furthermore, our forecasts do not include any material spend in relation to climate change. The Group will keep this assessment under review and continue to monitor developments in the future.

Basis of consolidation

The financial statements consolidate Co-operative Group Limited, which is the ultimate parent society, and its subsidiary undertakings. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The diagram overleaf shows the composition of the Group and its principal subsidiaries. Further details can be found in Note 32 (Principal subsidiary undertakings). A full list of subsidiaries that make up the Group for the purposes of these financial statements can be found at: http://www.co-operative.coop/investors/rules



Direct holding
Indirect holding

All shareholdings are 100% owned unless otherwise stated.

* Co-op Funeral Plans Ltd is owned 33% by Co-operative Group Ltd and 67% by Co-operative Group Holdings Ltd.

** CFSMS Ltd ceased trading on 31 December 2021.

Accounting dates

The Group and its main trading subsidiaries prepare their accounts to the first Saturday of January unless 31 December is a Saturday. These financial statements are therefore prepared for the 52 weeks ended 31 December 2022. Comparative information is presented for the 52 weeks ended 1 January 2022. Since the financial periods are virtually in line with calendar years, the current period figures are headed 2022 and the comparative figures are headed 2021.

Co-operative Insurances Services Limited and certain small holding companies have also prepared accounts for the period ended 31 December 2022.

One-off items and non-GAAP (Generally Accepted Accounting Procedures) measures

One-off items include costs relating to activities such as large restructuring programmes and costs or income which would not normally be seen as costs or income relating to the underlying principal activities of the Group.

To help the reader make a more informed judgement on the underlying profitability of the Group, a non-GAAP measure: underlying profit before tax, has been presented. This is shown at the bottom of the income statement and we show the adjustments between this measure and operating profit. In calculating this non-GAAP measure, property and business disposals (including individual store impairments), the change in value of investment properties and one-off items are adjusted for.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements that comply with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Key judgements

In the process of applying the Group's accounting policies, management has made the following key judgements which have the most significant impact on the consolidated financial statements:

• Determination of accretion rate: Funeral plans

A significant accounting judgement is present in deriving a suitable accretion rate to apply to the monies received from a customer when they purchase a funeral plan. The accretion rate is required to reflect the borrowing rate that would be applied between the Group and the customer in a separate financing transaction reflecting similar credit characteristics and similar security at the point the contract is entered into. These rates are then fixed for the duration of the plan and we have plans which are up to 36 years old. We derive the relevant accretion rates based upon UK AA rated average corporate bond yields.

When a customer enters into a funeral plan, the monies they pay to the Co-op, less an admin fee, are invested in whole of life insurance policies with FCA regulated institutions protected by the Government's financial services compensation scheme. For further protection, the proceeds of the investments are held on trust by an independent trustee, Apex Corporate Trustees (UK) Limited, to ensure that the customer is entitled to the benefit of the invested monies in the event that the Group goes out of business. Given this protection and security, a UK AA rated average corporate bond yield is considered to have a similar risk profile as that of a separate financing transaction between the Group and a customer and hence a suitable reference point for an accretion rate.

• **Determining the lease term of contracts with extension and termination options**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of 5 to 10 years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew.

• Petrol forecourt disposal

The Group has disposed of 129 petrol sites during the year. The performance of these sites has not been classified within Discontinued operations in our Income statement (so has remained within Continuing operations to the date of disposal) as it is our judgement that the sites sold do not constitute a major separate line of business. This is in line with how these sites were run operationally and how performance was reported to our Board.

As part of the sale process the petrol sites will transfer to the purchaser on a rolling basis during a handover period of approximately 12 months which is governed by a transitional service agreement. The Group have assessed the nature of the arrangement and concluded that Co-op are acting as an agent rather than a principal under the service agreement and consequently will only record the outsourcing fee received during the transitional period for the services provided. Co-op is not responsible for providing the services to the end customer. We have also considered IFRS 10 and concluded that Co-op is not the decision maker during the transition period, nor does it exercise influence over decision making. Co-op is required under the sale agreement to provide specific services in a pre-determined manner.

The Group has disposed of 129 petrol sites during the year through the disposal of the company Arthur Foodstores Limited (AFS). The performance of these sites has not been classified within Discontinued operations in our Income statement (so has remained within Continuing operations to the date of disposal) as it is our judgement that the sites sold do not constitute a major separate line of business. This is in line with how these sites were run operationally and how performance was reported to our Board.

As part of the sale process the petrol sites will transfer to the purchaser on a rolling basis during a handover period of approximately 12 months which is governed by a transitional service agreement. The Group have considered IFRS 10 and concluded that Group is not the decision maker during the transition period, nor does it exercise influence over decision making. The considerations under IFRS10 are as below:

a) Power over the investee - in the transitional service agreement period the Group is obligated to provide Co-op Group branded and non branded goods to AFS, however it is clearly stated in the franchise agreement that in this relationship, Group acts as an agent. The Group also has no voting rights, rights to change key management personnel, appoint or remove an entity that directs the activities or direct or veto AFS in transactions for the benefit of the Group. Therefore, we are confident Group does not have power over AFS.

b) Exposure, or rights, to variable returns from its involvement - the only returns for the Group are the outsourcing fee at a variable % of net sales, but the magnitude and variability of this is not significant enough for the Group to have control.

c) The ability to use its power over the investee to affect the amount of investor's returns - scope of decision making is limited to the activities set out in the franchise agreement and the Group has limited power to change the basis of operation, Group makes an overarching commitment to not treat the AFS properties differently to the core estate during the transition period but Asda acts as a guarantee for the franchise agreement and therefore ultimately has responsibility for performance of the business, remuneration is proportionate to the services provided to AFS at a % of grocery net sales and is largely in line with the basis used for other franchise agreements in the Group, and Group has no other interests in AFS to provide returns.

In regard to the recognition of revenue, the Group has assessed the considerations of IFRS15 to determine that with regards to the end customer, Group acts as an agent, but in relation to the sale of stock to AFS the Group is the principal. This means that the (equal and opposite) revenue and cost of sales associated with providing the goods to the AFS stores is recorded gross rather than net in the case of an agent, and the outsourcing fee is also recognised gross.

The Group has considered the 3 examples from IFRS15 B37 in relation to sales to AFS to come to the conclusion that Group is acting as the principal:

a) Primary responsibility for the good or service meeting customer satisfaction - Group's responsibility in the franchise agreement is to provide Co-op Group branded and non branded goods on the same basis as pre-sale, and therefore has the responsibility to provide the stock to meet AFS's specifications.

b) Inventory risk - Until stock ordered for AFS is delivered to the stores, it is held in the depots and the Group holds the risk of leakage or wastage. If any goods were delivered faulty, AFS could return these and Group would have to take the cost of replacing this stock.

c) Discretion in establishing the price - this is limited due to the CMA investigation and is therefore a neutral point.

Key estimates and assumptions:

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.

This review is performed annually or in the event where indicators of impairment are present. At 31 December 2022, the Group has considered whether general uncertainty in the wider macro-economic environment including the cost-of-living crisis, rising inflation, energy price increases, the on-going conflict in Ukraine as well as the continuing impacts of the COVID-19 pandemic has the potential to represent a significant impairment indicator.

Despite the difficult trading conditions and associated additional costs of serving our customers the Group's main business areas have proven resilient and the performance of the Group's cash-generating units has remained strong. Therefore, management concluded that the impact of the factors noted on the longer term outlook for these cash generating units did not constitute an indicator of significant impairment and hence a full impairment test across all CGUs was not required. This judgement is unchanged from 1 January 2022.

The Group estimates the value in use of an asset by projecting future cash flows into perpetuity and discounting the cash flows (DCF) associated with that asset at a pre-tax rate of between 10-11% (2021: 7-9%) dependent on the business. The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in Notes 11 and 13.

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

• **Provisions (Note 24)** – a provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Group relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See Note 24 for further details.

• **Pre-need funeral plan obligations (Notes 14 & 23)** – the Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts.

The investments are also subject to an annual actuarial valuation at a portfolio level. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The headroom (pre-tax) is estimated to be £471m (2021: £295m), see Note 14.

The actuarial report is a best estimate and is neither deliberately optimistic nor pessimistic. It is prepared by independent actuaries based on management assumptions such as future funeral and disbursement inflation. It's not possible to reasonably forecast future inflation rates with any certainty but to aid the reader and for illustrative purposes each 0.5% (50 basis points) increase in the inflation assumption would reduce the surplus by approximately £53m (2021: £94m). Each 0.5% (50 basis points) reduction in the discount rate would reduce the surplus by approximately £34m (2021: £70m). Both of these sensitivities include allowance for assets held that would move in line with liabilities.

Under the revised IAS 37 approach the actuarial cost to be used in the assessment of onerous liabilities should be the lower of the wholesale cost and the internal cost per redemption calculated under the standard (and on this basis the "wholesale" cost has been used). The wholesale actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. The future Group administrative costs of maintaining the current funeral plans are allowed for, but no allowance is made for any incremental overheads of the third party because it's assumed that the provider could absorb these funerals into their existing infrastructures.

These costs do not represent the expected internal cost of fulfilling the funeral and allowing for these costs in the valuation may materially affect the results.

New and amended standards adopted by the Group:

The Group has considered the following standards and amendments that are effective for the Group for the period commencing 2 January 2022 and concluded that they are either not relevant to the Group or do not have a significant impact on the financial statements :

• Onerous contracts - Costs of Fulfilling a Contract - Amendments to IAS 37
• Reference to the Conceptual Framework - Amendments to IAS 3
• Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
• IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
• IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
• IAS 41 Agriculture – Taxation in fair value measurements

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 1 January 2022 reporting periods and the Group has not early adopted the following standards and statements.
The adoption of these standards is not expected to have a material impact on the Group's accounts:

• Amendments to IAS 8 - Definition of Accounting Estimates *
• Amendments to IAS 1 and IFRS Practice Statement 2 - Disclosure of Accounting Policies *
• Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction *

* Effective for annual periods beginning on or after 1 January 2023.

The adoption of the following standard will have a material impact on the Group's accounts when adopted and the Group's assessment of the impact of the new standard and interpretation is set out below:

Title	IFRS 17 Insurance Contracts
Nature of the change	In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. The core of IFRS 17 is the general model, supplemented by: • A specific adaptation for contracts with direct participation features (the variable fee approach) • A simplified approach (the premium allocation approach) mainly for short-duration contracts The new standard will apply to all of the Group's funeral plans. It will further divide plans between those paid over up to one year and those paid over longer instalments (where Group waives the remaining payments if a customer dies during the payment term subject to conditions). The standard also covers the re-insurance of the payment waiver risk. All of our funeral plans and re-insurance contracts are held by Co-op Funeral Plans Limited ('CFPL') a wholly owned subsidiary of the Group. The plans were transferred to CFPL from Funeral Services Limited (FSL) in the first half of 2022. As FSL held plans after 2 January 2022 its opening balance sheet will need to be restated for the transition to IFRS 17. In future years FSL will only contain our at-need funeral business and as such will not be impacted by IFRS 17. Our insurance marketing and distribution business Co-op Insurance Services Limited ('CISL') is not impacted by IFRS 17.

Title	IFRS 17 Insurance Contracts
Impact - **General**	The adoption of IFRS 17 in 2023 will represent a fundamental change to the way that we currently account for all of our funeral plans and waiver insurance policies under IFRS 15. The main areas of change will be: • **Profit recognition** – we currently recognise revenue from funeral plans when the funeral is arranged. IFRS 17 requires revenue to be recognised over the contract coverage period. • **Liability measurement** - the current accounting under IFRS 15 does not remeasure the liability to reflect a current estimate of the future cash flows to provide the funeral. IFRS 17 requires actuarial modelling of the liability, updated each reporting period for current estimates of expected cash flows. • **Reinsurance** - waiver insurance costs are currently expensed as incurred. IFRS 17 requires the cash flows to be modelled and the expense to be recognised over the contract coverage period. • **Opening equity** - at 2 January 2022 opening reserves will need to be restated consistently with IFRS 17. • **Level of aggregation** - under IFRS 17 we'll need to separate our insurance contracts (our funeral plans and waiver insurance policies) into portfolios consisting of contracts that are subject to similar risks and that are managed together. Portfolios are further sub-categorised into groups and cohorts. This disaggregation is a new concept to Group and important for determining if a set of contracts is onerous, how contracts are presented and how profit or loss is recognised. If contracts are onerous, we'll need to recognise a loss component and allocate that over time.

Impact - continued **Income Statement**	Management are currently reviewing the likely impact of the change in accounting on our financial statements although the changes are expected to be material. For illustrative purposes only; the tables below show how and where the adoption of IFRS 17 is expected to impact the Group's primary statements (so no numbers are provided). **<u>Consolidated Income Statement:</u>** **• Net Revenue** The result of our insurance activities will be shown separately from the Group's main Revenue line: - Insurance revenue - Insurance service expenses - Insurance service result • **Insurance finance income / expense** Finance income / expense will include the following items: - Net finance expense from insurance contracts - Net finance income from reinsurance contracts Under IFRS 17 the Group may elect to disaggregate certain elements of finance income / expense that arise due to changes in assumptions (such as the discount rate or inflation) and record the impact of those changes in Other comprehensive income (OCI) rather than in the Income statement. • **Net expenses from reinsurance contracts** A new line will be included in the Income statement: - Net expenses from reinsurance contracts

Impact - continued **Balance Sheet**	**<u>Consolidated Balance Sheet:</u>** **• Assets** Contract assets, which includes fulfilment costs (acquisition costs) of funeral plans, will be included in the measurement of insurance contract liabilities and no longer recognised as an asset. A new line item called Reinsurance contract assets will be included in our balance sheet. • **Liabilities** Contract liabilities in the balance sheet will be replaced with insurance contract liabilities. • **Opening reserves** The adoption of IFRS 17 will require us to restate our opening balance sheet position as at 2nd January 2022.
Impact - continued **Reconciliation of Operating profit to net cashflow**	**<u>Reconciliation of Operating profit to net Cashflow:</u>** **• Contract Assets** Contract assets (deferred fulfilment / acquisition costs) will be included in the measurement of the insurance contract liabilities. As such, the "Increase / or decrease in contract assets" line in the reconciliation of operating profit to net cashflow will no longer be required. • **Contract Liabilities** The line item "Increase / or decrease in contract liabilities" will be replaced with "Increase / or decrease in insurance contract liabilities". • **Re-insurance contract assets** A new line item called "Decrease/(increase) in reinsurance contract assets" will be included.
Date of adoption by the Group	Applicable to annual reporting periods beginning on or after 1 January 2023 - for the Group this is next year's financial statements (2023) and the first time we report under IFRS 17 will be at the half-year 2023. The application is retrospective so we will be restating opening reserves as at 2 January 2022.

Going concern basis of preparation

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in Note 21 to the accounts.

In addition, notes 21 and 28 also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities. The ongoing impact of the Ukraine/ Russia conflict and the UK recession have been taken into account, as explained in more detail in the Directors' Report.

In making their assessment the Directors have noted that the consolidated group accounts show a net current liability position. This is not uncommon for a retail business and represents the usual balance sheet position for Co-op and consequently the Directors do not believe that the net liability position impacts their overall assessment of Going Concern as outlined hereafter. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in Note 28, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Group, prepared for the period to December 2024 (the forecast period), and adjusted for sensitivities considered by the Board to be severe but plausible in relation to both trading performance and cash flow requirements, indicate that the Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due. Sensitivities have been applied to the market conditions of each of our trading businesses, as well as applying sensitivities to our key strategic activities and in respect to the ongoing energy cost increases, inflation and supply constraints.

Further details of the Director's assessment can be found in the Going concern and Longer Term Viability sections of the Directors' report.

After making all appropriate enquiries, the Directors have not identified any material uncertainties and have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.