Annual Report 2020

Co-operating through a pandemic

Co-op Annual Report & Accounts for 2020

It's what we do

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Quick reads

Here are the top ten places to look in our Annual Report if you only have 15 minutes:

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We're creating value for our members

2020 in brief

Group revenue

£11.5bn

up **5.6%** on 2019

Group profit before tax (continuing*)

£127m

2019: £24m (but **£92m** vs £67m (excluding the impact of the change in accounting policy for funeral plans))**

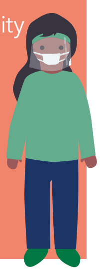
Group underlying profit before tax***

£100m

2019: £35m

*The profit on discontinued operations of £5m (2019: loss of £16m) relating to the sale of our insurance underwriting business is shown below profit before tax. **We've changed the way that we account for funeral plans in 2020 and restated our 2019 figures accordingly. Please see the 'Our financial performance' section on page 36 for further details. *** Refer to Note 1 of our financial statements for a definition of group underlying profit before tax. Further details on the group's alternative performance measures (APMs) is given in the jargon buster section on page 216.

More than £12m of support given to charities and community causes as part of Covid-19 response, as well as a further £15m shared with 4,500 local causes from our Local Community Fund



£84m in extra costs responding to Covid-19 and rewarding colleagues

Real Living Wage commitment launched for frontline colleagues

Leading the way on free school meals, organising a scheme to give eligible Academy Trust pupils a weekly £20 Co-op Food voucher card

Published our commitments to tackle racial inequalities and mobilised our new Equality and Inclusion Think Tank

1m downloads of the Co-op app. Reached a milestone of 2m unique members selecting a local cause to support with their Co-op membership

Our recruitment drive grew our Member Pioneers to 1,000-strong across the UK

Doubling the support our members give to communities through relaunch of Co-op membership, which will contribute to at least £24m of funding for our Local Community Fund and Community Partnerships Fund in 2021

Co-operating for a Fairer World

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

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

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

It's what we do.

Our Co-op is the UK's largest consumer co-operative, with 4.34 million active members and a presence in every postal area in the country.

We're a major food retailer and wholesaler; we're the largest funerals provider in the UK; we are a major provider of regulated consumer legal services, particularly of probate and wills; and a major provider of life planning and insurance products. In 2020, we also announced plans to grow our business-to-business Co-op Power operation.

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

Since 1844 the co-operative movement has promoted organisations with a clear social purpose and our Co-op continues that tradition. We're here to create value for our members and the communities in which we trade and can only do this by running a successful business.

How we run our business is important to us. We set ourselves high standards for responsible retailing and service. We have a responsibility to be a campaigning business, speaking out on the issues that matter to our members.

By offering great products and services we grow our customers, our membership and the positive Co-op impact and value we can bring to wider society.

For more information on responsible business performance in 2020, please see our Co-operate Report.

Chair's introduction

> This report is our record of how we rose to the challenge of the pandemic through our business operations and through our support to local communities.

In just just one short year, Covid-19 has changed the world.

Even though the national vaccination programme is now well underway, we already know that life in the UK, and around the world, will never quite be the same again.

In some respects, that's to be welcomed. As others have observed, the 'old normal' was not such a great place to live for many in Britain. Covid-19 not only revealed the unfairness and inequalities that stubbornly persist in our society, the virus also exacerbated it. Over the last 12 months, it's become clearer than ever how divided our nation is between the secure and the vulnerable. There's no doubt that we need to 'build back better' and take the opportunity of national recovery to make fundamental changes to how we live and the values we place at the core of society. To achieve that, 'build back better' will also need to mean 'build back different'. As a nation, we need to encourage and promote economic activity that puts people and communities first. As a co-operative business, that's been our way of thinking and working since our earliest days.

When we adopted our new Vision at the start of 2020 – ***'Co-operating for a Fairer World'*** – we had no idea how quickly that commitment would be put to the test. Covid-19 presented us with a national emergency and a unique set of business challenges and community needs, which would show if co-operation was capable of making a difference during an extraordinary time in the nation's history. This report is our record of how we rose to the challenge of the pandemic through our business operations and through our support to local communities. Creating Co-op value for our members has always been at the heart of our endeavours and I believe that reached new heights during 2020.

I doubt we could have achieved all we did last year if it had not been for the extensive investment and modernisation we've undertaken, led by Steve, over the last four years. Our commerciality has radically improved and so, too, has our approach to supporting local communities. The changes we'd made meant we were already a robust and resilient business as the pandemic arrived. And within local communities, we already had meaningful relationships and established assets on which to draw upon at a critical moment, as well as ways to connect with our members to understand what mattered to them and how we could support.

As Steve sets out in his introduction, since last summer we've been planning and implementing our longer-term response to the social and economic consequences of the pandemic. How we support our members and communities over the next few years will be just as critical as our response in the early months of the crisis. Our strategy to grow our business and expand the difference that co-operative values can make remains in place. However, we've reset some of our priorities to make sure we can compete strongly across all our markets during a time of recession. We've also looked carefully at how we should focus our community agenda and campaigning to make sure we're directing our support in the most meaningful way in the post-pandemic climate.

Throughout 2020 we maintained all aspects of our democratic governance, taking our regular Board and Council meetings online. For the first time in our history we asked our members not to attend our AGM in person and to move online, which attracted a greater 'attendance', through both live and playback viewings, than our normal physical meeting. Our autumn Council-led 'Join In' events were also held virtually. I'd like to thank our Board, Council and members for their flexibility and adaptability as we've all trialled, learned and evolved during these unprecedented times.

I'd like to thank Nick Crofts for all that he has achieved, along with his Council colleagues, as President of our National Members' Council. Nick will step down as Council President in July, when he reaches his maximum term of office, and our Council will elect a successor then. I would also like to congratulate him on his appointment as CEO of the Co-op Foundation. Nick has been a key figure in the Co-op for more than a decade and a passionate advocate for co-operation. I'm delighted to see him join our charity as we work together to create a fairer future for all.

Finally, I want to acknowledge the incredible commitment shown by Co-op colleagues across all parts and at all levels of the business throughout 2020. It was an outstanding achievement, which epitomised our Co-op way of doing business, throughout a year that none of us will forget.

Allan Leighton
Chair, The Co-op Group

Chief Executive's overview

"...the impact of the pandemic is far from over, and 2021 brings new challenges, many of them related to the economic downturn and the challenges communities face. I'm confident that the Co-op will rise to those challenges as we continue to Co-operate for a Fairer World."

Over the last 12 months we've lived through a perfect storm, with every part of our lives turned upside down – socially and economically, mentally and physically. Along the way we've discovered much about our society, some of it brilliant and inspiring, and some of it quite ugly thanks to the unfairness and inequality Covid-19 has revealed and exacerbated.

And during the last few years, we've created a business that is operationally strong, commercially successful and which creates value for our members and their communities.
All that work proved to be essential in giving us the ability to respond to the immediate and sustained demands which the pandemic brought with it. Our Vision, ***'Co-operating for a Fairer World'***, was our guiding light throughout and our response to Covid-19 demonstrated the power of co-operative enterprise and the relevance of Co-operative Values.

This year also saw us launch a bold set of commitments to address racial inequalities across our Co-op. When we were developing the commitments it was important to me that we had some independent experts around the room to help guide and challenge us. So we created the Equality and Inclusion Think Tank, bringing together some of the greatest activists with a wealth of experience.

Let me take this opportunity to welcome Doyin Atewologun, Baroness Ruth Hunt, John Amaechi, Lord Simon Woolley and Leila McKenzie-Diel to our Co-op family. Our Board Director Lord Victor Adebowale has also joined the think tank. We have had great support from our Members' Council for our ambition in this area and I'd particularly like to thank their Diversity and Inclusion Group chaired by Margaret Casely-Hayford.

Of course, the impact of the pandemic is far from over - 2021 brings new challenges, many of them related to the economic downturn and the challenges communities face. Our response to this new post-pandemic world will be just as important as our response to the initial emergency.

In the pages which follow, we have set out how we responded to the pandemic, through our businesses and the support we gave to our colleagues, as well as local and international communities. We'll also show how we've adapted our commercial strategies, how we're supporting our people and how we're focusing our community and sustainability work as we build back better and play our part in levelling up the country, so that everyone has the same opportunities to get on.

Financial overview

Overall, our Co-op's revenue was up 5.6% to £11.5bn, an increase of £0.6bn on 2019. Our underlying profit before tax, which excludes the impact of non-trading items and net interest expense from our funeral plans, was up to £100m - an increase of £65m. Our profit before tax of £127m was up £103m from £24m the previous year.

A tax charge of £55m meant we recorded a profit of £77m after tax and discontinued items. The tax charge was particularly high in the context of our profits and is explained in the finance review on page 41.

The increases in revenue and underlying profit for our Food business were driven by realising optimisation and efficiency benefits as well as the shift in consumer spending to more local and online food shopping because of the prolonged impact of the country's response to the pandemic and move to home working. Integral to Co-op Food's success has been its Retail Business Transformation programme (RBT). The system supports Co-op's ambitious growth strategy, introducing new technology to improve ranging, stock holding, availability, and more accurate forecasting information. A new cloud-based Supplier Collaboration portal – Co-op Connect – is also in place. We also saw lockdown restrictions leading consumers to shop closer to home, welcoming the ease and convenience of our Co-op stores and their extensive range and ability to fulfil orders online and receive their shopping as quick as in under 30 minutes.

Co-op's retail business, driven by its online expansion and wholesale operation, saw its biggest growth of the whole lockdown period in April 2020 (+42% YoY growth) as customers and members tried to avoid supermarket queues and stayed close to home. During that first four-week period, 2.4 million new shoppers (1/3 of our customer base) walked through our doors. Our market share peaked at 7.4% in April, the highest it's been in years, and up from a full year average market share of 6.3% in 2019. The Co-op's market share slipped back to 6% by the close of the year.

Independent retailers supplied by our Nisa wholesale business also grew their sales ahead of the market. In 2020, Nisa signed up 624 new independent stores and reported a sales increase of £154m (10.8%).

Our Funeralcare business saw an increase in the number of funerals we arranged, with 10,290 more funerals than 2019 - an increase of 11.4%, sadly reflecting the deaths caused by Covid-19. However, during the first, tighter lockdown, Government restrictions on how funerals could be conducted meant that, for many families, only the most basic of arrangements were possible or appropriate.

During later lockdowns, we were able to operate within slightly more relaxed restrictions. This allowed us to help more people attend funerals to say their best goodbye to family and loved ones.

Although our Food business has performed exceptionally well through the crisis, our costs across all parts of our Co-op have increased. The additional costs during the year, directly related to Covid-19, have been around £84m. These costs included additional new colleagues (targeted from the hospitality sector), the purchasing of personal protective equipment (PPE), rewarding colleagues for their outstanding efforts and increased colleague sickness and absence linked to the virus. In contrast, our support from the Government's emergency economic measures to sustain the economy during the pandemic amounted to £82m – covering the business rates 'holiday' for our Food stores and funeral homes and furlough payments to our colleagues.

Our Insurance business saw much reduced sales during the spring and early summer, particularly for motor and travel policies, as lockdown restrictions impacted trading across the sector.

Overall, Legal Services saw case volumes grow by 9% in 2020. The business experienced an early increase in will writing work at the start of the pandemic, and then above average inquiries about divorce as the strains on family relationships created by lockdown began to show themselves. The number of probate cases we took on also grew, though external factors impacted our overall performance. Cancelled house viewings, delayed house sales, reduced interest rates and delays in processing paperwork all impacted our revenue in 2020.

Throughout this pandemic, our Co-op Health business has responded brilliantly. It's grown by over 1000% year-on-year and moved from being ranked 7,000th in the UK to 6th today, based on volume. At the same time, it has achieved exemplary customer satisfaction feedback, with 4.8 out of 5 stars on both Apple and Google stores as well as Trustpilot.

However, it became clear that the business would require significant additional capital to move it forwards. As such the decision was taken to sell it to Phoenix UK Group, a leading healthcare provider, a move which was announced in March this year.

I'd like to thank Tim Davies, who has been instrumental in leading the Health business for the Co-op.

Emergency support for communities

Early in the crisis, it became clear to me that businesses would be judged by how well they responded to the pandemic and whether they put people and communities first. This would matter for many years to come, and long after the pandemic was over. If you ignored your responsibilities, or abandoned the most vulnerable, it would not be forgotten.

We were able to share more than £12m of funds with charities and community causes as part of our Covid-19 response, and we celebrated giving back a further £15m to 4,500 local causes as part of the annual payout from our Local Community Fund.

The generosity of our members during 2020 was outstanding. Through a variety of channels our members and customers donated £900,000 to FareShare, which in turn was distributed to food banks across the UK. This was in addition to the £1.5m worth of food we donated to the charity in March 2020. FareShare had been able to distribute five million meals thanks to our Co-op's support.

We also gave our members the opportunity to donate their unspent 5% Co-op member rewards to a new Co-op Coronavirus Members Fund.

Our Co-op fund has also enabled us to give emergency donations of £500 each to 150 local causes who've been addressing immediate need in their communities created by the pandemic, as well as families struggling to afford funeral costs.

As the nation's streets became deserted, we began selling copies of the Big Issue in our stores providing up to 2,600 outlets for sales of the magazine which supports the homeless to lift themselves out of poverty.

In the second half of 2020 we used our summer food campaign to draw attention to the growing number of UK families facing food poverty. Through this we donated £1.5m to the National Emergency Trust (NET) to support food charities across the UK.

To help around 6,000 Co-op Academy pupils most in need, we provided over £3m in Co-op Food vouchers and technology, including 1,000 Chrome devices. At a national level, we worked both behind the scenes and as a member of the Stop Child Food Poverty Taskforce supporting Marcus Rashford in his successful campaign to persuade the Government to act decisively on tackling food poverty for school children during school holidays.

And our amazing colleagues, even when faced with the personal and professional challenges the pandemic brought, stepped up and raised over £3m for our chosen charity partners Mind, SAMH and Inspire.

But it wasn't just financial help that we gave during the first wave. We moved quickly from pilots to a national launch of our new online Co-operate platform, which blends virtual with physical communities and links volunteers to those in need. Between March and December, we had 183,000 visits to the site. Helping those shielding at home with their shopping was immensely important.

The new platform has complemented the work of our Member Pioneer community activists. They've been truly amazing and have together engaged with an estimated 30,000 people a month in our communities.

You can find more detail on responsible business performance in our Co-operate Report.

International response

Although, our immediate priority was to support our colleagues, members and customers in the UK, we are a business which is globally connected through our world-wide supply chain and our responsibilities did not stop at our borders.

At the start of the summer we introduced our Global Wellbeing Charter, specifically designed around the principle of our Future of Food commitment to treat people fairly. The charter lays out our actions to support our producers in the developing world in tackling the impact of Coronavirus on their livelihoods, now and in the future.

In July, we redirected £320,000 to support Fairtrade producers through the Coronavirus emergency. We've also increased the visibility of Fairtrade products in our stores to promote stronger sales.

As part of our ongoing support of The One Foundation we redirected £647,000 to communities for clean water and sanitation projects and to help tackle the spread and impact of Covid.

It's vital that as we repair and rebuild our economy, we take the opportunity to tackle climate change. We've joined the United Nations' 'Recover Better' campaign to support the call for governments across the world to prioritise a recovery from Covid-19 that's consistent with a sustainable world for future generations. We've set science-based targets to decarbonise our business and the products we sell, and we've pledged to further reduce absolute greenhouse gas emissions from our own operations by 50% by 2025 as well as to reduce product-related emissions by 11% by 2050.

Evolving our post pandemic commercial strategy

Our aim is to help the nation and our own Co-op to build back better and, I hope, different. In developing our thinking, we wanted to build on the good work of the last few years and the experience, since March 2020. We also looked at available data on how the national and global economy was changing.

In our commercial thinking, there were some very significant trends emerging that we needed to take full account of such as hyper-localism, value for money and the surge in online. We have a clear plan to deliver our Vision and strategy over the coming years. See the ‘How are we building back better and different’ section.

Our post pandemic social agenda

As we developed our plans and began to put in place our revised social agenda, we were guided by our new Vision, ***‘Co-operating for a Fairer World.’*** We’ve chosen to focus our efforts on making things fairer in three key areas and will join forces with others because together, we can make an even bigger difference:

- **We’re going to make things fairer for our colleagues** – making sure they get a fair deal, have a safe place to work and support for their mental wellbeing - ensuring they can fulfil their potential.
- **We’re going to make life fairer for our members and communities** – focused on social mobility including access to food, mental wellbeing and education, skills & employment for young people whilst maintaining our commitments to diversity and inclusion.
- **And we’re going to make things fairer for our planet** – focused on delivering a sustainability plan, which in particular faces into the challenges and opportunities in tackling carbon reduction.

We’ve always valued the work of our colleagues on the front line and Covid-19 has demonstrated just how important their role is in feeding the nation, caring for the deceased and bereaved, and delivering our Vision to create a fairer world.

Pay levels for our frontline colleagues have increased by 25% over the last five years, but now we want to go further.

So, in 2021 we’re working with our trade union partners, USDAW, to improve our hourly pay rates so that they align to the Real Living Wage. This will boost the pay for 33,000 of our colleagues and give their families greater financial resilience through a testing time in the UK’s economy.

We’ll also continue to prioritise colleague safety and wellbeing through our 'Safer Colleagues, Safer Communities' programme and through our colleague mental wellbeing initiatives.

In September, as part of the relaunch of our Co-op membership rewards, we doubled the amount of money that goes to local communities and community organisations who are tackling the inequalities facing our society, supporting those communities that need it most. We estimate that in 2021 our members will help generate around £21m to support fairer access to food, mental wellbeing and education & employment for young people.

The pandemic and months in lockdown have taken a big toll on people's wellbeing. That's why our partnership with Mind, SAMH and Inspire is so important to bring communities together to improve mental wellbeing. Pilot services are currently being run in communities across the UK to test the role of community and resilience in mental wellbeing. These will continue to be rolled out to more communities in the coming months.

During 2020 we were also proud to partner with the Damilola Taylor Trust and the Rio Ferdinand Foundation to provide young people, from our most marginalised communities, an opportunity to take part in a youth voice project. Our work to support young people in having a voice, learning new skills and accessing opportunities continues along with our pre-apprentice and apprentice programmes.

In 2021, to address ongoing food poverty, we'll continue our work to help more people to access the food they need, gradually moving away from emergency response towards more sustainable activity, such as increased food distribution through our local stores' Foodshare programme and support for a community fridges initiative through Hubbub.

In the autumn we launched new commitments, targets and ways of working to address racial inequalities within our workplace and our other key stakeholder relationships, including our wider membership, the communities we support, our suppliers and other partnerships. We are focused on delivering against these commitments and on what more we should be doing in the inclusion space. You can read more about these in the Co-operate Report.

Our commitments to the environment and tackling climate change are long standing. In November we re-launched Co-op Power, our business to business clean energy buying group. Co-op Power already enjoys a collective buying power of £200 million a year and is now on a recruitment drive to bring more corporates on board. Co-op Power has recently attracted Roadchef, Nationwide Building Society and The Royal National Lifeboat Institution to join the joint-buying operation. National Trust, PA Media Group and Emirates Airlines are already members. £100m in energy costs have been saved

by members of Co-op Power so far, and the Co-op alone saved more than 143,000 tonnes of carbon in 2020, through the purchasing of renewable energy.

Amongst our other current key commitments:

- We've set science-based targets to reduce carbon emissions from our operations (compared to 2016), 50% by 2025 and from our products and services, 11% by 2050.
- We have aligned with the British Retail Consortium Climate Roadmap to be net zero by 2040 from both our operations and products.
- 100% of soy in Co-op products, including that embedded in animal feed, will be deforestation-free and sustainable by 2025.
- We will reduce food waste generated in our stores and depots by 50% by 2030, compared to 2015.
- All Co-op own brand packaging will be easy to recycle by Q2 in 2021.

We know all of these areas are close to the heart of our members and their representatives on our Council. We'll continue to listen to them as we move our agenda forward.

Improving operational efficiency

In order to deliver on our commitments to help our members, customers, colleagues and our local communities, we'll need to be even more efficient and cost conscious in how we run the business during 2021 and beyond.

During 2020 we worked on our new operating model across many parts of our Manchester Support Centre, merging some teams, removing duplication of roles and tasks and bringing together shared areas of skills and capability. In 2021 this work will continue to drive efficiency and effectiveness, along with a shift in our ways of working. We're improving our cost base in Food through our 'Better Buying' activity and through the implementation and rollout of the Retail Business Transformation programme, which is delivering efficiencies in stores and logistics as well as removing costs.

We're also developing more cross-trading opportunities so that our members and customers understand how our business areas complement each other and can address their needs.

We expect 2021 to be another very challenging year but one where our Co-op will continue to thrive and deliver clear value for our members and their communities.

It will present the opportunity to show the importance of co-operation as the UK looks to build back better and, we hope, different. If we are to avoid falling back into old ways that tolerate inequality and unfairness, then we must develop economic planning, at every level, which puts the wellbeing of people and communities first.

I'd like to finish by once again saying how proud I am of my Co-op colleagues. The last 12 months have been intensely demanding for us, as individuals, as family members and as employees. I have witnessed incredible dedication and passion towards our Co-op by colleagues, often juggling additional home and work demands.

This includes my six colleagues, including a Nisa partner, who were recognised in the Queen's New Year and Birthday Honours this year. I want to congratulate Joanne Gates BEM, Liz Mclean BEM, Jo Whitfield CBE, Abdul Majid MBE, Jean Marie Hughes MBE and Nick Speight MBE for their awards.

Each of our business units have been essential in keeping the country running this year and it's great that the efforts of several colleagues have been recognised at this highest level.

A huge 'thank you' to everyone for all you've done during this exceptional time.

Steve Murrells
CEO, The Co-op Group

Report from the President of the National Members' Council

> We're always striving to do more for the members and communities we serve, and we know that a great way we can do this is by being closer to our members and customers and providing quality own brand products they want to buy.

In the face of immense challenge in 2020, our Co-op rose to the occasion and adapted quickly so we could feed the nation and look after our communities. Council is incredibly proud of how our Co-op has supported people through the worst of the crisis and we know that our values and our businesses will have a big part to play as we move beyond the pandemic and seek to create a fairer world.

With normal life coming to a halt in the last 12 months, we've had more time to ourselves to pause and reflect. I've particularly been thinking about 2020-21 being my last term as President and how far Council's come since I started in the role five and a half years ago.

As our Co-op began to rebuild after the financial and governance crisis, we moved from a transitional Council to the Members' Council we have today. Council Members play an important role in our Co-op's democracy – working with and challenging our Board to meet the needs of our members and keep our values and principles at the heart of what we do. It's been really rewarding to see our relationships go from strength-to-strength with directors and senior leaders and, by working effectively, Council has been able to expand its roles into new areas to champion for our members.

Originally, we only had two Council Committees: Non-Executive Director (NED) Fees and Scrutiny, which are set out in the Co-op Group Rules. Now, we have seven core committees and a range of working groups and advisory teams who meet throughout the year to support our Co-op with championing our difference and representing our members. In 2016, we worked very closely with Co-ops UK to create the 'Co-op Compass' – a framework that combines our responsibilities for holding the Board to account and being the guardian of the Co-operative Values and Principles to help us prioritise issues that are of fundamental concern to our members.

While the Co-op Compass acts as our guide, it's the views and needs of our members that ultimately determine our priorities. Since 2015, we've massively improved the ways we connect and communicate with our members; from constituency email addresses to opportunities for getting questions raised at our meetings, we've now started a two-way dialogue that allows Council Members to stay in touch with members near them, find out what matters most, involve them in our democracy and share updates on the work we're doing on their behalf.

In 2017, our Co-op started recruiting Member Pioneers to connect our communities around the UK. This remains a huge achievement for Council. We developed the programme with the belief that Member Pioneers would help our Co-op bring people together and implement real change locally and they've done just that, making our towns and cities better places to live, work, play and learn. They've also been crucial in understanding what our communities need and supporting our Co-op with rolling out its initiatives and campaigns. I'm particularly grateful for the integral role they've played in our Coronavirus response by helping people get access to essentials and volunteering with local charities and community groups.

We're always striving to do more for the members and communities we serve, and we know that a great way we can do this is by being closer to our members and customers and providing quality own brand products they want to buy. We've invested a lot into our stores to help us win at convenience and our move into wholesaling and franchising led to an exciting partnership with Nisa in 2018. I was incredibly proud when the news was announced, as Council's very own Frank Nelson and Louise Walker suggested the idea to the business. 90% of Nisa partners now stock our Co-op's award-winning own brand products and our franchising model has allowed us to set up shop on university campuses around the UK, introducing younger generations to our Co-op difference.

What I love most about our Co-op is that we never shy away from taking a stand on important issues and using our voice and resources to tackle them. In my time as President, we've led the way on lots of campaigns to raise awareness and implement change. Council's role is to approve all of our Co-op's big campaigns but the work we've done on modern slavery and for 'Safer Colleagues, Safer Communities' has been a real highlight for me. Through our Bright Future programme, we're providing survivors of modern slavery with paid work placements and opportunities to take on a permanent role if a position is available. By taking operational, political and community action, we've also been able to better protect our frontline workers, influence the Government and help people take control of their lives.

Ethical leadership is another area where our Co-op shines. Back when I first started as President, our Co-op was awarded the Fair Tax Mark, which recognises businesses that pay the right amount of corporation tax at the right time and in the right place. Council Member Sue Smith championed our Co-op applying for an assessment when the scheme launched in 2014 and we were thrilled when we were announced as a recipient a year later. Equity - being fair - is in our DNA and so is equality; in 2020, Steve Murrells was the first UK CEO to publicly address the shocking murder of George Floyd and say enough is enough. Our Co-op has since announced its commitments to racial equality and inclusion and we're working hard to be anti-racist in all that we do. Over the years, Council has made its own progress with diversity - becoming gender-balanced for the first time in 2018 - but we know that there's still a long way to go to better represent our communities and this remains a huge priority for us.

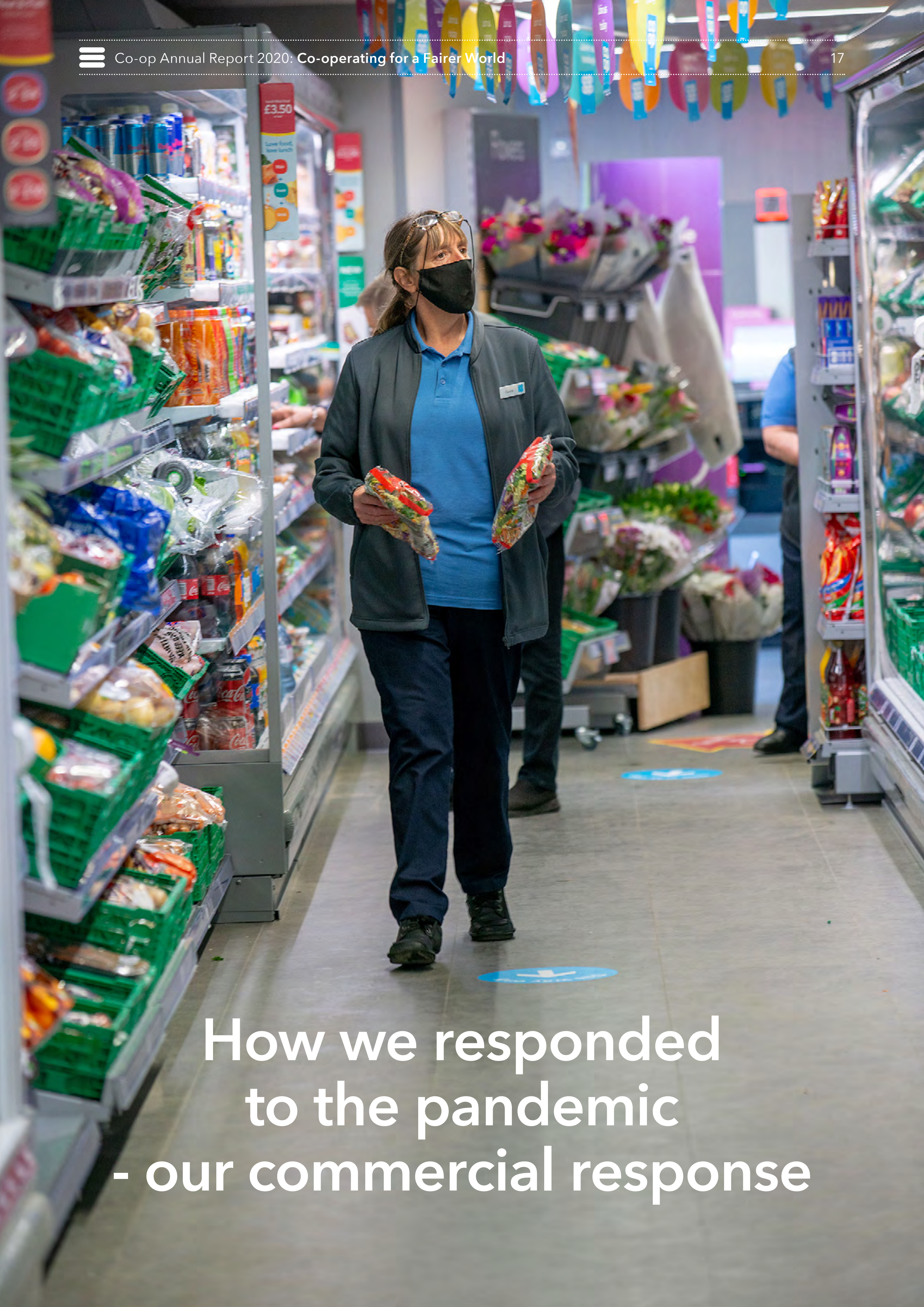
And so that brings us to present day. I hope that by taking a trip down memory lane with me, you've been able to see just how hard Council has worked for and with our members since the National Members' Council was formed in 2015. I'm so proud of all that we've achieved. My fellow Council Members are passionate co-operators who provide constructive challenge and positive input that keeps our difference at the core of our plans. It has been a privilege to lead them - serving as our Co-op's President has been the honour of my life. Working alongside me, Senate and Council's Vice Presidents, Lesley Reznicek and Bev Perkins, offered a tremendous amount of support and wisdom in their roles and I'm very grateful for their commitment and time. A big congratulations to Jenny de Villiers on her election as Bev's successor. I wish all the leaders who serve on Council the best.

For the final time as President, I'd like to say a massive thank you to all our colleagues for your continued commitment to our Co-op – the last year has been like no other but in our head office and from home, you've kept our businesses going and carried out work that has made life easier and fairer in an incredibly difficult time. In our stores, you've put our customers and members ahead of yourselves to continue providing an excellent service at the heart of our communities. I was thrilled to hear we were increasing your pay to align to the Real Living Wage in recognition of your hard work. This is something Council has long been fighting for.

Our Co-op is stronger than ever. I'm looking forward to continuing my time as a Council Member and being a part of what we do next. You can read Council's annual statement on page 117 to find out how we've championed members' needs and views in 2020.

Nick Crofts

Nick Crofts
President, National Members' Council



How we responded to the pandemic - our commercial response

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No part of our business operations was left untouched by the pandemic. Our aim was to adapt as quickly as necessary to the new conditions and ensure we could continue to serve our members and customers while keeping them and our colleagues safe.

Food response

Overnight, our Co-op responded to the need to feed the nation by collaborating with the Government and adopting new ways of working, not only in our Food stores but across our logistics network depots. The dedication, resilience and strong community values of our colleagues were instrumental in responding to the pandemic and we thank them for their hard work.

For our stores we set out new cleaning regimes, one-way systems, social distancing, priority shopping times, staffing at entrances to regulate customer numbers and new store layouts. We also temporarily adjusted our trading hours, so we could replenish shelves and carry out additional cleaning. To help our customers understand the changes, we put in place strong and clear point of sale messaging and used in-store radio to guide people and thank them for their co-operation. Importantly, we empowered our store managers to make the right decisions locally to keep their colleagues, our customers and our members safe. In depots, we introduced social distancing and PPE kit to aid working. We have kept guidance from Government under constant review in order to enable us to continue to improve the measures we have in place in store as the evidence has evolved, guided throughout by keeping our members, customers and colleagues safe as our utmost priority.

In the early days of the emergency we lobbied the Government for our store colleagues to be given 'key worker' status along with Funeralcare colleagues. Throughout this time, the safety of our colleagues was our key goal and our procurement teams rose to the challenge of securing sufficient PPE. We swiftly put in place plastic screens at our tills and between self-service check-outs. We continued to innovate to keep customers safe by trialling a traffic light queuing system at a number of stores to make it easier for customers to observe social distancing when shopping. We also collaborate with Government to make sure we have a voice in the things that matter most for our colleagues, customers, members and our Co-op.

With pubs, restaurants and cafes closed and many office workers moving entirely to home-based working, many extra meals were being prepared and eaten in the home. As a direct consequence, we saw double digit sales growth across many of our categories. To cope with the extraordinary

demand for food and other household products, we recruited 5,000 additional colleagues, many of them within a single week in late March/early April. We targeted our recruitment to the hospitality sector where we knew thousands were losing their jobs.

We also accelerated our online and home delivery plans to address the new needs and demand. Our online same-day delivery service is now available in over 100 towns and cities and, by the end of the year, our online on-demand convenience offer was serviced through 800 stores, through our own online shop - coop.co.uk/shop – the Deliveroo app and as a click and collect service. Orders are fulfilled through the Co-op online shop and through partnerships with Starship Technologies and Deliveroo in as little as under one hour and up to seven days in advance.

Our approach sees stores act as micro distribution hubs locally, with orders picked from local Co-op stores – so high street stores benefit from any increase in online demand. We rolled-out our online offer at pace during 2020 through our own online shop - which first launched in 2019 - and our partners. Orders topped 3.25m during 2020.

Co-op's product offering was also adapted to meet the crisis and respond to the shift to at home eating and the need to offer value. Honest Value was launched to provide shoppers with the ethical sourcing standards that they have come to expect from Co-op, along with keen prices. Co-op launched its new EverGround hot drinks offer with all tea, coffee, hot chocolate and sugar used in the range sourced to Fairtrade standards.

At the Co-op, we had to pause our programme of new store openings at the start of the crisis, but this got back on track in early July with the opening of a new store in Pilton, the home of the world-famous Glastonbury festival. Over the last five years, we've opened around 500 new shops across the country, which is more than any other UK retailer. Despite the pandemic, during 2020 we opened 56 new stores, refitted a further 105 and extended 13 stores.

Our colleagues have done a fantastic job in adapting throughout the crisis and have remained focused on our customers and members.

It's through their commitment and dedication that we've received the highest ever satisfaction scores.

Playing our part in supporting families access food throughout the crisis has been a key focus for us. We amplified the support that we gave FareShare throughout 2020, donating all of our Easter marketing campaign's TV airtime to the charity, to raise awareness and leverage over £650k in funds to help their work. We also ran a summer campaign to highlight the challenge of food poverty among families - we launched a promotion for our 3 for 2 picnic food range, through which we donated 20p from each purchase to the National Emergencies Trust (NET). It had raised £1.5m by the end of the summer.

Our everyday ambition is that no good food goes to waste. Any surplus food at our depots is shared with those in need through our partnership with FareShare, and surplus food from our stores goes directly to local charities and community groups. Our support of food banks and other forms of emergency help continues.

We've seen significant sales growth for our Nisa partners, who've benefited from the broader range of products we're able to supply them, particularly within the fresh categories. Nisa trading has been strong with sales up 10.8% to £1.6 billion. During 2020, Nisa signed up 624 new stores, marking a

19.1% increase against budget and building on strong recruitment figures in 2019.

Franchising is a critical part of our strategy to extend the reach of our Co-op by entering new markets and communities. This year, we have been upgraded to an Associated Member of the British Franchise Association (BFA), reinforcing our partnership credentials. We were operating 14 franchise stores by the end of 2020 and around 25 more franchise stores are expected to open by the end of 2021.

Our strong relationships with our supply partners have been critical throughout the crisis and in many ways these relationships have strengthened. We worked closely to help suppliers during the early stages of the Covid crisis when manufacturers experienced issues in sourcing key ingredients and meeting the significant increased demand or loss of traditional markets, brought about by pub and restaurant closures. We temporarily changed product specifications and focused our range on a core customer offer while beer packs usually provided to pubs were sold through stores to aid small beer producers. For more information on how we work with our suppliers, please see our Co-operate Report.

Funeralcare response

In Funeralcare we moved quickly to follow new and radical Government restrictions and led the sector in terms of our response to making funerals safe for our clients and our colleagues. In response to the impact of UK lockdown, we adapted our funeral service options to help ensure that bereaved families could still say their best possible goodbye. Whilst there have been significant funeral restrictions in place, that doesn't mean that families haven't been able to pay tribute to their loved ones.

In the early stages of the pandemic, the type of funerals we were able to offer were simpler and more pared back due to the severe restrictions. As the Government realised the importance of the grieving process in later lockdowns, more people were allowed to attend services.

We delivered much higher numbers of funerals during 2020, helping 100,920 families to say their very best goodbye to a loved one. At the same time we experienced much higher operational and internal costs, along with reductions in planned change and investments, affecting both revenue and profits.

As a consequence of higher funeral volumes in the first half of the year, we saw a marked reduction in our funeral plan sales as our colleagues focused on providing funeral services. As restrictions lifted, we saw plan performance recover and sales across the full year were 13.4% down on 2019.

Despite the challenges of 2020, we are proud to have also delivered a large amount of strategic change for our business:

- We refreshed our Funeralcare brand, to become more appealing, modern, diverse and inclusive.
- We delivered a new website and improved core journeys for our clients across both Funerals and Funeral Planning.
- We grew and consolidated our position as the market leaders in Direct Cremation.
- We launched new Funeral Service propositions in October, providing clients with greater personalisation options and better value for money.

In terms of regulation, we have welcomed confirmation that the Government has legislated to bring the pre-paid funeral planning market within the remit of the Financial Conduct Authority (FCA) and provide protection to consumers. We have been outspoken for many years in calling for greater direct regulation of this market. We've worked closely with HM Treasury to share our expertise as a reputable provider and outline why the best model for funeral plans is under the remit of the FCA.

Fulfilling the needs and interests of our clients will always be our priority, so we have proactively called for increased transparency, enhanced financial protection and a ban on aggressive sales.

In December, the Competition and Markets Authority (CMA) published its final report into the at-need funeral and crematoria industries.

Our funerals business cares deeply about providing the very best service and care for clients and families, and has been leading the way in improving standards, quality and transparency across the market for a number of years and will continue to do so.

We have been working through the full detail of the CMA's final report, having engaged fully with them throughout the investigation. We are encouraged by many of the measures put forward by the watchdog as they are a step forward in improving quality of care and price transparency, both of which are in the best interest of bereaved families and are measures we have always advocated for. We'll continue working with the CMA as the remedies which they have outlined are developed.

Insurance response

As the pandemic took hold in the UK we took measures to reflect in our insurance policies the restrictions which were introduced by the Government as well as the efforts people were making to support their local communities. For anyone who needed to work from home or were self-isolating, their home insurance cover was not affected as we automatically relaxed our policy terms without the need for customers to contact us. And this remains the case today. If our customers had to drive to work instead of getting public transport because of the impact of Covid-19 increasing their mileage, their car insurance policies also remained valid. And if customers were using their car for voluntary purposes in any capacity to support others who are impacted by Covid-19, their cover was not affected. Additionally, key workers needing to use their own car to drive to different places of work because of the impact of Covid-19 were not affected. We have kept all these changes in place for the time being.

During the lockdown we saw a sharp drop in sales of car, travel and new home insurance reflecting the Government restrictions on work and movement. However, there were also far fewer claims being made as people remained at home. Sales picked up in the second half as the economy opened up again, with motor claims increasing by 35% in the weeks following travel restrictions being lifted.

In September we also led a campaign to raise awareness of the pressures facing new young drivers from other motorists and launched a T-plate to indicate those using telematics technology.

• Decline in neighbourliness

Our Co-op works with its members to act in the best interests of their communities, the ones we serve. In December, Co-op Insurance, as a home insurance provider, commissioned new research along with Neighbourhood Watch as part of our joint annual Neighbour of the Year Awards. It showed that the surge in neighbourliness seen in the spring had not been sustained as pandemic fatigue set in across the UK.

During the peak of the first national lockdown in April, our research showed a spike in neighbourliness, with almost three quarters (72%) of UK adults saying they knew which of their neighbours were classed as high risk. However, after seven months of pandemic restrictions, the figure saw a dramatic fall, with only a quarter (26%) of a sample of 2,000 UK adults revealing they knew which of their neighbours were at risk.

During the first national lockdown, 31% of UK adults said they had checked in with a neighbour who lived alone as a way to help combat loneliness. Months later, this figure declined by a third, with only one in five saying they had done the same.

Legal response

When the pandemic arrived, our Legal Services business was ready thanks to the ongoing investment in digital technology we've been making over the last few years to make services more convenient. The transition to remote working was fast and effective.

Having developed digital legal advice technologies for estate planning, which makes sorting out wills easier and more effective, we developed a suite of digital legal advice services in 2020 that covers probate, personal injury, employment and family law.

These tools put us in a good position to build new partnerships and reach more customers. In 2020 we partnered with over ten new organisations and we saw case volumes rise by 9%. Our customers are making the most of the free legal advice and guidance offered by our new range of services. At the start of the lockdown we saw an increase in demand for will-writing services. After the first lockdown was lifted we saw a 250% increase in divorce-related enquiries, reflecting the tremendous stress many relationships suffered during this time.

Online consultations with our legal advisors were already growing before the pandemic, but the experience and effects of the pandemic itself increased that trend. As Covid death rates began to soar, we introduced a Bereavement Notification and Advice Service to help people deal with a late loved one's affairs. The new service gives

bereaved families help informing financial institutions, stopping junk mail and closing social media accounts. Typically, bereaved families are left to deal with an average of 12 organisations, ranging from the Government's 'Tell Us Once' service to pension providers, insurers and utility providers and corresponding with the Coroner. This new service enables us to help bereaved families by providing a single point of contact.

Supporting our colleagues through the pandemic

Supporting our colleagues through the pandemic

Our colleagues right across the business have been outstanding in how they've responded to the challenges of 2020. As the scale of the emergency became clear, and new patterns of working were put in place, we implemented a new approach to colleague communications making sure that all of colleagues had the latest health guidance and operational information they needed each day.

Throughout the first lockdown and beyond, we issued a regular 'Co-op Care' email to all colleagues focusing specifically on mental and physical wellbeing. We covered many issues we knew were highly relevant at this time, including coping with fear and anxiety; bereavement; personal resilience; and staying fit and motivated when working from home.

We knew it was important for there to be more frequent communications to our colleagues and for our most senior leadership to be visible. Our CEO, Steve Murrells, recorded short, weekly video updates from the end of March through to the end of July, reinforcing our daily messaging, highlighting significant changes and thanking colleagues for their work. To monitor and track how our colleagues were doing, we carried out two special Talkback surveys which measured individual wellbeing, including levels of personal anxiety and concern for family members.

We also developed new ways to recognise and thank the efforts of our colleagues. For colleagues working from home we introduced digital 'You're Incredible' and 'Not all heroes wear capes' thank you cards to celebrate their achievements. We added a new way to recognise exceptional colleague work during the pandemic by giving our Co-op members and colleagues the opportunity to nominate an individual for a 'local hero' award. More than 1,000 nominations were received. We shared stories about the work of our colleagues on our external social media platforms during May, June and July to publicly celebrate their work.

Our Covid-related acts of thanks and recognition were in addition to our annual Being Co-op awards, which received more than a thousand nominations across 13 categories.

In addition, to recognise their commitment during the first lockdown period, 56,000 frontline colleagues received a 'Thank You' package which included a £100 cash payment, a £50 Co-op gift card and an extra day's holiday.

We also increased our colleague discount to 20% on own brand goods at all times and 20% on branded goods at 13 pay day events a year, to further improve what was already a valued colleague benefit and to provide a meaningful 'everyday' financial uplift.

And before Christmas we ran a '12 days of Togetherness' campaign with a different initiative launched each day. All colleagues were connected to this with themes of saying thank you, providing support and demonstrating kindness. This included colleagues receiving £50 on their membership card and an exclusive discount day of 50% off all Co-op branded goods.

How we responded to the pandemic – our community response

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Our ability during the pandemic to support the local communities in which we trade was helped enormously by the fact that we already had established relationships, good understanding of local needs and a network of colleagues dedicated to creating stronger communities.

Co-operate and Member Pioneers

We've long been committed to expanding local, grassroots, co-operative action to meet local needs – we've worked closely with a committed group of individuals from our Members' Council on this area. As the lockdown began, we increased our efforts.

Last year we began testing a new online platform called 'Co-operate' which can link local projects to local resources. Our trials in Greater Manchester and parts of Leeds were already proving successful and, in April, we scaled up the platform to make it available across the country.

Between March and December 2020, more than 183,000 visits had been made to the Co-operate platform to access services including:

- A matching service that connected volunteers to help the vulnerable with their shopping or signposted them to organisations that need help.
- Sharing online events to help bring people together in virtual communities, during a time of physical isolation.
- 'How to' guides and digital content to support people in connecting with one another through lockdown.

So far, 4,000 community groups have registered with the Co-operate platform, which complements the physical network of our Member Pioneers. By September, we had 1,000 Member Pioneers in place, which means we now have a Member Pioneer covering all parts of the United Kingdom. They are a key way in which we connect members and their communities at a local level. During the lockdown our Pioneer colleagues concentrated their efforts on supporting vulnerable people, keeping people connected, finding volunteers and securing funding for urgent projects. They played a key role in community response to the pandemic by either establishing local support groups themselves, signposting others to existing groups or individually supporting food and medicine deliveries and face-mask production. Through these efforts Member Pioneers engaged with an estimated 30,000 people per month in communities.

Financial help

We recognised that local fundraising would become very difficult during social distancing restrictions, so we chose to bring forward the distribution of funds for 4,500 local causes currently being supported by our Co-op members. This would normally have taken place in November, but we released £4.5 million during the spring to help make sure immediate needs were met. In November we then distributed further funds, making a total of £15m shared from our Local Community Fund in 2020.

The themes we had identified in 2019, through local research and the national data we consolidate to create our Community Wellbeing Index, led us to focus our community support on three interconnected areas: public spaces, mental wellbeing and skills. We have seen how these have taken on even greater relevance during 2020. How we use public spaces – indoors, outdoors, and online – is interwoven through all of these areas, and how that relates to our individual and collective wellbeing has become much better appreciated during lockdown. Mental health for many people has been damaged through an intense period of isolation and restricted movement, and the hit to the economy will make skills and training, especially for a younger generation, a matter of urgency. We have also played a key role in the growing campaign against food poverty led by Marcus Rashford.

Co-op Foundation

At the outset of the pandemic, our Co-op charity, the Co-op Foundation, signed a statement co-ordinated by London Funders in which it committed to being flexible with its funding during Covid-19. It also agreed repayment breaks for 16 community spaces partners in England, Wales and Scotland supported through its interest-free loans programme.

The Foundation adapted its 'Space to Connect' follow-on funding plans so all 'Explore' partners supported with £10k grants in 2019 could apply for a further £10k to build on their work in 2020. Funding was uncompleted so all suitable proposals were awarded funds. By mid-January 2021, the team had awarded £430k of follow-on grants to 44 organisations. Space to Connect supports organisations to improve spaces where people can connect and co-operate.

Free school meals for Co-op Academy pupils

In March, as schools began to close because of the virus, we knew that the 6,000 students who have free school meals across our 26 Co-op Academy schools would need our help. The Co-op Academies Trust has chosen to work in areas of high deprivation in the north of England which means the number of children eligible for free meals is on average around 32% in our schools, compared to the national average of 13%. In one of our Co-op Academy schools it reaches 67% of students. Before the Government had responded to this issue, we organised a scheme to give eligible Academies Trust pupils a weekly £20 Co-op food voucher card – £5 higher than the normal value of free school meals. We also extended this to children identified as being from financially vulnerable families and to refugee children who were not yet eligible for Government support.

Several hundred other schools chose to make use of our Co-op voucher cards to support their own pupils rather than use the Government provider. We committed to providing our Co-op support during term time and school holidays, including through the summer months. We also provided support to children forced to self isolate during the autumn term.

To help with home study during the lockdown, the Academies Trust provided 1,000 laptops to students who needed them.

Co-op Foundation agreed a three-month extension offer to partners funded to tackle youth loneliness through its Building Connections Fund youth strand. In addition, social enterprises supported via its Luminate programme were invited to apply for emergency grants to address short-term impacts on their organisation caused by lockdown. The Foundation gave out £45k of grants to 18 organisations.

In response to its own research, which revealed a rise in youth loneliness during the March-July 2020 lockdown, Co-op Foundation launched the second phase of its 'Lonely Not Alone' campaign in October to tackle the stigma of youth loneliness. In total, 57 young people helped to develop the campaign, which asked everyone to wear yellow socks and share their Outfit of the Day to show young people they're not alone.

Campaigning through the pandemic

Campaigning on issues which matter most to our members is a key part of being a co-operative. In mid-March as the scale of the coming emergency began to emerge, we pressed Government for 'key worker' status to be given to our Food and Funeralcare colleagues. We also provided guidance to Government on safety measures for caring for the deceased and on the social distancing measures for funeral services. Where we saw inconsistencies of practice over burial arrangements, we also lobbied local authorities.

In early July the Government finally published its response to its call for evidence from shop workers who've been the victims of verbal and physical abuse in the workplace. We welcomed the response and there are positive measures in it, but overall, we believe more should be done to protect our colleagues and reset expectations of what is acceptable in society – we do not believe it should be part of the job to be abused and attacked, and that only new legislation across the UK will provide this protection.

Last September, Jo Whitfield brought together the CEOs of 22 other major retailers and industry bodies to write to UK Prime Minister Boris Johnson asking him to give staff greater protection in the workplace and to back Alex Norris MP's Private Members Bill to achieve that. Following the evidence the Co-op provided to the Scottish Parliament's Committee in March 2020, the Co-op's managing director for Scotland, Derek Furnival, wrote to members of the Scottish Parliament in January to ask for their support of a new bill which will provide greater protection for shopworkers in the face of ever increasing levels of abuse and violence.

Also, the impact of the launch of the Nation in Mourning report led to it being tabled at a Cabinet meeting in July. The All-Party Group in Westminster and the Cross-Party Group in the Welsh Assembly are exploring a session on bereavement as a result. It has continued to be used in conversations to help ensure restrictions on funerals during the pandemic remain proportionate and provide families with the opportunity to say their best goodbye.

How are we building back better and different?

How are we building back better and *different*?

The events of the past 12 months have clearly evidenced that our Vision of 'Co-operating for a Fairer World' is the most compelling way in which we can deliver our Co-op Purpose of 'championing a better way of doing business for our members and their communities'. In a nation ravaged by the social and economic scars of the pandemic, we take extremely seriously the role the world's oldest Co-op can play in helping Britain build back better and different.

We have a clear plan to deliver our Vision and strategy over the coming years and many of our planned initiatives were accelerated during 2020 in a direct response to the challenge presented by the pandemic. Despite the uncertainties and challenges which lie ahead, our Co-op remains well placed to deliver value and values for all our stakeholders. Our forward looking strategy is underpinned by six strategic pillars and characterised by a number of key areas of focus and development:

Succeeding as a Co-op

- We continue to invest heavily into our price and service propositions in Food and Funeralcare. In Food, our 'Honest Value' range and major £50m price investment programme cut the cost of everyday food at our stores. More than 600 products dropped in price, helping our customers save almost £120 a year on their food bills.
- In December, we sold our insurance underwriting business, which will enable us to deliver a broader range of products and meet more of our members' insurance needs more of the time. We're already in talks with potential new partners on new products and are working to be even more competitive. We are investing in our online capability, to make things easier for customers.
- In Funeralcare we trialled new ways to help clients say their best goodbye in six locations, before using these learnings to roll out our new funeral service options nationally in October.
- We continue to build further partnership arrangements within Legal Services.

Being convenient

- In Food, we're rolling out new stores where appropriate, and at the same time significantly increasing our online and digital capabilities. In 2021, 85 new stores, 20 extensions and 122 refits will be unveiled as part of a £183m investment. Online services will expand to more than 1,000 stores.
- We are accelerating the digital transformation and capabilities of our Funeralcare, Legal Services and Insurance business areas. Funeralcare launched a new website with a market leading customer journey, showcasing all the services we offer and making it easier for clients to find the information they need and locate their nearest branch.
- We are working with Co-op members and customers to expand our offer, developing new Insurance products based on their needs.

Encouraging co-operation

- As a conscientious business and co-operative, sustainability means many different things and is part of everything we do. Whether in the context of climate change or the resilience of our communities, 2021 requires co-operation and collaboration with our members and business partners as we seek to weather Covid and continue in our mission for a greener future.

- Co-op Power launched its first ever proactive recruitment drive in the winter to encourage others to join its buying group and do the right thing, as the pandemic continued and green targets remained. It also worked to draw attention to those businesses obliged to pay premiums for unused energy at premises that were closed or not consuming as usual during the pandemic; an injustice Co-op Power fought hard to negotiate out of its own framework agreement and replace with a disruptive 'No Take No Pay' policy which protected its members from £1m of additional costs.
- In September we led a campaign to raise awareness of the pressures facing new young drivers from other motorists and launched a T-plate to indicate those using telematics technology. Our aim is to create safer drivers, safer roads and safer communities and this will continue in 2021.
- Co-operate, our online community centre, allows members to engage with each other and lists ways users can connect and support their community through joining online activities and groups, volunteering and donating equipment. Users can also start their own group or run an activity post-lockdown that brings the community together.
- Membership, through the Co-op app and online, means that Co-op members can choose which local cause they want to support every time they buy Co-op branded products, find personalised weekly offers for money off the things they buy in our Food stores, and donate part of their personal reward to help us tackle the big issues facing communities.
- Members can also help shape the products and services we sell, the work we do and how we're run by getting involved in regular Join In activities; by putting themselves forward for our Members' Council and by voting at our AGM and in our elections.
- In November, we partnered with the 'Make My Money Matter' initiative and committed to further align our pension investment with the values of the Co-op and its members, and to engage with colleagues on where their pension is invested.

Improving our operational effectiveness

- During 2020 we brought together our Funeralcare, Insurance and Legal Services businesses into one Life Services function, under the single, executive leadership of Shirine Khoury-Haq. Our ambition is two-fold: having three individually successful, profitable, competitive businesses that operate in distinct but complementary markets; and to deliver outstanding value to our customers.
- Collectively, this brings natural opportunity to create more efficient ways of working. Our strategic focus will be on commercial, product and digital opportunities where we can join up our products and services to serve our customers and members in a way that is uniquely Co-op. Our Food and emerging Power businesses further strengthen this.
- We will continue to reduce central costs and improve frontline service support.
- We will improve our Funeralcare operation by focusing on three main areas:
  - Transforming our core systems; replacing our legacy and outdated systems to create a sustainable platform for us to expand our digital capabilities and create the omni channel experience and access to services that we know our clients want.
  - We'll be reviewing our end to end operational processes, removing duplication and inefficiency and creating processes that are fit for purpose in 2021 and beyond.
  - We'll improve our ability to plan and resource our teams, and in turn increase efficiency and client experience in homes and care centres by introducing MyTime, a time and attendance management and scheduling system for our frontline teams.

- We will improve Retail Food operations through our Retail Business Transformation programme (RBT), the biggest transformation programme we've ever undertaken. This will accelerate in 2021, to improve ranging, stock holding, availability, and more accurate forecasting information.
- We will improve Wholesale through a radical overhaul of partner terms and conditions, expansion of the wholesale offer and range and recruitment of more independent stores and greater Co-op franchise opportunities.
- To build on its record number of new stores recruited last year, Nisa is overhauling its partner terms to make them simpler and more rewarding of loyalty.
- Nisa will continue to add value to our partners through the newly launched brand proposition, Fresh Thinking, which will provide its partners with the insight, tools, support and product innovation needed to grow their businesses.
- Co-op has enhanced its position as a credible franchise partner in the UK having been upgraded to an Associated Member of the British Franchise Association. We will continue to reach new locations through our successful franchise model, generating mutual value with like-minded partners.
- Franchising is a critical part of our convenience strategy to extend the reach of our brand and reach new markets. We were operating 14 franchise stores in cities, university campuses and communities all across the UK by the end of 2020; we are attracting new partners, customers and members every day and will double the estate this year.

Evolving our Co-op culture

- 2020 opened our eyes to the gross inequalities that still exist around us. We've set ourselves a bold Vision to ***'Co-operate for a Fairer World'***, which requires all of our colleagues and leaders to bring their diverse talents and expertise to the table to make change happen.
- Creating an inclusive culture, where all our colleagues can come to work to be their best selves is key to helping deliver this vision. Our strategy remained focused on designing and developing the foundations that enable us to create, sustain and embed an inclusive culture as we set out in 2018.
- The wellbeing of our colleagues has long been a top priority for us, and this last year more so than ever. At the start of the pandemic, we established a Wellbeing Steering Committee representing all areas of the business which allowed us to understand in real time where our colleagues needed our support, enabling us to swiftly evolve our plans.
- We know our colleagues have different needs at different times, and so we continue to look at wellbeing holistically, and across a number of areas including physical, financial and mental health. We look to provide a host of services that our colleagues need that they can get involved in co-creating, and can access where and when they require help.
- As a result, we launched 'Co-op Care', a regular communication to all colleagues covering guidance and advice on how to cope with the impact of Covid-19 on their health and financial wellbeing.
- We also provided free flu jabs to all our colleagues, which were taken up by over 10,000 colleagues.
- Underpinning this, we continued to extend the range of initiatives to support colleagues, including the rollout of mental health training to all our managers, creating a wellbeing hub for leaders to access content, and the introduction of 'Better Together', a colleague recognition programme focused on wellbeing.
- This work is closely connected to our partnership with Mind, SAMH and Inspire, enabling colleagues to fundraise and support others in their wellbeing as well as gain personal benefit from the charities' knowledge and expertise. More on how we're supporting the wellbeing of colleagues can be found in our Co-operate Report.
- Our focus on fair pay and reward continues. Fair reward includes pay, wider benefits (holiday, pension, paid breaks and flexibility) and our colleague wellbeing support. Our commitment to, and focus on, aligning to the Real Living Wage for our frontline colleagues is important, and sits alongside maintaining appropriate differentials between role grades.

- We became a member of the Ban The Box collective in September, as an employer that doesn't require any candidate to disclose any criminal records until after interview, during the pre-employment screening stage and only for certain roles.

Growing our Co-op

- Our Co-op will continue to grow through our finding innovative and compelling ways to engage the millions of new customers who came to us during the crisis and whose needs we can serve going forwards.
- Our wider social Co-op influence and impact will also continue to grow via our compelling community and campaigns agenda which will focus on a number of key priorities and programmes:

  - During 2020, we worked closely with the British Retail Consortium (BRC) to agree a roadmap not just for ourselves to achieve stretching new carbon commitments, but for the whole retail sector to co-operate to do so. There are now 62 retailers who have joined the Roadmap to reach net zero GHG emissions by 2040, across their business operations as well as their products and services, 10 years ahead of international agreements. This is a global first for the UK retail sector.
  - At the Co-op, our members are at the heart of our business and the decisions we make. And that's more than just joining in on developing our products and services, although these are obviously important. It's also about the issues we champion, the causes we highlight, the injustices we tackle – the things our members want us to use our voice to help make a difference with. We want to build stronger, more resilient and adaptable communities by offering fair access to food; fair access to mental wellbeing services and fair access to education & employment for young people.

Our financial performance

Our financial performance

We have made two key changes to the way that we show our financial results this year and these changes have required that we change (or 'restate') the results which we showed last year. A brief overview of the changes is noted below with full details given in our accounting policies (see page 197) and within the notes to our accounts (see Note 35 on page 194).

Funeral plans – revenue recognition

The Group adopted the new accounting standard for revenue recognition (IFRS 15) in 2018 and at that time we applied a judgement that the revenue to be recognised for a funeral plan was variable and so changed over time. When a customer takes out a plan, the monies are invested in whole of life insurance policies whose value changes over time until redemption. The key judgement we took was that on redemption of a policy, the monies received from the policy was 'consideration' receivable for the funeral. Therefore, investment gains from the policy were deferred on the balance sheet and only recognised as revenue at the point the funeral is performed. Our external auditors disagreed with this accounting treatment in our 2019 accounts which led to a qualified audit opinion.

During the second half of 2020 we have continued to review our revenue recognition accounting policy in respect of funeral plans and we have also had discussions with the Financial Reporting Council (FRC) regarding the merits of our accounting policy. As a result of this review, we have changed this judgement in 2020 and now the amount we receive when a plan is initially taken out is judged to be 'consideration' for the funeral, being the monies received from the customer rather than the return of the redemption of the policy. This adds two complexities to the accounting and how we report our numbers for our Funeralcare business.

Firstly, there is often a significant time difference between the date we receive monies from a customer and the date of delivering the funeral; under the accounting standards this is seen as a financing transaction whereby the customer is seen to be financing the Group. The accounting for this means that 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 recognised is the total of the monies received from the customer and the effective interest charged. The second complexity relates to our funeral plan investments, the majority of which are invested in whole of life policies. The gains or losses on these investments are now recognised within our finance income or finance costs each year. These investments are revalued each year based on their fair values, being their market value, and are impacted by external factors in the economy. This brings significant volatility to our income statement each year, despite our investments being held for the longer term and not accessible until the point each funeral is performed. As a reminder, under the previous accounting policy, investment gains or losses were deferred on the balance sheet until a plan matured.

This change in judgement requires us to update our 2019 numbers to reflect the new treatment as if it had always been the case. The changes impact the Group's 2019 consolidated income statement, 2019 consolidated balance sheet, 2019 consolidated cashflow and 2019 statement of changes in equity (see note 35 for detail). Consequently, the audit report qualification has been removed in 2020.

Reclaim Fund

In the past, our Co-op has included the assets and liabilities of the Reclaim Fund in our consolidated balance sheet. This was based on a judgement that we controlled the Reclaim Fund.

We have reassessed the facts and changed our judgement such that we no longer think we meet the accounting definition of control which requires us to include the results of the Reclaim Fund on our balance sheet. This is because we have no rights to any returns from the Reclaim Fund, be they positive or negative, with the Reclaim Fund only being permitted to distribute monies to good causes. This judgement has also been discussed with the FRC during the year.

Following this change in view, we no longer include the assets and liabilities of the Reclaim Fund on our balance sheet. This results in a reduction in our net assets of £74m and an equal reduction in other reserves. This is regarded as a prior year error and so we have updated our 2019 numbers to reflect the new treatment as if it had always been the case. There is no impact on our Income statement of this restatement.

Summary of financial performance

	2020 £ million	**2019** Restated* £ million	**2020** (excluding change in policy on Funeral plans**) £ million	**2019** (excluding change in policy on Funeral plans) £ million
Revenue	11,472	10,864	11,465	10,860
Underlying operating profit				
Food	350	283	350	283
Wholesale	6	(10)	6	(10)
Funerals	16	12	9	8
Legal	4	6	4	6
Costs of supporting functions	(130)	(110)	(139)	(110)
Other	(11)	(8)	(2)	(8)
Total underlying profit (a)	**235**	**173**	**228**	**169**
Property revaluations, disposals and one-off items	(28)	-	(28)	-
Operating profit	**207**	**173**	**200**	**169**
Underlying interest (b)	(63)	(64)	(63)	(64)
Net underlying lease interest (c)	(72)	(74)	(72)	(74)
Net finance income / (cost) income on funeral plans	28	(47)	-	-
Other non-underlying interest	27	36	27	36
Profit before tax	**127**	**24**	**92**	**67**
Tax	(55)	25	(48)	18
Discontinued operations	5	(16)	5	(16)
Profit for the year	**77**	**33**	**49**	**69**
Underlying profit before tax (a)-(b)-(c)***	**100**	**35**	**93**	**31**

* As noted above our 2019 numbers have been restated as we have changed the way we recognise revenue on funeral plans. To help illustrate the impact of this change, we have also included 2020 and 2019 figures excluding this change (so under our old method). ** Figures are unaudited. ***Refer to note 1 of our financial statements for a definition of underlying profit before tax. Further details on the Group's alternative performance measures (APMs) are given in the Jargon buster section on page 216.

Our headline performance

Revenue rose by £0.6 billion to £11.5 billion, a 5.6% increase compared to 2019. This growth reflects a strong trading performance in our Food business with revenue up £0.3 billion or 3.5% driven by 6.9% like for like sales growth that once again exceeded the market as measured by IGD. A strong performance was also seen in our Wholesale business with revenue up by £0.2 billion with like for likes of 16%.

Profit before tax (PBT) was £127 million compared to £24 million in 2019. The main driver for this is an increase in underlying performance of £62m and an increase of £75m on net income and interest on funeral plans. These increases and a further £3m reduction in underlying interest are offset by a net increase of £37 million from the impact of non-trading items such as disposals, impairments, one-off items and market valuation changes on our swaps and debt. These are discussed in more detail below.

Our underlying profit before tax comprises core trading profits less underlying interest expense (essentially interest on borrowings). This was up by £65 million with strong profit growth in our Food and Wholesale businesses partly offset by an increase in support function costs following some favourable gains in 2019. Our support from the Government's emergency economic measures to sustain the economy during the pandemic amounted to £82m – covering the business rates 'holiday' for our Food stores and funeral homes and furlough payments to our colleagues. Trading performance is discussed in more detail below.

We show how we adjust profit before tax to get to our underlying profit before tax in note 1 of our financial statements. Our jargon buster on page 216 also explains the accounting terms we have to use.

Our profits are reported after deducting the amount our members have earned through the 2% community and member rewards which totalled £58 million in the year (2019: £70 million; prior to October 2020 rewards were earned at 1% (community) and 5% (members)).

The sale of our insurance underwriting business (CIS General Insurance Limited ('CISGIL')) completed in early December. The results of that business and the loss on disposal have been reported as a discontinued operation in our consolidated income statement (this is consistent with last year). Co-op will continue to market and distribute insurance products through a long-term arrangement with Markerstudy.

How our businesses have performed

Food sales of £7.8 billion were up 3.5% on 2019, with like-for-like sales up 6.9% beating the market as measured by IGD by 0.5% main market and 2.6% convenience market. This sales performance has clearly been impacted by the pandemic and the associated impact on our customers shopping habits but the continued market beating like-for-like sales growth reflects also the investments we have made in our estate, in our product ranges and accelerating our online and home delivery services.

Underlying profit in Food was £350 million in 2020 compared to £283 million in 2019. The increase reflects the strong sales performance but also our continued transformation of our cost base and significant change programme.

Our Wholesale business achieved sales of £1.6 billion in the year compared to £1.4 billion in 2019. The business recorded a profit of £6 million in 2020 against a £10 million loss in 2019. Whilst this significant growth has been driven by the pandemic, it also reflects the competitiveness of our broader range of products, supported by our own brand proposition. This has helped to deliver strong recruitment in the year.

Revenue in our Funeralcare business was flat year on year at £272 million. The tragic increase in funeral volumes as a result of the pandemic have been largely offset by reduced sales price and margins following restrictions on customer choice and growing demand for lower cost funeral options such as cremation without ceremony. We conducted 100,920 funerals in 2020 compared to 90,630 in 2019, an increase of 11%.

These challenges saw underlying profit (excluding the impact from the change in accounting treatment for funeral plans) consistent with last year at £9m (2019: £8m).

Revenue in our Legal Services business has also been adversely impacted by the Coronavirus pandemic with revenue down £2m on the prior year to £37m with profits down £2m to £4m (2019: £6m).

Supporting functions costs were £130 million an increase of £20 million. This reflects some favourable gains in 2019 but we also invested more in 2020 in membership initiatives, increasing our share of voice to raise awareness of Our Co-op Values and Purpose, IT systems and more flexible cloud based solutions. This additional investment was partially funded by our ongoing organisational design work as we continue to ensure colleague structures across Co-op are set up to deliver our Purpose.

As noted above, CISGIL is classified as a 'discontinued operation' which means its results are included at the foot of the income statement, below profit before tax. The profit on discontinued operations this year of £5 million largely relates to the finalisation of the estimate of the costs associated with selling the business.

Property revaluations, disposals and one-off items

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

	2020 £ million	**2019** £ million
Change in value of investment properties	1	27
Property and business disposals	(41)	(22)
One-off items	12	(5)
Total	**(28)**	**-**

We have a significant property estate including Food stores, funeral homes, investment properties and vacant former trading properties. This can lead to significant property related items such as disposal profits and losses, closure costs and vacant property holding costs, impairment of carrying values of assets and revaluation gains on investment properties. We also have some one-off gains this year relating to largely non-recurring items. These are discussed in more detail below.

The £1 million increase in the value of our investment properties relates to gains from obtaining planning permission and market value uplifts across our investment property estate. The prior year figure included a gain of £21 million on one site.

One-off items	**2020** £ million	**2019** £ million
ATMs business rate refund	15	-
Pensions GMP equalisation	(3)	-
Reduction in Nisa consideration	-	11
Bank IT Separation	-	13
Impairment of Nisa intangible	-	(29)
Total	**12**	**(5)**

One-off items includes a £15 million gain following a legal ruling which has seen the repayment of business rates we had previously paid over many years on external facing ATMs. This is off-set by a £3m charge in relation to changes to historic pension liabilities.

Property and business disposals

	2020 £ million	2019 £ million
Write-down of assets on loss making properties	(36)	(44)
Sale of closure of properties	(5)	22
Total	**(41)**	**(22)**

The write down of assets of £36 million in 2020 relates to goodwill, right of use assets and fixtures and fittings on stores, branches and other properties that are not generating enough cash to support the value of those assets. These often relate to loss making sites.

The loss on sale of property mainly relates to the sale of a tranche of non profitable funeral homes as well as several Food stores.

Financing

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

	2020 £ million	2019* £ million
Underlying interest payable	(63)	(64)
Net underlying lease interest	(72)	(74)
Underlying interest	**(135)**	**(138)**
Net pension finance income	37	57
Net finance income / (costs) on funeral plans	28	(47)
Fair value movement on quoted debts and swaps	(6)	(8)
Non-underlying finance interest	(4)	(13)
Non-underlying interest income / (costs)	**55**	**(11)**

* As noted above our 2019 numbers have been restated as we have changed the way we recognise revenue on funeral plans.

The underlying interest on our borrowings and lease liabilities is in line with the prior year.

Pensions finance income is based on the pension scheme surplus on an accounting basis at the start of each year and the £20 million decrease mainly reflects a 1% fall in the discount rate that is used to calculate the net interest charge.

Following the change in accounting treatment for revenue, we now see a net interest income or charge on funeral plans on the face of our income statement. In 2020 the gains on funeral plan investments outweighed the interest we accrued, so we show net finance income of £28 million. Equivalent returns in 2019 were £70m lower and were outweighed by the interest we accrued, such that we showed a net finance cost on funeral plans of £47m.

Our total net debt at the year-end was £2.2 billion including the IFRS 16 lease liability of £1.4 billion. Excluding the lease liability, net debt was £550 million, a reduction of £145 million from the £695 million at 2019 year-end (details of what is included in net debt are provided in note 21).

In line with our plans and as part of our ongoing Treasury management processes we repaid £176m of the principal balance of the 6.875% 2020 Eurobond in July 2020 and we remain comfortably within the ratios of debt and interest agreed with our banks and our funding position is strong.

We invested £313 million of capital expenditure in 2020, principally on refits and new stores in Food and refurbishing funeral branches, as well as £60m in technology to upgrade IT systems to improve the supply chain and service to Food stores. We also made deferred payments of £31 million relating to the acquisition of Nisa where consideration is payable over several years. This capital spend was partly funded by £35 million of cash from disposals, mainly property sales and net proceeds on disposal of CISGIL of £56m.

Tax

We won't be paying corporation tax in respect of the year because we've brought forward tax losses and capital allowances. In 2020 we paid £150 million (2019: £207 million) to the Government in respect of VAT, business rates, Stamp Duty Land Taxes and Employers' National Insurance.

The total tax charge of £55m is made up of a £16m current tax charge and a £39m deferred tax charge. The £16m reflects the impact from the change in tax rate from 17% to 19% on the liability we hold in relation to tax losses previously surrendered to the Group by The Co-operative Bank. The current year deferred tax charge relates to deferred tax arising on movements on our pension assets and fixed assets.

See notes 8 and 15 for more detail on Tax.

We retained the Fair Tax Mark accreditation in 2020 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

Following the disposal of CISGIL, our insurance underwriting business, in early December, our balance sheet no longer includes the £1bn assets and £1bn liabilities of that business which were separately shown in 2019 within held for sale.

As noted above, we also no longer include the assets and liabilities of the Reclaim Fund in our consolidated balance sheet with a net asset reduction of £74m applied through the prior year restatement.

Property, plant and equipment has decreased by £46m which mainly reflects the net impact of £263 million of additions, disposals of £29 million, depreciation of £250 million, impairment of £21m and £9m moved to held for sale.

The net retirement benefit surplus on Co-op pension schemes remains significant and in line with last year at £1.9bn. Whilst the overall surplus was largely unchanged, there were some significant movements that netted off with a £0.5 billion increase in liabilities offset by a corresponding £0.5 billion increase in assets.

The liability increase largely reflected a change in the interest rate used to value pension liabilities which decreased from 1.97% to 1.47%. The accounting under IAS 19 is largely prescriptive and the interest rate we select is based on advice from our actuaries and is driven by corporate bond rates at year-end. The increase in assets reflects that the scheme mainly invests in gilts and credit assets which increased in value (c£1bn), which was offset by a reduction of £400m resulting from the Pace pensioner buy-in transaction during the year (the buyout liability was greater than the liability on an accounting basis).

Non-current Trade and other receivables have increased by £92m reflecting new instalment plan debtors of £67m and £25m of deferred consideration due following the sale of CISGIL.

The value of the funeral plan investments that the Group holds has increased by £60m. This reflects net movements from an increase of £86m for new plans, a reduction of £107m from redeemed plans and favourable market returns in relation to the value of those investments held. Contract liabilities relating to funeral plans have increased by £95m in the year reflecting £96m of new plans sold in the year with amounts recognised as revenue during the year (which reduces the liability) broadly offset by an increase in deferred revenue (which increases the liability) from the interest we accrue on plan liabilities.

Loans and borrowings (due within one year) have decreased by £184m which is mainly driven by the repayment of the final tranche (£176m) of the 2020 Eurobond debt in July.

Key performance indicators

Financial KPIs

Financial KPIs

Why are these measures important?

A profitable business and financial stability is essential in helping our Co-op meet its strategic objectives. It's important to get the right balance between the returns to members and reinvesting in our Co-op for future growth.

More information on our financial performance can be found on page 36.

	2020	2019 *Restated
Underlying profit before tax	£100m	£35m
Underlying operating profit (see below) less underlying interest which does not include net interest on our funeral plans as it is not considered by management in the day-to-day running of the business		
Underlying operating profit	£235m	£173m
A measure of underlying profit before one-off items and gains or losses on disposals of assets (see note 1 for more details on how it's calculated)		
Net debt	£1,975m	£2,165m
Bank loans and borrowings less the cash we hold (including lease liabilities)		
Net debt (excluding leases)	£550m	£695m
Bank loans and borrowings less the cash we hold (excluding lease liabilities)		
Total revenue	£11.5bn	£10.9bn
Net revenue as shown in the consolidated income statement (page 130)		
Operating profit	£207m	£173m
Operating profit as shown in the consolidated income statement (page 130). Includes the underlying operating profit of our businesses as well as one-off items and gains or losses on disposals of assets		
Profit before tax	£127m	£24m
Total profit from continuing operations** before taxation		

* Our 2019 figures have been restated to reflect a change in the way that we record revenue on funeral plans. Further detail on the restatement is given in Our financial performance on page 36.

**The profit on discontinued operations of £5m (2019: loss of £16m) relating to the sale of our insurance underwriting business is shown below profit before tax

Colleague KPI

Why is this measure important?

Having colleagues who are engaged is really important in helping our Co-op achieve our goals and serve our members and customers. High levels of engagement show the pride and passion our colleagues have.

More information on colleague engagement can be found on page 25.

Colleague engagement

2020	2019
76%	76%

Colleague engagement is measured by our annual Talkback survey

Membership and Community KPIs

Why are these measures important?

Membership and community are at the heart of what we do as a co-op. What we measure shows us how well we're doing at connecting with members and providing them with products and services they really value. The returns made to members and their communities are one way in which our Co-op shares value.

Active members

We define 'active members' as members who have traded with us in the last 12 months

4.3m 2019: 4.6m

Reward earned for communities*

The amount members earned for local communities through the membership offer on own brand products

£13m 2019: £11m

Reward earned by members*

The amount members earned for themselves through the membership offer on own brand products

£45m 2019: 59m

Member sales in Food

The percentage of sales in our Food business that are made to members

30% 2019: 33%

*We updated our membership proposition in October (previously community reward was earned at 1% and member reward was 5%, it is now 2% and 2% respectively).

Risk management

Risk management

We want all colleagues to share responsibility for identifying and responding to risk and making decisions that fit with Co-operative Values and Principles. Dealing with risk in the right way means we continue to create value for our members and communities. Our risk management framework gives colleagues a consistent and robust way of identifying and managing risks while keeping us within our risk appetite.

Our risk management framework

Governance

- Our Board oversees our risk management framework through the Risk and Audit Committee and regularly considers the status of our Co-op's Risk Profile by reviewing risk mitigation plans and responses to emerging risks.
- The Executive manage our principal risks and responses through the Executive Risk Committee with the support of the Business Risk and Assurance Committee comprised of senior leaders from across our Co-op.

Policies and control standards

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

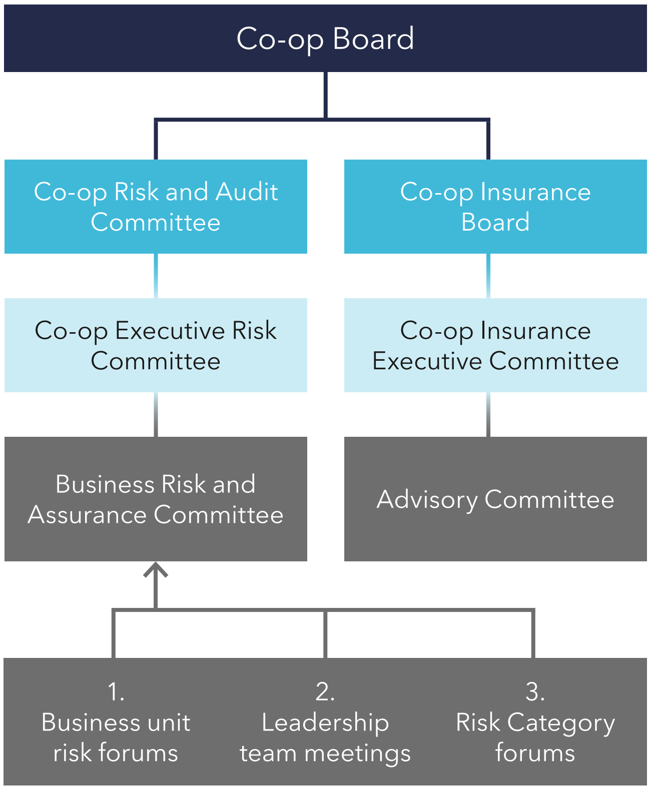
Risk appetite

- Our tolerance for risk is considered for our Co-op as a whole, and by risk category.
- The Executive, with the support of senior leaders, strive to take decisions in line with our risk appetite.

Roles and responsibilities

- Our Co-op uses a three lines of defence model to manage risk.
- First line / frontline colleagues, managers and leaders manage risk as part of their day-to-day activities and escalate where issues occur.
- Second line teams (e.g. Risk and Support functions) provide guidance and help the frontline to manage risk.
- Internal audit, as the third line, provides independent assurance and challenge.

Our risk governance structure



Changes to organisation and governance

In December 2020 we completed the sale of our insurance underwriting business, CIS General Insurance Limited. We'll now focus on the developing and distribution of insurance products through Co-op Insurance Services Limited. Our risk governance structure has changed accordingly as separate risk governance is no longer required for the CIS General Insurance Limited business no longer owned by us, but it continues for Co-operative Insurance Services Limited.

Read more about

Our principal risks and uncertainties on pages 50-53

How we manage risk

Our Board regularly reviews our position against our risk appetite, the principal risks to our business, and monitors management's action plans. In 2020, the Risk and Audit Committee (RAC) and Executive Risk Committee (ERC) met regularly to look at the risks affecting our Co-op and made a robust assessment of the principal risks and the activity undertaken by management to mitigate these. The ERC considers the principal and emerging risks to our strategy and our Co-op as part of our annual planning exercise updating as things change. This includes:

- Evaluating our current and target risk status.
- Considering the impact of emerging risks and external events, and revising the principal risks as required.
- Regularly assessing the impact and likelihood of each principal risk and management's progress in delivering agreed response plans.
- Monitoring corrective action when things go wrong.
- Regularly reviewing our position versus our risk appetite and taking appropriate actions where needed.

Members of the Executive management team are individually responsible for managing the principal risks and mitigating those risks with the support of a senior leader. Senior leaders are drawn from each business unit and key support function to form the Business Risk and Assurance Committee. This Committee has delegated responsibility for managing the delivery of mitigation plans, assessing emerging risks and when required challenging action taken to keep us within risk appetite.

Our risk plan:

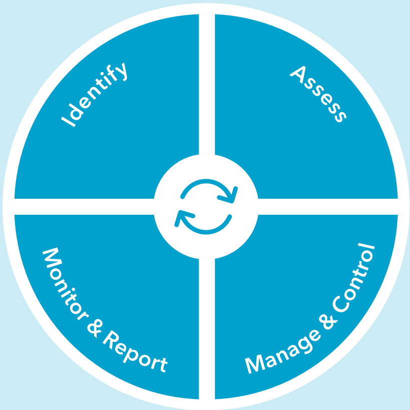
In 2020, we continued to strengthen our risk maturity and continued to improve the ease and understanding of risk management. Important developments include the introduction of an automated risk solution across our business and aligning our internal controls to our risk policies, control standards and risk appetite.

Our 2021 risk transformation plan focuses on:

- Delivery of our 2021 risk training and awareness plan.
- Moving all business areas on to our automated risk solution.
- Improving how we incorporate risk appetite considerations into our strategic planning and decision making.
- Further embedding our risk and internal control framework across our businesses.
- Wider use of key risk and control indicators to monitor our risk profile.

Our approach to risk

We have a four-step approach which helps our leaders and colleagues to recognise and manage risk day-to-day within risk appetite; supported by our risk management processes and tools.



Identify

- We identify the key risks, both internal and external, that could impact our business by using our experience, judgement, policies and standards.
- Regularly updating as things change and horizon scanning.

Assess

- We regularly assess the likelihood and impact of the risks we identify relative to the controls we already have in place versus our risk appetite; considering the financial, reputation, strategic and operational costs and benefits to our Co-op.

Manage & Control

- Our Board, Executive and Senior leaders manage the risks to our business by making sure that appropriate response plans, projects and change programs and resources are in place.

Monitor & Report

- Business units and enabling function teams regularly review management information to understand if our risk level is changing and taking action when needed.
- Reports are regularly provided to our governance Committees to help with the monitoring of our risk.

Our risk appetite

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

Our risk appetite is set by the Board and reassessed periodically. It is set out in our risk appetite statements with supporting qualitative and quantitative criteria that helps us assess our position against our risk appetite. Responsibility is given to the Executive and senior leaders to put into practise our risk appetite processes, monitoring and decisions to ensure that we operate within the guardrails of the risk appetite approved by the Board. We regularly report to the Business Risk & Assurance, Executive Risk and Risk and Audit Committees on our position compared to our risk appetite. We make that assessment from the following perspectives:

Strategic and business

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

Financial and treasury

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

Operational and customer

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

Regulation and compliance

We must always comply with the laws and regulations that govern our business.

Brand and reputation

Co-operative Values and Principles are at the centre of our approach to business and how we engage with our stakeholders. We balance the level of risk we take in our business decisions with our ethical values.

How our principal risks developed in 2020

Our Strategic, Business, Regulatory and Compliance risks have increased during 2020 driven mainly by the combined impact of the Covid-19 pandemic, terms of the post-Brexit transition trade deal and the worsening economic situation.

The key changes in our principal risks since our interim 2020 report are set out below:

- **Covid-19 and the pandemic** is no longer set out as a separate principal risk. The widespread effect of the pandemic on all parts of our business impacts each of our principal risks to varying degrees. This is particularly intensified for our *People, Health & Safety, Competitiveness, Change and Operational Resilience* principal risks.
  - People – There are some important themes from a people perspective around remote talent management and shift to a hybrid model characterised by flexibility and adaptability while sustaining our Co-op culture and productivity. Changes to colleague working patterns and a tendency to a longer work schedule has increased our focus on colleague wellbeing.
  - Health & Safety – We've invested in additional measures across all our businesses to keep our colleagues, members and customers safe on our premises and when we provide services to them.
  - Competitiveness – We're facing into a challenging economic climate and consumers are seeking increased value as household budgets come under increasing pressure. This has required us to adapt our business strategies and how we operate to meet this demand.
  - Change – At times we have had to reallocate change resource and pause activity to maintain operations and continue to provide a good service to our members and customers. We continue to maintain an agile approach as events change.
  - Operational resilience has been challenged at certain points by customers' stockpiling patterns at the start of the pandemic and as restrictions have tightened; combined with higher than normal colleague absenteeism caused by self-isolation and shielding.
- **Our Brexit and other market conditions risk** has been closed as a principal risk, with the uncertainty about our trading relationship now clear. Our focus is on understanding the implications of the Brexit trade agreement and responding to the risk that it may pose to our proposition, compliance with new regulations and partners in our supply chain. We remain focused on the particular challenges of moving products between Great Britain and Northern Ireland in line with the new regulatory requirements.
- **Competitiveness and the External environment** have been combined to better reflect the interconnectedness of changes in our external environment on the competitive landscape in which our business operates.

Emerging risks

The Board, Executive and senior leaders regularly consider emerging risks as part of risk monitoring and strategic planning sessions. Emerging risks are identified from various sources, which include horizon scanning, review of macro-economic and industry trends, bottom up strategic planning and risk forums / meetings.

Principal Risks and Uncertainties

We face a range of critical risks and uncertainties, not all of which can be controlled. Some arise from changing external factors, such as legislation, macro-economic conditions, consumer trends and competition which are more difficult to mitigate. New risks emerge and existing risks change as we carry out our plans and as the commercial environment changes.

🌡 – Principal risks that are amplified by the Covid-19 pandemic

V – Considered in our viability assessment, see page 109 for further details

Change V 🌡

Responsible Exec: **Chief Financial Officer/ CEO of Life Services**

Risk Category: **Strategic and Business**

Risk trend: **Increased** ↑

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

Reasons for risk	What we do	What has changed	What we plan to do
• Number and complexity of change programmes • Available resources • Complex dependencies between change programmes • Cost of change	• Rigorous governance and review in place, covering transformation programmes with new governance forums mobilised to provide appropriate oversight • Approach to change centred around ensuring that colleague impact is considered and effectively managed to ensure changes are fully embedded without disruption to business as usual activities • Four-year planning assesses and prioritises transformation choices against delivery of our strategic objectives	• Retail Business Transformation, a multi-year programme that will complete this year, continues to make significant improvements in streamlining our retail processes and ways of working • Programme of operating model re-design carried out across the business to strengthen ways of working and ensure that the right capabilities exist across the Co-op to enable delivery of our Vision and strategy	• Continual assessment of benefits from the change activity we undertake • New and/or revised controls relevant to our management and execution of change

Competitiveness and External Environment V 🌡

Responsible Exec: **Chief Financial Officer/ CEO of Life Services Chief Executive, Food**

Risk Category: **Strategic and Business**

Risk trend: **Increased** ↑

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

Reasons for risk	What we do	What has changed	What we plan to do
• New entrants and market competition • Innovation and market disruptions • Pricing pressures • Market cost pressures • Inefficiencies in our operations • Changes to regulation • Macroeconomic changes • Structural changes to the economy post Brexit transition • Economic situation	• Strategic planning and budgetary monitoring processes • Market Intelligence teams in place • Regular market share and competitor analysis • Sales monitoring and reporting • Horizon scanning process and frequent assessment of external conditions • Agile promotions and marketing responses • Extensive due diligence for all acquisition activity • Engagement with Government and industry working groups	• The pandemic has created economic uncertainty and higher levels of unemployment, leading consumers to seek out value • Covid-19 scenario modelling put in place to support strategic choices • It has also accelerated the shift to online and digital channels • Growth in hyper-localism • Sale of our insurance underwriting business completed in December 2020 • Food - Focus on health, partnerships and experiential offerings • Our Funeralcare business offerings have been restricted due to Covid-19 driving changes to our proposition	• Grow our business through physical locations, channels and services that deliver a compelling proposition for customers and members • Continuing to deliver the transformation programme for Funeralcare • Continue to improve our data management capabilities • In our Funeralcare business, continue to deliver the transformation programme with sharper focus on funeral affordability considering the economic climate. Review our cost model within Funeralcare with the potential for passing on savings to our clients

Brand and Reputation

Responsible Exec: **Chief Membership Officer**
Risk Category: **Brand and Reputation**
Risk trend: **Stable**

Risk description We set ourselves high standards for responsible retailing and service, as well as speaking out on the issues that matter to our members. If we don't meet those standards, or fail to demonstrate our difference from our competitors, there's a potential risk to our reputation.

Reasons for risk	What we do	What has changed	What we plan to do
• Living up to Co-operative Values and Principles • Expectations of members, customers and colleagues • Diverse nature of our businesses, product and partners	• Report our ethical priorities and sustainability progress through our Co-operate Report on our responsible business performance • Ethical Decision Making Tool used to assess our activities and help us make better decisions • Campaign in line with our community priorities, e.g. access to food, mental wellbeing, youth skills & education • 'Safer Colleagues, Safer Communities' campaign tackling crime against colleagues	• Increased public focus on sustainability, climate change and the need for responsible retailing • Launch of new membership proposition doubling support towards community commitments • Release of our Racial Equality manifesto to drive diversity and inclusion across our business • New marketing campaign around 'It's what we do' to reflect how we operate as a business	• Deliver programme of activities to drive day-to-day colleague, member and customer awareness of our brand, and our difference • Deliver our Vision of 'Co-operating for a Fairer World' - Continue to improve colleague pay and benefits - Diversity and Inclusion commitments - Develop new routes into work through Government Kickstart work placements to candidates in communities where opportunities are most needed - Significantly increase money going to community causes and charities • Ensure we have the right resource in the right place to deliver on our sustainability goals

Pensions Obligations V

Responsible Exec: **Chief People & Services Officer**
Risk Category: **Finance and Treasury**
Risk trend: **Stable**

Risk description The measurement of our Defined Benefit liability is sensitive to changes in several factors. Adverse movements could result in lower pension surplus and may need our Co-op to pay additional contributions.

Reasons for risk	What we do	What has changed	What we plan to do
• Changes in interest rates • Changes in inflation expectations • Changes in expectations of future life expectancy • Movements in market prices	• Established Pension Strategy Committee to manage our pension risk exposure • Regular monitoring of funding and risk positions • Reassess key assumptions used in the pension calculation • Review advice provided by internal and external actuaries • Use hedging strategies against increases in interest rates and inflations	• Buying insurance contracts to match our liabilities to pensioners for some of our plans, helping to limit the impact of increases in interest rates, inflation and life expectancy over time	• Explore options to further reduce pensions risk

IT & Cyber Threats V

Responsible Exec: **Chief Financial Officer/ CEO of Life Services**
Risk Category: **Operational**
Risk trend: **Stable**

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

Reasons for risk	What we do	What has changed	What we plan to do
• Custody of valuable data • Reliance on technology • Sophisticated and diverse cyber threat landscape • Data privacy and data protection regulations • Colleague, member and customer confidence • Processing of data through third parties • Protect information owned or managed by the Co-op • Protection of services that the Co-op delivers to our customers and members	• Specialised Information Security team has embedded Information Security controls across the business • 24-hour threat monitoring and response capability • Patch management and penetration testing • Supplier security due diligence and assurance, and regular testing for security weaknesses • Protecting Co-op systems and data by monitoring • Share best practice and foster a strong information security culture across the business	• Programme completed which has upgraded all colleagues to Windows 10 and Office 365, leading to an improved remote working experience and increased system security • Improved protection from external cyber threats • Outsourced security operations which has improved efficiency and effectiveness	• Continued focus on Identity and Access management to increase our overall system security and reduce risk exposure • Simplify our technology footprint by adopting a streamlined vendor strategy • Introduce threat discovery capabilities to determine where the Co-op is most at risk

People

Responsible Exec: **Chief People & Services Officer**
Risk Category: **Operational**
Risk trend: **Stable**

Risk description Our ability to attract and retain colleagues with relevant skills and experience is important to achieving a strong, competitive Co-op. If we do not continue to recruit talent and to invest in our colleagues, then it may impact our operations and our ability to deliver on our strategic plans.

Reasons for risk	What we do	What has changed	What we plan to do
• Ineffective selection and assessment processes • Talent attraction • Need for greater diversity	• Pre-employment screening, culture fit assessment and induction for new hires • Continue to embed diversity and inclusion strategy • Ongoing training for all leaders and managers • Colleague performance review, engagement and recognition • Talent management review • Pay and reward packages are reviewed regularly to ensure they remain competitive and fair	• Launched inclusion and diversity, and leadership behavioural training • Launched a new reward framework to support consistent decision making on pay and to bring increased transparency • We have most of our support centre colleagues working remotely as a result of the pandemic. Guidance and additional equipment has been provided to support these colleagues to help them work safely and securely	• Review consistency of colleague experience around wellbeing • Create a common colleague proposition across our colleagues' lifecycle • Continue to embed our leadership and capabilities framework • Review our future talent strategy and invest in our frontline colleagues • As part of an inclusive culture, develop robust indicators to measure inclusion, increase awareness and insight among leaders

Misuse and/or Loss of Personal Data

Responsible Exec: **Group Secretary and General Counsel**

Risk Category: **Operational**

Risk trend: **Decreased**

Risk description We hold personally identifiable data on our colleagues, customers and members. We need to make sure we protect and manage this data.

Reasons for risk	What we do	What has changed	What we plan to do
• Member, colleague and customer confidence • Data privacy and data protection regulations • Information processed on our behalf by third parties	• Dedicated Data Protection, Data Management and Information Security teams provide challenge, guidance and oversight • Role specific training to manage data protection risks • Data Protection Impact Assessments for new or changes to existing systems, processes or business activities • Strategic relationship with Government bodies and third parties	• Strengthened our operating model across our Co-op through improved training, awareness and oversight • Further improvements to our data protection governance and reporting • Enhanced our pan Co-op assurance capabilities • Data protection touchpoints embedded into supplier management processes • Heightened alignment across Data Protection, Data Management and Information Security to drive efficacy and avoid duplication	• Further embed assurance activity over key data protection controls • Improve oversight of data protection compliance across the Co-op • Keep colleagues up to date with key regulatory changes, to enable informed decisions about how we use personal data responsibly • Enhance suite of reporting to include trend analysis, risk metrics and emerging risks • Drive increased ownership and accountability for personal data to ensure appropriate level of data protection risk and compliance

Health & Safety and Security 🌡

Responsible Exec: **Group Secretary and General Counsel**

Risk Category: **Operational**

Risk trend: **Stable**

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

Reasons for risk	What we do	What has changed	What we plan to do
• Keeping our colleagues, members customers and visitors to our sites safe • UK Health & Safety legislation • Complexity of our business	• Co-op Health and Safety Governance Framework and Financial Crime & Security Frameworks in place • Co-op Minimum Safety Standards • Oversight by 2nd line Safety team • Assurance of crime and security data and compliance with standards across the Co-op • Protecting our lone workers	• Ongoing gap analysis activity of business processes against Safety minimum standards • Supporting our colleagues to maintain business as usual through the pandemic • Working with our partners to enhance the security of our premises and people • Increased use of technology such as headsets and body worn cameras • Better intelligence sharing of our data with the police • More effective working relationships with police to secure prosecutions of prolific and violent offenders	• Ongoing review to ensure we meet our Co-op Minimum Safety Standards • Proactive incident management to produce lessons learnt and drive continued improvement • Build on external partnerships • Wider stakeholder engagement across the Co-op for all things Safety • Continue the 'Safer Colleagues, Safer Communities' campaign • Adopting our risk-based security standards across our estate

Operational Resilience

Responsible Exec: **Chief Executive, Food**

Risk Category: **Operational**

Risk trend: **Increased**

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

Reasons for risk	What we do	What has changed	What we plan to do
• Efficiency of logistics network process, infrastructure and resource capacity • Unpredictable external events like severe weather, pandemics and extreme criminal activity • Post-Brexit transition changes to the economy, trade deals and national infrastructure • Supplier capacity and preparedness for cross-border processes • Variability in customer and network demand leading to supply pressures and service instability	• Established business disruption planning and testing, including incident management processes • Regular disaster recovery testing and review of IT service levels to ensure resilience to external sources of disruption • Engagement with industry working groups, Government and information exchanges to support joint responses with key stakeholders	• Post Brexit Transition Committees in place lead our adoption of new regulatory and tax regimes that impact our supply chain • Strengthened understanding of our supplier resilience through our Brexit contingency planning • Expanded network capacity to support our Food business	• Deliver improved resilience through our multiyear Retail Business Transformation Programme • Food Business and Funeralcare's core system transformation • Strategic review of our network to meet future demands • Delivering the 'Best Ways' programme in Funeralcare to improve the way we operate

Regulatory Compliance

Responsible Exec: **Group Secretary and General Counsel**

Risk Category: **Regulatory Compliance**

Risk trend: **Stable**

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

Reasons for risk

- New and updated laws and regulations
- Our businesses provide financial and legal products and services regulated by the Financial Conduct Authority and the Solicitors Regulation Authority
- Codes and regulations that apply to our Food business including the Groceries Supply Code of Practice, product safety regulations etc

What we do

- Colleagues with expertise in financial services (including FCA approved senior managers)
- Regulatory compliant controls and procedures appropriate to financial and legal product and services businesses
- Processes and procedures in place and Charter to engage with suppliers to manage compliance with Groceries Supply Code of Practice (GSCOP or "the Code")
- Established risk and compliance teams operate in our regulated businesses
- Mandatory training on regulatory and legislative requirements for all relevant colleagues
- Regular compliance monitoring and review undertaken at senior governance committees

What has changed

- In January 2020 the Groceries Code Adjudicator released the Co-op from regulatory scrutiny; satisfied that her recommendations had been met and the Co-op was compliant with the Code
- The Competition and Markets Authority completed its investigation of the funerals industry in December 2020 and legislation has been passed and draft regulations published for the for future regulation of the Pre-Need Funeral Plans market by the FCA
- The Covid-19 pandemic has necessitated focus on regulatory compliance around health and safety and competition law
- Conclusion of the Brexit transition period means significant regulatory change for imports from the EU and exports to Northern Ireland
- Following the sale of Co-op's insurance underwriting business, the Co-op Group no longer has ownership of a business which is regulated by the PRA
- Our external auditor's opinion for the 2019 annual report and accounts was qualified given our differing view on the accounting treatment for how we recognise revenue for Pre-Need Funeral Plans under International Financial Reporting Standards (IFRS 15). In discussion with the Financial Reporting Council (FRC) and our auditors, for our 2020 accounts, we agreed to change our judgement on the application of this specific accounting standard in our financial reporting. Our external auditor's opinion for the 2020 annual report is unqualified

What we plan to do

- Strengthen our compliance framework in response to increasing regulatory requirements across all our businesses
- IT improvements to support compliance with the GSCOP and other regulatory and legislative requirements across our Co-op
- Readiness for changes to regulation of the funeral industry

Pre-need Funeral Plan Obligations V

Responsible Exec: **Chief Financial Officer/ CEO of Life Services**

Risk Category: **Finance and Treasury**

Risk trend: **Increased**

Risk description The measurement of our Pre-Paid Funeral Plan obligations is sensitive to changes in several factors. Adverse movements could result in lower than expected funds being available and the business receiving a lower amount per funeral or may result in individual contracts becoming onerous.

Reasons for risk

- Changes in the cost of providing a funeral or expected inflation on funeral costs
- Under performance of assets held to meet funerals
- Changes in long term interest rates

What we do

- Most funds are invested in whole of life insurance policies with guaranteed minimum returns
- Regular stress testing, actuarial modelling and monitoring of funding, asset performance and risk positions versus risk appetite
- Annual re-assessment of key assumptions used and the performance of an annual actuarial valuation by external actuaries
- Monitoring and oversight by a senior committee of specialists, business leaders and advisors

What has changed

- The investment strategy which supports a large proportion of the whole of life policies has been de-risked
- Amended the pricing model including lowering commission rates

What we plan to do

- Evaluate the impact of Financial Conduct Authority regulation on funding, capital requirements and terms & conditions of plans
- Continual review and improvement of the methodology and assumptions used in our actuarial models

Environment and Sustainability

Responsible Exec: **Chief Executive, Food**

Risk Category: **Strategic and Business**

Risk trend: **Increased**

Risk description The way we choose to run our business operations and the products and services we provide has both social and environmental impacts and affects the future of our planet. Failure to run our operations in a more sustainable manner and ready our Co-op to transition to a greener economy could contribute to more damage to our environment and increased financial cost and missed opportunities.

Reasons for risk

- Changing regulations and UK Government targets / policies
- UK commitment to the 2015 Paris Agreement and to be net zero by 2050
- Increasing competitive environment on sustainability as organisations move from aspiration to implementation to meet agreed targets
- Climate change and sustainability impacts on food sources, water, livelihoods and economic growth
- Government plans for a transition to a greener economy
- Living up to Co-operative Values and Principles
- Changing attitudes of members, customers and partners

What we do

- Support for the BRC Climate Roadmap to reach net zero by 2040
- Public commitment and science-based targets focused on:
  - reducing both our direct and indirect greenhouse gas (GHG) emissions
  - a broad range of our most material issues: plastics recyclability, eliminating single use plastic, responsible sourcing across our supply chain, and Fairtrade and ethical trade
- Annual sustainability reporting of our performance

What has changed

- Launch of the UK Government's 10 Year Plan for a Green Industrial Revolution
- UK's hosting of the UN Climate Change Conference of the Parties (COP26) in November 2021
- Launch of the British Retail Consortium's Climate Roadmap to be net zero by 2040
- Potential for mandatory reporting of food waste
- Financial disclosure of climate related risks set to become mandatory by 2025 (for listed businesses)

What we plan to do

- Continue to strengthen our pan-Co-op governance and future reporting to drive our sustainability plan while leveraging synergies across businesses
- Ensure we have the right resource in the right place to deliver on our public commitments
- Continue implementing carbon reduction strategies to deliver GHG reductions of 50% from our operations and reduce product emissions by 11% by 2025
- Move to 100% packaging recyclability
- Horizon scanning and preparedness for future environment and sustainability regulations

Governance reports

Board biographies

Allan Leighton

Chair

Appointed as Independent Chair on 19 February 2015

Committee membership

- Nominations Committee (Chair).

Skills and experience

Allan has held many high profile roles, including Chief Executive of Asda from 1996 to 2000, and Non-Executive Chair of Royal Mail from 2002 to 2009. Allan is currently the Chair of C&A, Canal & River Trust, Element Limited, Northern Bloc Ice Cream and of Allbright, the all women's networking club and a Non-Executive Director of Going Plural Limited and Simba.

Steve Murrells

Chief Executive

Appointed as an Executive Director on 1 March 2017

Skills and experience

Steve was appointed as our Chief Executive Officer in March 2017. Prior to being appointed CEO, Steve led our Co-op's Food business since 2012. Before joining our Co-op, Steve spent three years as CEO of Danish meat company Tulip, and prior to this held senior leadership roles in European and UK based food retail businesses, including at One Stop, Sainsbury's and Tesco.

Shirine Khoury-Haq

Chief Financial Officer/ CEO Life Services

Appointed as an Executive Director on 5 August 2019

Skills and experience

Shirine joined the Co-op Executive in August 2019 and is our Chief Financial Officer and Chief Executive Officer of Life Services.

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

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

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

Lord Victor Adebowale

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director on 6 April 2016

Committee membership

- Risk and Audit Committee.

Skills and experience

Victor has been involved in a number of independent commissions advising Governments on mental health; learning disabilities; the role of the voluntary sector; policing and stop and search; policing and mental health; housing policy; the future of public services and employment/skills and Race and Equalities.

He is currently Founding Chair of Collaborate CIC; Director Leadership in Mind, Director of the Covid-19 Healthcare Support Appeal, Chair of the NHS Confederation; Chair of Urban Development music charity; Chair of Social Enterprise UK; Co-founder and Chair of Visionable.com; a visiting professor and Chancellor of University of Lincoln; Non-Executive Director of Nuffield Health Group and a Court member of the London School of Economics.

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

Board biographies

Hazel Blears

Member Nominated Director

Elected as a Member Nominated Director on 16 May 2015 and re-elected in 2016 and 2018

Committee membership

- Nominations Committee.
- Risk and Audit Committee.

Skills and experience

Hazel was a Labour Member of Parliament from 1997 to 2015, representing Salford and Eccles. She has held a number of senior positions in Government including Public Health Minister, Police and Counter Terrorism Minister and Communities Secretary. Hazel also served on the National Intelligence and Security Committee.

Hazel's other roles include being Chair of the Social Investment Business Foundation. Hazel is also a Trustee of the Social Mobility Foundation.

Simon Burke

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director on 14 November 2014

Committee membership

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

Skills and experience

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

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

Margaret Casely-Hayford, CBE

Member Nominated Director

Elected as a Member Nominated Director on 21 May 2016 and re-elected in 2018 and 2020

Committee membership

- Remuneration Committee.
- Nominations Committee.

Skills and experience

Margaret is a qualified lawyer of over 30 years standing, was the Director of Legal Services for the John Lewis Partnership for nine years and on the Board of the British Retail Consortium for four years to 2014. During her term on the Board of NHS England she was one of the directors who promoted and championed 'NHS Citizen' the new listening structure for the NHS that enables proper consultation and collaboration.

Margaret is currently Chancellor of the University of Coventry, a member of the Institute of Directors' Governance Advisory Board and the British Council Review, a member of the Challenge Panel, a member of the Metropolitan Police Oversight Panel, Chair of Shakespeare's Globe Theatre, and is an adviser to a number of social enterprises.

Paul Chandler

Member Nominated Director

Elected as a Member Nominated Director on 16 May 2015 and re-elected in 2019 and 2020

Committee membership

- Risk and Audit Committee.

Skills and experience

Paul was the Chief Executive of Traidcraft from 2001 to 2013, President of the European Fair Trade Association from 2005 to 2012 and Chair of the William Leech Foundation until April 2020. Drawing on his Fairtrade experience and early career in Barclays Bank, he is now focusing on promoting responsible practices in business, alongside a portfolio of charity and community focused roles. Paul is a director of CBF Funds Trustee Limited, Chair of the Durham Cathedral Council, and a director of Shared Interest. He is also the Vice Chair, Treasurer and a Fellow of St Chad's College in Durham University, Vice Chair of the County Durham Community Foundation, a Trustee of the Bible Society, and a director of the Fair Trade Advocacy Office in Brussels.

Board biographies

Sir Christopher Kelly

Senior Independent Non-Executive Director

Appointed as Senior Independent Non-Executive Director on 14 November 2014

Committee membership

- Remuneration Committee.
- Nominations Committee.

Skills and experience

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

Sarah McCarthy-Fry

Member Nominated Director

Elected as a Member Nominated Director on 18 May 2019

Committee membership

- Risk and Audit Committee.

Skills and experience

As a committed co-operator for over 25 years, Sarah has previously served as a local Councillor and as a Labour and Co-operative MP, representing Portsmouth North. Drawing on her parliamentary experience in HM Treasury and the Department for Children, Schools and Families, Sarah was also at the forefront of developing a Government-led apprenticeship programme.

She is a former Finance Director at GKN, a global engineering business and a former Chair of the Employment and Skills Board for the Solent Local Enterprise Partnership.

Rahul Powar

Independent Non-Executive Director

Appointed as Independent Non-Executive Director on 23 July 2018

Committee membership

- Remuneration Committee.

Skills and experience

Rahul is the founder and Chief Executive of Redsift, an organisation which provides an open platform delivering products that prevent cyber-attacks. Prior to Redsift, he founded Apsmart which was acquired by Thomson Reuters Corporation in 2012.

At Thomson Reuters he served as the Head of Advanced Products & Innovation. In a previous life he was part of the founding team and principal technical architect of Shazam. Before the launch of the iTunes AppStore, he designed and created the first Shazam iPhone app.

Stevie Spring, CBE

Independent Non-Executive Director

Appointed as an Independent Non-Executive Director on 25 June 2015

Committee membership

- Chairman of the Remuneration Committee.

Skills and experience

Stevie is a respected Board Director with broad Executive and Non-Executive experience across the private, public and not for profit sector. She was previously CEO of Clear Channel, the world's largest out of home company; then of Future PLC, an international media company where she led its digital transformation.

Stevie's portfolio currently includes chairing the British Council, the UK's international cultural relations and English language organisation; technology company Kino-mo and Mind, the mental health charity. Stevie was named in the Sunday Telegraph/ Debretts list of Britain's 500 most influential people.

Executive biographies

Steve Murrells

Group Chief Executive

See Board Biographies

Shirine Khoury-Haq

Chief Financial Officer/ CEO of Life Services

See Board Biographies

Matt Atkinson

Chief Membership Officer

Matt joined the Co-op in October 2017 as Chief Membership Officer (CMO).

Prior to joining the Co-op, Matt was CMO for SAGA where he helped transform them into a digital organisation, winning new customers and entering new markets. Before SAGA Matt was on the Group Executive at Tesco and Non-Executive Director of Global data business DunnHumby and held roles at P&G and a variety of global communication agencies.

Matt Atkinson is stepping down from his role at the end of June 2021.

Helen Grantham

Group Secretary and General Counsel

Helen joined as Group Secretary in January 2016 and took on the additional role of General Counsel in July 2017. Helen qualified as a solicitor in 1989 and prior to joining our Co-op worked as both a General Counsel and Company Secretary for listed companies, most recently for Dixons Carphone PLC. She has a keen interest in helping others reach their potential and is a Council member at the University of Leeds.

Executive biographies

Helen Webb

Chief People & Services Officer

Helen became Chief HR Officer in April 2017 having previously been the HR Director for Food and the Chief People & Services Officer in August 2019.

Prior to joining the Co-op, Helen held a variety of senior roles for FTSE 100 companies including Sainsbury's, Marks and Spencer and Aviva. She's passionate about diversity and is a strong women's advocate, winning an 'Everywoman Retail Ambassador' award in 2015.

Jo Whitfield, CBE

Chief Executive, Food

Jo joined the Group as Finance Director Retail in 2016 and was appointed Chief Executive, Food in July 2017. Prior to this, Jo was with the Asda business for eight years, holding VP roles within both George and Asda covering Finance, Operations, Online International, Strategy and Commercial for Asda General Merchandise, Money and Mobile.

Jo is a qualified Chartered Accountant having trained with Ernst & Young and subsequently moved into industry. Throughout her career she has worked across various industry sectors and held leadership roles with businesses such as Northern Foods, GE Capital and Matalan.

Jo is an Ambassador for Girls Out Loud and is a founder of the Grocery Girls network. She also sits on the Women's Business Council and is a Trustee for Manchester International Festival.

Jo received a CBE in the 2021 New Year's Honours list for her services to retail and the food supply chain during the Covid-19 response.

Governance review

Chair's overview

Over the last 12 months, the UK has dealt with an unprecedented health and economic crisis due to Covid-19. Life in the UK, and around the world, has changed significantly. There has been enormous upheaval and disruption and the inequalities within our society have intensified greatly.

We faced into these challenges by drawing on our Co-operative Values and Principles and put our new 2020 Vision statement, ***'Co-operating for a Fairer World'***, to the test to deliver our Purpose of 'championing a better way of doing business for our members and their communities'. As the UK's largest consumer co-op, we will continue to support our members and their communities and help Britain build back better and differently.

As we have worked through this crisis, our Board continues to support the work of CEO Steve Murrells and his Executive Team and our high standards of governance continue to play a vital role in running our Co-op, although, like everyone, we have needed to adapt and learn.

We've found new ways to do our work, including taking our regular Board and Council meetings online. We also could not hold our usual AGM. While we'd normally expect to see nearly 800 of you in person, the majority of our members watched online. We had great engagement and members participated, through both live and playback viewings at levels in excess of those we'd see at our normal physical meeting. Our autumn 'Join In' events, led by our Council members, were also held virtually and a great success.

We're confident that our governance structures remain resilient and sustainable.

Our members

We are the largest consumer co-operative in the UK. We are unique, as is our governance structure.

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

Our Members' Council, which is 100 strong, acts as our members' representatives, holding our Board to account for how the business performs and our commitment to Co-operative Values and Principles. We thank the Members' Council, under Nick Croft's leadership, for its ongoing support and challenge. Nick will be stepping down as Council President after the AGM this year and I would like to record my thanks on behalf of the Board for Nick's contribution during his time as Council President.

Even though the Government has announced its roadmap for easing Covid-19 restrictions, large scale events will not be permitted until 17 May at the earliest. Once again, we will be unable to hold an AGM event for members to attend and cast their vote in person. We are again telling members that they should not attend our AGM this year and they need to take care of themselves and others by following Government guidelines. Eligible members will again be able to appoint a voting representative to vote for them (online or by post), in advance of the AGM. We will also be running an online event through which members will be able to join in, listen to the AGM proceedings and ask questions of the Board. The AGM notice, which includes more detail, will be displayed on our website at **www.co-operative.coop/agm**. Also, if you are an eligible member, keep an eye out for an email or letter with more information.

We hope our members are understanding and supportive of the approach we are taking and we hope we will soon be in a position where we can again meet up in person.

Our Board

We have 12 Directors on our Board who collectively have a great mix of skills, experience and knowledge. Our Board is made up of six Independent Non-Executive Directors (INEDs), four Member Nominated Directors (MNDs) and two Executive Directors. We are all elected by our members, although the route to election is different for INEDs and MNDs.

Hazel Blears has decided not to stand for re-election this year and will be stepping down as an MND at the end of this year's AGM. On behalf of the Board, I would like to thank Hazel for her contribution to the Society since she was first elected in 2015. She has been a fantastic director and we will greatly miss her contribution.

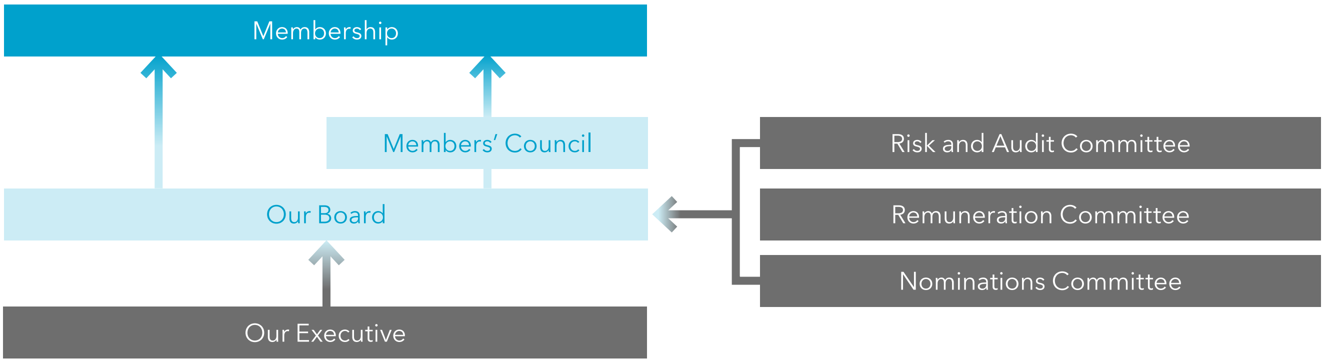
Allan Leighton,
Chair, The Co-op Group

About us

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

Our governance structure

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



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

Our Board is supported by three Committees. They have specific tasks which they do on behalf of the Board, set out in their written terms of reference:

- Our Risk and Audit Committee watches over Co-op's financial reporting and how well we are managing risk. The Report of our Risk and Audit Committee can be found on page 74.
- Our Remuneration Committee ensures our Executive are fairly and appropriately rewarded. The Report of our Remuneration Committee can be found on page 85.
- Our Nominations Committee ensures we have the right INEDs and Executive Directors in place and that the Board as a whole works well. It also plans for our future Board, leads on INED and Executive director appointments and submits proposals to the Non-Executive Directors' Fees Committee in respect of the remuneration of our Co-op Chair, INEDs and MNDs. The Report of our Nominations Committee can be found on page 103.

In addition, there is an Administration and Finance Committee which deals with routine business that needs Board approval.

Our Members' Council, a democratically elected body of 100 of our members, acts as our members' representative, holding our Board to account for how the business performs. It also acts as a guardian to our Purpose and Co-operative Values and Principles. Council highlights from 2020 can be found in your Council's Annual Statement on page 117.

Our Directors, alongside Council members, also participate in a number of informal working groups, such as the Stakeholder Working Group. Such forums, whilst not part of our formal Board governance, allow for open discussion between our Board and Council. They help make sure members' views and needs are considered when making decisions. Further detail can be found on pages 124 and 125.

Our Board

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

- Allan Leighton is our **Chair**.
- Sir Christopher Kelly is our Senior Independent Director **(SID)**.
- There are four other **INEDs** on our Board – Lord Victor Adebowale, Simon Burke, Rahul Powar and Stevie Spring.
- There are four **MNDs** on our Board - Hazel Blears, Margaret Casely-Hayford, Paul Chandler and Sarah McCarthy-Fry.
- Steve Murrells (Chief Executive) and Shirine Khoury-Haq (Chief Financial Officer/CEO Life Services) are our **Executive Directors**.
- Helen Grantham is our **Group Secretary**.

Director biographies can be found on pages 55 - 59. Members are able to see copies of the Directors' appointment letters by contacting the Group Secretary.

Role of our Directors

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

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

Steve Murrells, our **Chief Executive:**

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

Sir Christopher Kelly, our **SID**:

- Uses his experience to advise, guide and provide feedback to the Chair.
- Deals with any governance issues relating to the Board or the Chair's performance and any matters which it's not right for the Chair to deal with.
- Takes the lead role in the annual Board evaluation process.
- Takes responsibility for leading the Chair's annual performance review and acts as the Board's primary point of contact for stakeholder views.
- Regularly liaises with our Members' Council and sits on our Stakeholder Working Group.

Lord Victor Adebowale, Simon Burke, Rahul Powar and Stevie Spring, our **INEDs**, and Hazel Blears, Margaret Casely-Hayford, Sarah McCarthy-Fry and Paul Chandler, our **MNDs**:

- Provide independent and constructive challenge and an external focus to Board discussions using their professional industry knowledge.
- Help set our strategy.
- Oversee commercial and financial performance.
- Ensure Co-operative Values and Principles remain at the heart of our Co-op.
- Meet with members and the Co-op's Members' Council to hear their views.

Helen Grantham, our **Group Secretary**:

- Advises the Board on legal, compliance and governance matters.
- Makes sure there is the right level of information flowing between our Board and Members' Council and our Board and the Executive Team.
- Supports our Chair with Board procedures.
- Is available to Directors for advice and assistance.

Division of responsibilities

The roles and responsibilities of the Chair and Chief Executive are clearly set out in their role profile and were approved at the Board meeting in March 2021.

Appointments of our Board - INEDs

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

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

- Preparing a candidate brief – sets out the skills and experience required, details what makes our Co-op different, gives the particular requirements of our Rules and Board Composition Charter (BCC) and makes the importance of Co-operative Values and Principles clear.
- Starting the recruitment process – assisted by an independent search firm, who are given the brief, screen potential candidates and conduct initial interviews.
- Conducting interviews - if a preferred candidate is identified, making a recommendation to the Board.

Following Director appointments, the Council Scrutiny Committee considers a report from the Nominations Committee and checks the right process has been followed for appointing an INED (or the Chair). The Report of the Scrutiny Committee can be found on page 122.

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

In 2020, no new INEDs were appointed to the Board. At the AGM, Simon Burke, Stevie Spring and Lord Victor Adebowale were re-elected.

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

Appointments of our Board - Executive Directors

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

Executive Directors are subject to election/re-election by our members.

In 2020 there were no new appointments recommended to the Board.

Following the appointment of Shirine Khoury-Haq as an Executive Director in 2019, Shirine (Executive Director and CFO) was elected at our 2020 AGM and Steve Murrells (Executive Director and CEO) was re-elected.

Appointments of our Board - Member Nominated Directors (MNDs)

MNDs are voted for and elected directly by our members. The MND Joint Selection and Approvals Committee (MNDJC), a joint Board and Council Committee, works with an independent search firm to oversee the selection process and assess the eligibility, skills and experience of MND candidates who are put forward to a member ballot. Members then vote for who they would like to see on our Board. Following MND appointments the Council Scrutiny Committee checks that the right processes have been followed.

The MND election process takes place before the AGM and the results are announced at the meeting:

- In 2020, Margaret Casely-Hayford was re-elected as an MND with a three-year term following a contested election.
- For 2021, the MNDJC has led on the MND election process supported by Saxton Bampfylde, an executive search firm. Hazel Blears has indicated that she does not wish to seek re-election for a further three-year term. Details of those candidates shortlisted for member ballot for the one vacancy are set out in the 2021 AGM booklet.

Terms of office

Our **INEDs** and **MNDs** have a maximum term of office of nine years.

Our **Executive Directors** are employed directly by our Co-op and don't have a maximum term of office.

Our Board's skills and expertise

Our Nominations Committee continues to keep under review the skills and expertise we have on our Board in order to make sure it continues to be well-balanced, diverse, effective and suitable to deliver our Vision.

Our Board Composition Charter (BCC) sets out certain requirements for our Board's composition as a whole, levels of knowledge and expertise expected for individual directors and additional requirements for key roles such as Chair and Senior Independent Director.

Our Rules and the BCC contain strict membership and eligibility criteria which all of our Board Directors need to meet. This includes high standards of professional expertise needed to run a business of the size and complexity of our Co-op as well as a strong commitment to Co-operative Values and Principles.

The Board considers that each Director brings relevant and complementary skills, experience and background to the Board.

The Director biographies on pages 55- 57 summarise their key skills and experience.

Board succession plans

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

See the Nominations Committee's Report on page 103 for more detail.

The Board is satisfied that the Board Succession Plan remains sufficiently robust. Executive succession is a matter for the Chief Executive in consultation with the Board. This has been delegated to the Remuneration Committee to review in the first instance.

Board effectiveness and evaluation

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

For 2018 we reported on our internal review. For 2019, the Nominations Committee and Chair agreed that it was right to carry out another internal review, in line with the review cycle set out in the UK Corporate Governance Code. The process was led by our SID.

For 2020, an externally facilitated evaluation was scheduled and conducted. This was led by Sir Christopher Kelly as SID and undertaken by Clare Chalmers Limited. The review consisted of: an observation of Board and committee meetings; interviews of all directors, the Group Secretary, the Members' Council President, the Executive Team and the Director of Internal Audit; and a review of Board packs. Due to the constraints of Covid-19, all meeting observations and interviews were conducted via Microsoft Teams. Further details of the 2020 review and a brief summary of the findings can be found in the Nominations Committee report on page 103.

How our Board operates

The Board and each of its Committees have a scheduled forward plan of meetings to make sure sufficient time is allocated to each key area and to make best use of the Board's time.

The Board had nine scheduled meetings during the year. Due to Covid-19 and compliance with the Government's "Stay at Home" measures, we adapted from physical to digital meetings which allowed all meetings to continue as planned. During the year our Board:

- Focused on strategy at most of the meetings, with a number of deep dives presented throughout the year.
- Held closed sessions between the INEDs, CEO and Group Secretary and the INEDs alone – this is in line with good governance.

Members of the Executive Team and various colleagues are regularly invited to Board meetings and give presentations and updates to the Board. The INEDs and MNDs take time at the end of each Board meeting to have a discussion after the Executive Directors have left.

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

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

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

Board attendance

Directors' attendance at scheduled Board and Committee meetings is set out in the table below. Any unscheduled meetings which were held during the year and which were needed on relatively short notice and any cancelled meetings are not included in the figures.

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

When we're setting the Board meeting schedule we always take Directors' availability into account but with a larger Board we cannot always find dates all can attend.

Director	Board	Risk and Audit Committee	Nominations Committee	Remuneration Committee
Allan Leighton (Chair)	9(9)		3(3)	
Lord Victor Adebowale	9(9)	5(5)		
Hazel Blears	9(9)	5(5)	3(3)	
Simon Burke	9(9)	5(5)	3(3)	
Margaret Casely-Hayford	9(9)		3(3)	4(4)
Paul Chandler	9(9)	5(5)		
Sir Christopher Kelly	9(9)		3(3)	4(4)
Shirine Khoury-Haq	9(9)	5(5)		
Sarah McCarthy-Fry	9(9)	5(5)		
Steve Murrells	9(9)			
Rahul Power	9(9)			4(4)
Stevie Spring	9(9)			4(4)
Nick Crofts*	n/a	n/a	2(3)	n/a

*not a Director but is a member of the Nominations Committee by virtue of his role as Council President

Time commitment and conflicts of interest

Conflicts of interest are situations in which Directors have, may have, or at least give the impression that they may have, divided loyalties on any issue. All Directors have a duty to avoid conflicts of interests.

Prior to appointment, Directors are asked to disclose any other appointments they have and any potential conflicts of interest and we also do a number of other background checks. In addition, Directors are required to confirm they will have sufficient time to be able to do the role. This obligation continues whilst Directors remain on the Board and is kept under review.

There are specific provisions in our Rules which cover any real or potential Director conflicts of interest. There's also a Board Conflicts Toolkit which gives guidance on what to do in potential conflict of interest situations.

The Board remains satisfied that each Director is able to allocate sufficient time to perform their responsibilities effectively.

Independence

It is important that we have Directors on our Board that have objective and independent thinking. The UK Corporate Governance Code (UK Code) requires at least half the Board, excluding the Chair, to be Non-Executive Directors whom the Board consider to be independent.

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

The Board considers all our INEDs and MNDs to be independent in character and judgement as per the criteria set out in the UK Code. Excluding our Chair, nine of the current Directors on our Board are deemed to be independent.

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

Diversity and Inclusion

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

Diversity of thought brings a richness of debate that is vital to an effective Board and those values are found within our Board Diversity Policy, which can be found on our website. The policy was reviewed during the year by the Nominations Committee. See page 105.

Following the launch of our new commitments, targets and ways of working to address racial inequalities across our Co-op workplace, membership, communities and relationships (see our Co-operate Report for more information), our Director Lord Victor Adebowale joined our new Equality and Inclusion Think Tank, along with five other leading experts, to help us shape our work and hold us to account on our progress.

Our Board is currently made up of five women (42%) and seven men (58%). Four of those Directors identify as Black, Asian and Minority Ethnic (BAME). It is pleasing that our board diversity exceeds the findings of the 2019 Hampton-Alexander Review which indicated 32.4% of FTSE 100 board positions were held by women and the 2017 Parker Review (and the 2020 update report) which set a target for FTSE 100 boards to have at least one ethnic minority director on the board by 2021.

Decisions of our Board

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

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

As we do not have the same structure as limited companies, which often have large, institutional investors, we are a co-op and we have been very clear that we want to do business in a better way for the benefit of our members and communities. We call this the Co-op difference.

When considering future plans, our Board looks at short, medium and longer-term views to try and make sure our Co-op and the way it does business is built on a solid platform for generations to come. To achieve this, our Board takes decisions at the highest level, consistent with our Purpose, and Co-operative Values and Principles that are commercially sensible and meet the needs of our members.

Our Board looks at the interests, views and needs of our wider stakeholders when making decisions of substance and our contact with them (as detailed on page 62 and pages 123 - 128) helps our Board understand these views.

Members' views are at the heart of our Board's decision-making process through the use of an Ethical Decision Making Tool. This helps our Directors focus on what members are likely to think, whether the decision will create value and what the potential impact of the decision will be on our members and our wider communities. Recommendations on material decisions put forward to our Board must include a view on each of these elements.

Managing our risks

Our Board oversees our risk management framework through the Risk and Audit Committee. It regularly reviews and agrees risk mitigation plans and responses. Our Board ensures that policies and practices are consistent with our Purpose and Co-operative Values and Principles. For more information on Risk Management at Co-op and our Principal Risks and Uncertainties, please see page 45.

Delegated authorities framework and matters reserved for the Board

Our Board has the power to delegate certain decisions, for example to individual Directors or Board Committees. We have a Delegated Authorities Framework which is reviewed regularly by the Risk and Audit Committee and approved by our Board. This sets out defined levels of authority for colleagues.

In line with good governance, the Board has reserved a level of decision-making to itself, which covers areas including Strategy and Management, Group Structure, Capital and Borrowing and Financial Reporting and Controls. These are documented formally in a 'Matters Reserved for the Board'.

Communicating with our Stakeholders

For information on how our Board acted with regard to our key stakeholder groups, please see full details within our Section 172 Statement on page 123.

Additional Governance Information

Whistleblowing

Our Board remains comfortable that there are sufficient processes in place which enable colleagues to raise any issues which they feel uncomfortable about or which are not in line with Co-operative Values and Principles. See page 82 for further detail.

Board Code of Conduct

Our Board Code of Conduct sets out the standards of behaviour expected by Directors. All Directors are required to abide by the code during their term in office.

Directors' and Officers' liability insurance

We have Directors' and Officers' liability insurance in place which covers Directors against any legal action taken against them for doing Co-op business. They also receive an indemnity from our Co-op for specified liabilities which could possibly arise from them doing their job.

Independent professional advice and Board support

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

Our subsidiaries

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

There are three subsidiaries which are treated slightly differently - CIS General Insurance Limited (CISGIL) (which at the time of writing this report is no longer part of the Co-op Group), Co-operative Insurance Services Limited (CISL) and Co-operative Legal Services Limited (CLSL). They are regulated (CISGIL by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA), CISL by the FCA and CLSL by the Solicitors Regulation Authority (SRA)). This means they have particular areas of responsibility for which they are accountable to their Regulator(s). Our Co-op retains general oversight of these businesses, but in order to satisfy their regulatory obligations, they need to keep a higher level of independence for their conduct and every-day operational decisions.

Our compliance with the UK Corporate Governance Code

The latest version of the UK Corporate Governance Code (UK Code) was published in July 2018 and applies to large companies with traded shares for financial years starting on or after 1 January 2019. As a Co-op we are not required to comply with the UK Code.

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

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

Board leadership and purpose

A successful business is led by an effective and entrepreneurial Board who should promote long-term sustainable success, general value for members and contribute to the wider society. See page 66.

The Board should establish purpose, values and strategy and make sure these align with culture. See page 69.

The Board should make sure sufficient resource is available to meet and measure performance against its goals and that risks can be properly assessed and managed through effective controls. See page 45.

The Board should ensure effective engagement with all stakeholders. See pages 123 - 128.

The Board should make sure policies and practices across the business are consistent with our values and support long term sustainable success. Colleagues should be able to raise any concerns. See page 71.

Division of responsibilities

The Chair should lead the Board, demonstrate objective judgement, set the tone for the culture, encourage constructive Director debate and ensure Directors receive accurate timely and clear information. See pages 63 and 64.

There should be an appropriate mix of Executive Directors and Independent Non-Executive Directors (INEDs) and a clear division between the roles of the Executive Team and Board. See page 63.

INEDs should give sufficient time to their role and hold the Executive Team to account. See pages 63 - 64 and 68.

The Board should have sufficient policies, processes, information, time and resource to function effectively and efficiently. See pages 66, 67, 71 and 72.

Composition, Succession and Evaluation

Appointments to the Board should be subject to a formal, rigorous and transparent procedure and an effective succession plan should be maintained for the Board and Executive. Appointments and succession plans should be based on merit and objective criteria, and should promote diversity of general, social and ethnic backgrounds, cognitive and personal strengths. See pages 103 - 107.

The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of services of the Board as a whole and membership regularly refreshed. See pages 66, 68 and 103 - 107.

An annual evaluation of the Board should consider composition, diversity and how effectively members work together. Individual evaluation should demonstrate whether each Director continues to contribute effectively. See pages 66 and 104 - 106.

Audit, risk and internal control

The Board needs to put in place formal and transparent policies and procedures to make sure that external auditors and our internal audit function are independent and effective, with the result that our published accounts give a fair reflection of our Co-op's financial position. See pages 74 - 84.

The Board needs to satisfy itself that our Co-op's position and prospects are presented in a fair, balanced and understandable way. See pages 80 and 81.

The Board needs to identify an acceptable level of risk and make sure that financial controls across the business are appropriate so that financial decisions are taken in line with that identified level of risk. See pages 74 - 84.

Remuneration

Our pay policies should link to and support our stated purpose and promote long-term sustainable success. See pages 89 - 91.

No Director should be involved in setting their own pay and procedures for developing the policy relating to Executive Director pay should be transparent. See page 101.

Directors should apply independent judgement by looking at our Co-op's business performance, Directors' performance and any other relevant circumstances when authorising Executive pay. See page 95.

Our compliance with the Co-operative Corporate Governance Code

In November 2019, Co-operatives UK published a revised version of the Co-operative Corporate Governance Code (Co-operative Code).

We have reviewed our compliance with the Co-operative Code and are comfortable that our practices remain consistent with it, are appropriate and offer the necessary protection to our members.

The report of the Risk and Audit Committee

The report of the Risk and Audit Committee

Introduction from your Committee Chair

During the past year, Covid-19 has dominated our lives everywhere, and our Co-op is no exception. It is a remarkable human achievement that so much of our lives and our enterprise have been able to continue despite the very extensive restrictions on our physical behaviour. At our Co-op's Risk and Audit Committee, our task has been to make sure that the infrastructure of control and good practice has been sustained alongside all the changes in work routines necessitated by the virus. The Committee has been very impressed by the way in which the Society's management has adapted to radically changed circumstances, and I am pleased to report that we have seen no significant impact on the quality of financial management and control during this time.

Many of the other topics that have been important this year were also mentioned in my report to you last year. We have worked constructively with our auditors Ernst & Young to resolve the difference of opinion on the accounting for our funeral plans under IFRS 15. We also had the opportunity to engage directly with the Financial Reporting Council and put the case for our accounting approach to them. Regrettably, we were unable to persuade either party that transparency and understandability for our members was more important than the application of some very technical provisions in the standard. Not wishing to set the Co-op on a collision course with a regulator, nor to have damaging audit qualifications year after year, we have now amended our approach to comply with what has been required of us. You can see the effect of this elsewhere in the accounts.

We followed up the very concerning discoveries of issues with accounting at Nisa last year by commissioning an external investigation into the circumstances of the accounting errors, and how our Co-op had ended up in the unenviable place it did. The report gave us good insights into the steps which led to the accounting issues and provided some valuable lessons in the handling of acquisitions and the management of newly-acquired entities. Our objective will be to ensure that the learnings here are applied usefully in any future acquisition of another business by our Co-op.

Alongside this we have had the benefit of improved reporting on the quality and effectiveness of financial control in the Society, and have been pleased to see good progress, especially in Funeralcare and Nisa, during the year. We will continue to monitor this area closely as one of our core tasks.

The Retail Business Transformation project also continues to be a major focus for the Committee. Although there were, perhaps inevitably, some setbacks to the progress in 2020, we remain satisfied that the project is being managed and overseen well and is on target to see the core elements implemented during 2021. This is the largest single investment made by the Co-op in recent years and is central to the future success of our food business.

We have been pleased to see the continued strengthening of the Co-op's risk management and reporting. In a year dominated by risks, including Covid-19 and Brexit, this has been an important and valuable process for the Society and the Board. We spend time at our meetings reviewing both the risk profile of the Co-op and also the evolution of our management of risk in the organisation.

After we fell short and were investigated by the Groceries Code Adjudicator, great effort has been invested in improving our management of compliance with the Code, not just legally but also in spirit. We were delighted to see the dramatic improvement in our suppliers' assessment of our behaviour, as recorded in the GCA's annual survey. Our job now is to maintain this very good rating especially as RBT rolls out.

After a difficult period last year, we have seen much more progress than setbacks in 2020, despite the unfavourable background. As always, I wish to acknowledge the hugely valuable and diverse support from my fellow RAC members, Lord Victor Adebowale, Hazel Blears, Paul Chandler and Sarah McCarthy-Fry. They ensure that we look at issues fully in the round, not just from a financial perspective, and that Co-op Values remain front of mind for us all.

Simon Burke,
Chair, the Risk and Audit Committee

Risk and Audit Committee membership and attendance

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

The UK Corporate Governance Code ('the UK Code') recommends that there are at least three independent directors on the Risk and Audit Committee and we met this recommendation during 2020. All Committee members are considered by our Board to be independent under the UK Code providing objectivity and independent scrutiny. Three members are Member Nominated Directors – Hazel Blears, Paul Chandler and Sarah McCarthy-Fry – and two are Independent Non-Executive Directors – Lord Victor Adebowale and Simon Burke. Our Board is satisfied that Simon Burke's relevant and recent financial experience means he is qualified to be Chair of the Committee.

Details of attendance by Committee members at meetings held during 2020 are on pages 67 and 68.

The Chief Financial Officer, Group Secretary, Assistant Secretary, Director of Internal Audit / Code Compliance Officer, Chief Risk Officer, Finance Director, Director of Financial Control and the external auditors regularly attend meetings. Other colleagues also attend meetings if asked to do so by the Committee. The Committee also met the Director of Internal Audit, the Chief Risk Officer and the external auditors privately, so they could talk without management being there.

What the Risk and Audit Committee does

The main areas the Committee looks after includes the following:

Financial and regulatory reporting

- To check that our Co-op's Annual Report and Accounts and other information on its financial performance is prepared honestly.
- To review the Annual Report's fairness, balance and clarity.
- To review the financial statements of the significant subsidiaries and the consolidated financial statements.
- To review compliance with financial and regulatory requirements, including monitoring compliance with the Groceries Supply Code of Practice.

Internal controls

- To look at the internal financial controls and internal controls system and check if they work and we are doing enough to manage the risks to our Co-op.
- To monitor where our controls and procedures have not worked.

Internal audit

- To monitor how well our Internal Audit function is doing.
- To help set the objectives of the Director of Internal Audit and to review and approve the annual Internal Audit plan.
- To review and monitor what management do in response to the findings and recommendations of the Director of Internal Audit.

External audit

- To ensure that our Co-op has a proper process to choose its external auditor, approve their fees, ensure their independence, and check their effectiveness.

Risk

- To monitor the performance of our risk function and to check how effective our Co-op is at managing and controlling risks.
- To oversee the main and emerging risks our Co-op faces and to help improve the framework we use to manage risk.
- To ensure our Co-op is complying with health and safety principles.

Sustainability reporting

- To review and recommend to our Board the approval of our Co-operate Report, on our responsible business performance.
- To ensure that we have someone independent check the accuracy of our Co-operate Report, on our responsible business performance.

Other

- To monitor arrangements for colleagues to raise concerns in confidence about possible wrongdoing (whistleblowing), how these concerns are investigated and followed-up, and to update the Board on these arrangements.
- To look each year at how we manage our pension schemes.
- To ensure we have procedures and processes so we can comply with the Modern Slavery Act 2015.

The Committee's terms of reference give more detail on what it does and can be found on our website: www.co-operative.coop/investors/rules. During the year we undertook a review of these terms of reference to ensure these remain in line with best practice and the revised UK Corporate Governance Code 2018.

In 2020, our Committee's main activities included reviewing:

- That the financial information we provide to our members is prepared honestly; especially that the Annual and Interim Reports are fair, balanced and understandable and the key judgements and assumptions are reasonable.

- How well the risk and control systems are designed and working.
- Internal Audit's work, plans and reports, including the completion of actions by managers on a timely basis.
- The approach we take to key judgements and significant matters when producing our financial information.
- Update on the accounting standard for Onerous Contracts (IAS 37).
- Updates on emerging and our priority risks, including new and increased risks arising from the Covid-19 pandemic, together with how we're reducing risks and ensuring compliance with applicable regulations.
- How our Co-op uses and protects personal information; including how we continue to comply with the General Data Protection Regulation (GDPR).
- Risks and controls around cyber security and our IT infrastructure including the use of mobile devices.
- Risk updates including changes to risks to our Co-op, performance against risk appetite and progress with embedding risk categories across our Co-op.
- The Financial Control Framework and the operating standards within our Co-op including the Financial Control Improvement Plan for Nisa and Funeralcare.
- Progress with the sale of CIS General Insurance Limited (CISGIL).
- Implementation of Retail Business Transformation (RBT) which is the multi-year programme set up to simplify and streamline our retail processes, systems and ways of working.
- How we work with suppliers, so we comply with the Groceries Supply Code of Practice (GSCOP) and go above and beyond the Code's expectations, including issues relating to the impact of Covid-19.
- Business Continuity planning within our businesses to ensure that essential products and services are available to customers and members during disruptive events such as those caused by the Covid-19 pandemic.
- How good our systems are at spotting risks and then controlling them and the steps being taken by each of the businesses for sharing and monitoring key risk information.
- How we continue to comply with the UK Corporate Governance Code.
- The independence and effectiveness of our external auditors.
- Approval of our external auditor's non-audit fees.
- Our Co-operate Report on our responsible business performance and providing input on it.
- Reports on our whistleblowing arrangements and activity.
- The annual review of our Co-op's pension schemes.
- Amendments to our Co-op's Treasury Policy and how compliance with it will be monitored going forward.

Significant issues relating to the financial statements

When our Committee looked at the 2020 financial statements, it considered the following key areas of judgement. In all cases, it discussed them with management and the external auditor:

Areas of focus	What was done
Going concern Management continues to monitor our borrowings, facilities and banking covenants to ensure that we have enough financial headroom to continue to run our business as a going concern.	The uncertainty caused by the Covid-19 outbreak continues to have a material impact on the operations of our businesses. Our Committee reviewed management's assumptions of the key impacts of Covid-19 and Brexit on the financial projections and the results of stress tests. Our Committee agreed that our Co-op is a going concern.

Areas of focus	What was done
IFRS 15 revenue recognition IFRS 15 is an accounting standard that sets out how revenue is recognised. A key judgement area in IFRS 15, particularly relevant to a funeral plan sale, is whether the consideration is receivable when a customer pays monies to our Co-op, or on maturity of the associated whole of life policy. Our Co-op's assessment on adoption since 2018 was that consideration was receivable on maturity of the associated policy. Our external auditors disagreed with this judgement which led to a qualified audit opinion in 2019. Management has since reflected on this matter and changed its judgement. This change in our Co-op's accounting policy required a prior year restatement and management has presented a third balance sheet due to this material restatement.	Our Committee monitored management's interactions with the Financial Reporting Council (FRC) and the external auditors in this regard. We reviewed the revised accounting policy and the impact of this change in judgement on our financial statements, including the additional presentations required due to this material restatement, as well as the judgement involved in deriving a suitable accretion rate.
Reclaim Fund Our Co-op's consolidated balance sheet included the assets and liabilities of the Reclaim Fund. This was based on a judgement that our Co-op controlled the Reclaim Fund. Management has reassessed the facts and changed its judgement in this regard following discussion with the FRC. This means that our Co-op no longer consolidates the assets and liabilities of Reclaim Fund on its balance sheet.	Our Committee monitored management's discussions with the FRC. We reviewed management's change in judgement and the deconsolidation of the Reclaim Fund in our Co-op's balance sheet. We also reviewed the additional presentations required in our Co-op's financial statements due to this deconsolidation being treated as a prior year restatement.
Goodwill and fixed asset impairment Our Co-op's balance sheet includes significant goodwill, intangible assets and property, plant and equipment balances. The most significant of these are in the Food and Funeralcare businesses. The uncertainty that the Covid-19 pandemic has brought and its impact on the UK economy effects our impairment procedures and required management to undertake an impairment review.	Our Committee reviewed the results of the impairment review and the impact of this on our financial statements. We also reviewed management's assessment of the impact that Covid-19 has had on the Group's accounting policies, judgements and estimates.
Property and other provisions Our Co-op makes provisions for likely future liabilities. Management must apply judgement to determine whether, and how much, we should account for a provision, notably in relation to onerous leases which require significant judgement. These judgements were revisited in light of Covid-19 and resulted in an increase in provisions.	Our Committee reviewed the increase in provisions and management's judgement on the current and future impact of Covid-19 on the UK economy; for example, on property values, risk of default on subtenants and potential for leases being terminated.
Pension scheme IAS19 valuation Our Co-op has a number of defined benefit pension schemes, of which the PACE scheme is the largest. Management must make assumptions (about things like the future growth rate of investments and the death rate of members of the scheme), which can materially affect the valuation of the pension schemes.	Our Committee assessed the key assumptions that underpinned the pension calculations. It also reviewed advice provided by internal and external actuaries, including market benchmarking.
Revenue recognition: supplier income Management must ensure that income from suppliers is accounted for in line with supplier agreements, at an appropriate level and in the relevant period.	Given the complexity of this figure, which includes bonus income, promotional income and long-term agreements, the terms of which can be complex or varied, our Committee sought continued assurance from the Food and Wholesale business that the controls were operating effectively.
IAS 1 & IAS 8 - definition of material The accounting standards have been amended to clarify the definition of 'material'. The concept of what is and is not 'material' is crucial in preparing financial statements and a change in the definition can affect how management prepare financial statements.	Our Committee reviewed the key judgements and assumptions made by management as a result of this clarity in definition.

Review of the Committee's effectiveness

In 2020, the Committee undertook a self-assessment of its effectiveness which concluded that the Committee was working well. It was agreed that steps should be taken to further strengthen the training offered to the Committee members.

External audit activities

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

EY are our Co-op's auditors. They also provide our Committee with relevant reports, reviews, information and advice throughout the year. All these activities are set out in their engagement letter.

Independence, objectivity and fees

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

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

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

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

Our Committee approved the nature and cost of all non-audit work done by EY for our Co-op and is satisfied that EY's non-audit work didn't affect their objectivity in doing the audit.

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

Effectiveness of auditors

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

Internal audit

Internal Audit is an independent function authorised by our Board through our Committee. Its main role is to provide professional, objective assurance while providing insight to improve the way our Co-op is managed and controlled.

Our Committee reviewed and approved the Internal Audit programme of work. In 2020, the programme was revised to provide assurance against new and increased risks facing our Co-op arising from the Covid-19 pandemic.

At each meeting, we received a report from the Director of Internal Audit on:

- The work of Internal Audit and the progress it had made against its plan.
- The impact on the systems of risk and control from internal audit findings.
- Whether managements did what it said it would do to fix the issues.

During the year, our Committee reviewed Internal Audit reports covering key processes, systems and controls and projects and programmes. The reports have covered a range of different areas and businesses at our Co-op including the effectiveness of financial control in Funeralcare and Nisa. We also continued to receive assurance on the implementation of the RBT programme.

During the year we reviewed the Internal Audit charter, reaffirming the purpose of Internal Audit. The Committee also commissioned an independent review of Internal Audit's effectiveness, which was undertaken by the Chartered Institute of Internal Auditors. The Committee was pleased that the review concluded that the Internal Audit function is very well-regarded within our Co-op and has strong support from stakeholders with strong quality assurance processes ensuring a consistent and robust audit approach.

Internal control

Our Board has overall responsibility to make sure controls are in place to enable our Co-op to work effectively. We assess the effectiveness of our controls using the globally recognised COSO model, against five key areas: Culture; Planning; Doing; Informing; and Reviewing.

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

Each Executive member was asked to review how well the controls were working for their area of responsibility and to self-certify the results of their review. This included consideration of the key elements of internal control operated and the key improvement initiatives. Our review of the Executive's self-assessments forms an important part of the annual review of the systems of risk and control.

The Committee also received updates on the development and implementation of the Financial Control Framework and regular management reports on financial control. Our Committee has also taken further steps to learn from the events that lead to last year's control issues at Nisa and the resulting accounting errors. We considered the Financial Control Improvement Plan, implementation of which has been reviewed by Internal Audit, and we are pleased that good progress has been made.

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

Culture

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

The control environment includes having the right colleagues in place with everyone knowing what job they have to do, what they can authorise and how they should report while being supported by a system that helps colleagues perform to the best of their abilities and meet our business objectives.

This also includes co-ordinating the way colleagues do things across our Co-op through regular management meetings and other forums as well as setting policies for how we spend our money and making sure that the right approvals are in place. Another important part of the control environment is the Code of Business Conduct, which sets out how colleagues should act in line with Co-operative Values and Principles with customers, members, other colleagues, suppliers, the community and competitors.

This code tells colleagues how they can report any serious wrongdoing confidentially. An anti-fraud policy also supports this code.

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

Planning

Our Board and Executive Team are responsible for identifying and evaluating our Co-op's main business risks. We aim to have systems that manage the risk in an efficient and effective manner. We look at what could go wrong and how we can stop this happening, to protect our members' interests and our reputation, and to make sure we comply with regulatory standards and achieve our business objectives.

To do this, management maintain risk registers that identify the likelihood and impact of risks and what they are doing to manage them. The Risk team supports risk management across our Co-op, and reports on risk to our Committee.

During 2020, we received updates on our Co-op's priority risks which included our response to the Covid-19 pandemic incorporating actions taken to protect our colleagues and customers. We also received updates on emerging risks, performance against risk appetite and work underway to further improve risk sharing and monitoring across the businesses. The effectiveness of our Co-op's Risk Management Framework was also considered through an Internal Audit report.

Doing

Our Co-op's control procedures are designed to ensure that risks are appropriately managed. This includes risks around the completeness and accuracy of accounting for financial transactions, as well as for reducing the potential cost from loss of assets or fraud. Risks and controls are regularly reviewed.

Management receive relevant information on our Co-op's accounting and other policies, procedures, our colleagues and the Code of Business Conduct.

Informing

We engage with our stakeholders in several ways. Colleagues receive and provide information on strategy and objectives through their reporting lines and a formal performance measurement process. Colleagues also receive regular business updates from our Co-op Executives and senior management through various channels (including email, our intranet, conference calls, social media and face-to-face and online briefings). We also have an external-facing colleague website, **www.coop.co.uk/colleagues**.

Reviewing

We adopt the 'three lines' approach to trying to make sure our Co-op does what it says it will do. The first line is the system of internal control, which is the responsibility of line management. The second line comes from various functions, including Risk, who monitor and check compliance. Internal Audit provides independent assurance, the third line.

Whistleblowing procedure

To ensure our Co-op follows best practice and Co-operative Values and Principles, a whistleblowing procedure has again been in place during the year to allow colleagues to pass on information about suspected wrongdoing. In September 2020, we relaunched the whistleblowing service, known as 'Speak Up', following the appointment of a new external independent party to manage this service which allows colleagues to raise concerns confidentially should they not wish to talk to someone within our Co-op. This procedure also allows suppliers to report on any suspected wrongdoing.

In addition to 'Speak Up', reports can be made direct to colleagues at our Co-op. We have a procedure for recording and investigating whistleblowing reports, a summary of which is presented to the Committee.

The whistleblowing policy is included in the Code of Business Conduct and is available on the colleague intranet and our website. The Committee regularly reviewed a summary of whistleblowing cases reported throughout the year and considers the whistleblowing procedures to be appropriate for our size and scale.

Other activities

Audit actions

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

Covid-19 pandemic

Covid-19 has presented a big challenge to our Co-op. Our Committee has paid close attention to the ongoing developments and Government's response, and has considered the implications for our colleagues, customers and members, in particular to ensure that the business is able to respond accordingly and keep everyone safe.

Brexit

The UK formally left the EU on 31 January 2020 starting an 11-month transition period while the UK agreed the terms of its EU departure. We paid close attention to emerging developments during the ongoing negotiations between the UK and EU. We considered how the business and our suppliers were preparing to ensure the movement of goods, and customs and tax compliance; and how the business, particularly Nisa, would operate in Northern Ireland and the Republic of Ireland from 1 January 2021.

Co-operate Report

Our Committee has responsibility for reviewing our Co-op's approach to sustainability reporting and social impact accounting. We review and recommend the approval of the sustainability report to our Board, giving the Co-operate Report on our responsible business performance the same importance and focus as the Annual Report and Financial Statements. The Co-operate Report is independently assured.

Groceries Supply Code of Practice (GSCOP)

During 2020, our Co-op engaged with the newly appointed Groceries Code Adjudicator and we continue to demonstrate our compliance with the Code. The GCA Annual Survey 2020 also concluded that our Co-op was the 'most improved retailer' for the second consecutive year.

The Committee has kept compliance under review through regular updates from the Code Compliance Officer and the Chief Commercial Officer for Food.

The Committee approved the Annual Compliance Report for submission to the Competition and Markets Authority as required by the Groceries (Supply Chain Practices) Market Investigation Order 2009. A summary of progress in the year is on page 114.

GDPR and Cyber Security

Following the implementation of the General Data Protection Regulation (GDPR) in May 2018, our Committee continues to receive regular updates to ensure that our Co-op continues to meet its obligations to be trusted with data and to use it as a valuable asset to deliver benefits to our customers and members. Through management updates and Internal Audit reports, our Committee has also considered information security, cyber security and the reliability and resilience of our Co-op's IT infrastructure across our businesses.

Retail Business Transformation and Retail change activities

RBT is the multi-year programme set up to simplify and streamline our retail processes, systems and ways of working. The programme continues with national implementation despite the unprecedented challenges faced this year. Our Committee has considered updates on the progress of the programme and challenged management to ensure that the programme delivers the desired outcomes and quality within the allocated resources.

Report of the Remuneration Committee

The report of the Remuneration Committee

Introduction from the Committee Chairman

This is my sixth Remuneration Report as Chairman of the Remuneration Committee ('the Committee').

It covers an exceptionally challenging year where we've tried hard to balance an outcome that rewards our colleagues fairly for the massive effort they've all made in helping us overcome those challenges; yet recognises the general market dynamic that food retailers have enjoyed unprecedented growth through the pandemic. We've also balanced the particular challenges faced by a convenience retailer with a large and geographically diverse store estate as well as those experienced by our non-food businesses, in particular our funerals business.

We are a co-op owned by millions of members who are also our customers. Our members have given the Committee the role of deciding what we pay, but we always listen to their views and regularly engage with representatives from the Co-op Council and listen closely to the wider membership, not least at our AGM.

Getting the balance right is not easy and not every member will agree with the choices we make.

We believe we've struck a fair balance and I hope you will agree and endorse our decisions by voting to approve this report at the AGM.

The report contains a lot of information, but we've tried to make it as clear as possible. My introduction has all the key highlights and there are two further sections with the details:

i. Part I – Executive Pay Policy. We've included a summary of the pay policy which nearly 90% of members approved at our 2020 AGM.

ii. Part II – Annual Report on Remuneration. Then we've shown how this policy has been applied by the Committee in 2020 as set out on page 95.

We've also included a 'pay at a glance' section on page 89, so you can see all the key information in a simple format.

Our approach

We always believe in being open with our members. So, we go beyond the reporting rules for large companies with traded shares. For example, we tell you what our full Executive team earned, not just our Chief Executive and Chief Financial Officer.

Our main focus is on Executive pay. However, we also look at wider pay and reward principles for all our colleagues. We have particularly considered the more than 8,000 in our One Co-op annual Bonus Plan.

We compete for talent every day.

Talent with not just the right skills but the right values.

So, we try to reward high-performing colleagues for a job well done, only if it supports our Purpose, our Values and our Strategy.

Our performance

As a business providing essential services, we saw our revenues rise substantially. At the same time, our operating costs increased significantly as we adapted to new ways of working and supported our most vulnerable colleagues. But the final financial outcome exceeded our stretch financial targets.

Further details of how our Co-op has performed is given in 'Our financial performance' section on page 36.

Additionally, colleagues right across our Co-op have shown incredible commitment and resilience with many becoming local heroes in our communities. Never before has our Vision for 'Co-operating for a Fairer World' been delivered so directly and we are committed to making sure that the way we set objectives and evaluate and reward performance reflects all aspects of our Vision and strategy.

Our colleagues

The Committee is delighted that from 2021 we're further improving pay for our frontline colleagues by aligning hourly rates to the Real Living Wage (RLW), as set by the Living Wage Foundation. For Customer Team Members (CTMs), this means an increase from £9 to £9.50 per hour. This is a significant additional investment that recognises the vital role that our frontline colleagues play. The RLW rate will apply to all colleagues, including younger colleagues and apprentices.

They've all done an amazing job this year going above and beyond throughout the crisis. To recognise that commitment during the first lockdown period, 56,000 colleagues received a 'Thank You' package which included a £100 cash payment, a £50 Co-op gift card and an extra day's holiday.

We also increased our colleague discount to 20% on own brand goods at all times and 20% on branded goods at 13 pay day events a year, to further improve what was already a valued colleague benefit and to provide a meaningful 'everyday' financial uplift.

And before Christmas we ran a '12 days of Togetherness' campaign with a different initiative launched each day. All colleagues were connected to this with themes of saying thank you, providing support and demonstrating kindness. This included colleagues receiving £50 on their membership card and an exclusive discount day of 50% off all Co-op branded goods.

These initiatives cost around £25m. It was the right thing to do and we know that you agree.

Colleague wellbeing continues to be a priority, and this has particularly been the case throughout the pandemic where we all needed to feel well supported to manage both our health and financial wellbeing. We have regularly connected with colleagues through our 'Co-op Care' communications which included guidance and advice on how to cope with the impact of Covid on mental, physical and financial wellbeing. We offered all our colleagues a free flu jab and over 10,000 took up the offer.

Beyond this:

- Our wellbeing platform offers a growing range of self-help wellbeing resources, and colleagues can also use it to give peer-to-peer recognition.

- We've continued the programme to deliver mental health training to all our managers and this is becoming part of our core manager induction.
- We introduced a virtual health service which provides all colleagues and their families access to GP services 24/7, mental health, complex medical case, nutrition and fitness support services.
- We partner with Stepchange, Neyber, Co-operative Credit Union and Keep Credit Union to bring quality financial guidance to colleagues.
- We launched a Pay Advance service, in partnership with Wagestream, which gives our colleagues access to their accrued pay between pay days.

Colleagues are at the heart of all that we do on wellbeing. We will continue to be led by what they tell us matters most and we'll use colleague focus groups to shape future investments.

43,000 colleagues are active members of our pension scheme. Our pension offer already exceeds the minimum required, but we also give those who don't meet automatic enrolment criteria the opportunity to join and receive the same level of benefit. And we've made meaningful progress increasing the social responsibility and sustainability footprint of our pension scheme investments (see page 32 for more information).

Our pay outcomes

Bonus

When we launched our 2020 Bonus Plan ("BP") the pandemic was already beginning to impact our businesses. The Committee agreed that a balanced scorecard combining financial, membership, colleague and community objectives was still the right focus but faced into the challenge of setting appropriate targets in such unchartered times. We made it clear to all participants that the specific measures and targets within the 2020 BP scorecard would be considered in the round given the real likelihood of outcomes being distorted - positively and negatively - by the uncertainties that the pandemic was creating. We expressly reserved the right to apply judgement and use discretion to assess the overall performance, taking into consideration all material factors that impacted the results.

In determining the final outturn, the Committee reviewed each of the measures set very robustly, taking into account the pandemic's headwinds and tailwinds - balancing too the ambition to ensure colleagues are rewarded fairly for an exemplary job in an extremely challenging year.

Based solely on performance against the balanced scorecard measures, the bonus outturn was just short of "stretch". However, after much deliberation, the Committee decided to use discretion downwards to reduce the outturn on the scorecard.

This was accompanied by a strong recommendation that a greater proportion of the bonus pot be allocated to the 8,000 colleagues below our most senior leaders and the Executive.

As a result, awards under the 2020 BP for our Executive were between 65.41% and 70.41% of their maximum opportunity, depending on personal performance assessment.

And remember, under our BP, only 50% of this award to the Executive and Senior Leaders is paid now, with the remainder deferred for a further two years.

Deferred bonus payments

The second half of the 2018 BP award is now due to colleagues still employed by our Co-op and not under notice at the time of payment.

It will be paid in May 2021 to Senior Leaders in line with the scheme rules.

Further details of the amounts paid and deferred can be found on page 95. More information on the balanced scorecard measures and the final outturn can be found on page 96.

Changes to the Executive

Pippa Wicks stepped down in June 2020 and no termination or deferred bonus payments have been made.

Following a reorganising of the Executive, Shirine Khoury-Haq has taken on the role of Chief Executive, Life Services as well as carrying out her existing duties as Chief Financial Officer. The Committee increased Shirine's salary from £610k to £650k with effect from 1 September 2020 to reflect the end of her probation year as CFO and to recognise her increased responsibilities.

Gender pay reporting

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

The Committee

The Committee has worked very hard this year with many extra meetings and discussions beyond the formal calendar.

Each and every member has made a valuable contribution. My thanks to all of them, and to the members of the Council Remuneration Working Group under Lesley Reznicek's leadership, for the insight and challenge they provided throughout the year making sure our members' voice was always heard.

AGM

As in 2020, we are planning a largely digital AGM event to ensure everyone stays safe. It remains important to us that our members make their views heard and we would ask that you vote prior to the meeting, including on the motion to approve the Annual Report on Remuneration. Please watch out for your voting email or letter. The vote is advisory.

My thanks in advance for your vote in favour of the motion.

Stevie Spring
Chairman, the Remuneration Committee

2020 pay at a glance

This section provides an overview of our Executive Pay Policy and summarises the pay that our executives received in respect of their 2020 performance. Further details are set out on page 95.

Executive Pay Policy

The key elements of pay for our Executive are:

Total Pay	• Salary and benefits are fixed • BP is variable and depends on performance
Salary	• Our Executive receives a salary which reflects their core role
Benefits	• The benefits provided are in line with the offering across the Co-op and could include a car or car allowance, fuel in certain cases, relocation assistance, healthcare and life cover
Pension	• Opportunity to participate in our Co-op's pension plan or receive a cash allowance instead, in line with the wider workforce
Bonus Plan	• Payments are based on a combination of business and individual performance • 50% of the award is deferred for two years

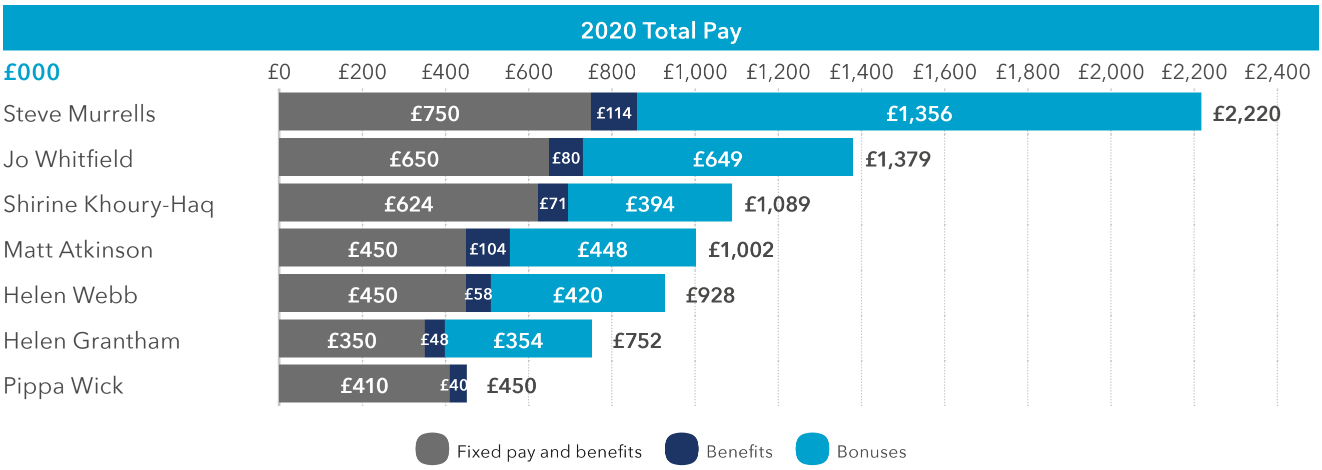
How our approach links to our strategy

Our bonus elements are linked to doing what matters most for our Co-op. We are committed to a clear link between how we pay our Executive and how our Co-op performs, while keeping a strong connection with our colleagues and supporting our Co-op Values and Purpose.

Net budgeted profit	It's important we make profit to reinvest and support our future strategy and Purpose.
Debt	Maintaining responsible debt levels is an important part of our financial strategy.
Membership	We exist to create value for our members and the communities in which we trade.
Community	Supporting local communities where our members live, and where we trade, creates much of the shared value that makes our Co-op a better way of doing business.
Colleagues	Colleagues play a significant role in ensuring we continue to deliver to our customers and communities.

2020 pay outcomes

The chart below shows the pay which our executives received in 2020 and full details can be found in the Annual Report on Remuneration which starts on page 95.



Notes to chart

1. Pippa Wicks stepped down from the Executive on 30 June 2020.

Executive Pay Policy

How we look at Executive pay

We are committed to the following approach to pay:

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

Summary of Executive Pay Policy

Our current Executive Pay Policy is summarised below.

Base salary	
Purpose and link to strategy	To set a level of pay for performing the core role that allows us to attract and retain talented leaders.
Summary and operation	We want to pay our Executive at a level that reflects the job they do, but do not want to overpay. We look at what other similar organisations pay and take this into account when setting our Executive's pay.
Maximum Opportunity	There is no maximum salary. Typically, salaries are reviewed annually. When reviewing salaries, the Committee will take account of: • Experience • Personal and business performance • What other similar businesses pay their Executive • Increases being granted to other colleagues throughout the business

Benefits	
Purpose and link to strategy	To offer a benefits proposition to attract and retain talented leaders.
Summary and operation	The benefits provided to our Executive will be in line with normal market practice and could include a car or car allowance, fuel in certain cases, relocation assistance, healthcare cover and life cover. Executives are also able to take advantage of benefits offered to all colleagues, for example the cycle to work scheme, discounts on certain products and services and the Employee Assistance Programme.
Maximum Opportunity	There is no formal cap on the level of benefits that can be provided, however this will represent a small proportion of the total pay.

Pension	
Purpose and link to strategy	To provide the same percentage level of pension benefits to all colleagues across our Co-op, that provides an income in retirement.
Summary and operation	Our Executive are able to join our Co-op Defined Contribution pension plan or receive a cash allowance in lieu of pension provision.
Maximum Opportunity	The following options are available: • Defined Contribution employer pension contributions of up to 10% of salary • Cash alternative of up to 10% of salary if the lifetime limit has been exceeded

Bonus Plan	
Purpose and link to strategy	To motivate and reward achievement of key business performance measures which support the delivery of our Purpose and Values.
Summary and operation	Our Executive will be eligible for a payment under a Bonus Plan (BP) agreed by the Committee. The performance measures and targets for each annual BP cycle will be set at the start of each year. Payments will be based on a combination of business and individual performance. 50% of any award is subject to a two-year deferral period – not all of the award will be paid in one go – 50% will be paid two years later. Payments made under the BP are subject to malus and clawback provisions.
Maximum Opportunity	The maximum possible bonus opportunity under the BP is 250% of salary for the Chief Executive and between 150% and 200% for the remaining members of our Executive. The maximum amount payable under the BP varies by Executive member and is set at an appropriate level in accordance with our reward philosophy. Target performance bonus is 50% of maximum.

Clawback provisions apply to the BP and enable the Committee to claim back part or all of a payment under these arrangements if our Co-op's results were materially misstated, should have been assessed materially differently, or where an individual ceases to be employed by our Co-op as a result of misconduct. Malus provisions allow, under specific circumstances, that the Committee can decide that an award which has not yet paid out should lapse.

Policy for Executive recruitment

The pay package for any new executive will be set using the same policies that apply to current executives, benchmarked externally by role. This means that the Committee would set a total pay package that is aligned to what other similar businesses pay for similar roles, while ensuring that it pays no more than is necessary to secure the individual.

The following additional items of pay may be considered when recruiting an executive:

- **Relocation.** The Committee will consider contributing towards relocation costs for an executive who needs to move home to be closer to their place of work or stay close to their place of work during the working week. When applicable, this is provided under a relocation policy that seeks to provide appropriate financial assistance based on the nature of the move and individual circumstances, without encouraging people to spend long periods away from family.
- **Giving up of outstanding incentive awards.** Under absolutely exceptional circumstances, the Committee may consider compensating a new executive for incentive awards lost as a direct result of leaving their previous employer to join the Co-op. The exact type and amount of compensation will vary depending on the incentive plans operated by the previous employer. Any payments agreed under this policy will be no more generous than the arrangements lost, will mirror the original terms as far as possible, and will typically be subject to relevant performance criteria.

Policy for Executive leavers

In the event of termination, the Committee will review and approve all payments due to an executive with the aim of minimising the costs to our Co-op. Payments will be based on contractual and statutory obligations, including legal fees. Where negotiated, a contribution towards career support may be made.

The notice period in newly-recruited executives' service contracts will not exceed six months. Current executive contracts can be terminated by a maximum of six months' notice. Where it is better for our Co-op for an individual to remain under a contract of employment but not to work their notice, they are placed on garden leave and only contractual payments are made. Where an individual is not required to work their notice and receives a payment in lieu, our Co-op is only obliged to pay base salary. The payment in lieu would not include any benefits or bonuses.

The Committee can agree that the salary in lieu of the whole or part of the notice period can be paid in instalments. The Committee has the right to reduce the payments of salary in lieu of notice by the amount of income from a new role.

The Committee has discretion to determine whether, and to what extent, any part of the deferred BP payment should be made in respect of the period they have been employed. In exercising its discretion, the Committee will take account of the reasons for leaving, performance and contractual commitments.

Comparison

For base salary, benefits and pension, the same market-aligned principles are applied to all colleagues.

Fees for Non-Executive Directors

Fees for non-executive Board directors are determined by the Non-Executive Fees Committee of Council. Fees are described in the section 'Annual Report on Remuneration' on page 100.

Implementation of the Executive Pay Policy in 2021

Base salary

Annual base salaries for our Executive are set out below.

Executive member	2020 £000	2021 £000	Comments
Steve Murrells	750	750	Joined Executive 16 July 2012, promoted to Chief Executive 1 March 2017
Shirine Khoury-Haq	610	650	Joined Executive 5 August 2019. Salary increased from 1 September 2020 to reflect increased responsibilities
Jo Whitfield	650	650	Interim appointment to Executive 1 March 2017, promoted to Chief Executive Food 17 July 2017
Matt Atkinson	450	450	Joined Executive 16 October 2017
Helen Webb	450	450	Joined Executive 18 April 2017
Helen Grantham	350	350	Joined Executive 11 January 2016, promoted to Group Secretary and General Counsel 1 July 2017

We benchmark the total pay of our Executive using market data from similar businesses to ours, including a selection of retail PLCs, mutuals and co-operatives as determined by the Committee.

Benefits and pension

Our Executive will receive benefits, including pension provision, in line with the current policy.

Bonus Plan

The table below sets out the maximum amount each Executive member can receive under this plan in 2020.

Executive member	Maximum BP opportunity as a % of bonusable pay
Steve Murrells	250%
Shirine Khoury-Haq	180%
Jo Whitfield	150%
Matt Atkinson	150%
Helen Webb	150%
Helen Grantham	150%

The 2021 BP balanced scorecard measures and weightings will be consistent with those used for the 2020 plan, as set out in more detail on page 96.

To ensure payments are affordable, the BP will again have a financial underpin which must be achieved for any payments to be made. The Committee will look at performance at the end of 2021 and assess the BP outcomes. It can provide a BP payment between nil and the maximum opportunity for each executive depending on performance. The Committee has discretion to adjust targets, performance results or payments (up to the maximum or down to zero) for exceptional events which they were not aware of at the time of granting the award.

The Committee are continuing to look at how the scorecard can evolve in future years so that it speaks to our key objectives and priorities. But at the same time all metrics must be measurable and colleagues feel they are able to play their part and contribute to the overall result. Discussions are ongoing with the Executive and Council Remuneration Working Group and this includes how we might better reflect our 'Co-operating for a Fairer Planet' aims with specific annual sustainability targets.

Annual Report on Remuneration

What did our executives earn in total during the year?

The table below shows the pay received by our executives during the 2020 financial year.

Table 1a – 2020 pay for our executives in post at 2 January 2021

Name of Executive	Period	Basic salary £000	Taxable benefits (Note 1) £000	Pension benefits (Note 2) £000	BP (Note 3) £000	2018 Deferred BP Award (Note 4) £000	Other (Note 5) £000	Total £000
Steve Murrells	**2020**	**750**	**39**	**75**	**660**	**696**	**0**	**2220**
	2019	750	45	75	615	-	0	1485
Jo Whitfield	**2020**	**650**	**15**	**65**	**343**	**306**	**0**	**1379**
	2019	602	15	54	283	-	0	954
Shirine Khoury-Haq	**2020**	**624**	**9**	**62**	**394**	**0**	**0**	**1089**
	2019	258	6	24	117	-	292	697
Matt Atkinson	**2020**	**450**	**15**	**45**	**221**	**227**	**44**	**1002**
	2019	450	15	45	196	-	82	788
Helen Webb	**2020**	**450**	**13**	**45**	**238**	**182**	**0**	**928**
	2019	402	14	40	181	-	0	637
Helen Grantham	**2020**	**350**	**13**	**35**	**172**	**182**	**0**	**752**
	2019	350	13	35	152	-	0	550

Notes to Table 1a

1. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
2. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
3. BP amounts shown represent 50% of the earned award which is payable in May 2021. The other 50% is deferred for two years and paid subject to still being employed by our Co-op and not under notice, and the Rules of the BP.
4. Deferred Bonus Awards relate to the 2018 BP. Half of the award was paid in May 2019 and the other half will be paid in May 2021 subject to still being employed and not under notice.
5. Matt Atkinson received £44k under the relocation policy to assist in staying close to the workplace during the working week which was used to rent a flat.

Table 1b – 2020 pay for executives who left our Executive during the 2020 financial year

Name of Executive	Period	Basic salary (Note 1) £000	Taxable benefits (Note 2) £000	Pension benefits (Note 3) £000	BP (Note 4) £000	2018 Deferred BP Award (Note 5) £000	Other £000	Total £000
Pippa Wicks	**2020**	**410**	**6**	**34**	**0**	**0**	**0**	**450**
	2019	700	13	70	424	-	0	1207

Notes to Table 1b

1. Basic salary includes a payment on leaving for unused holiday entitlement
2. Taxable benefits include car, fuel, car cash allowance and healthcare (where applicable).
3. Pension includes Co-op Defined Contribution pension plan or cash allowance in lieu of pension provision.
4. No 2020 BP payment has been made to Pippa Wicks.
5. No 2018 Deferred Bonus Award has been paid to Pippa in line with the scheme rules.
6. Pippa Wicks stepped down from the executive on 30 June 2020.

How were the 2020 BP payments calculated?

2020 Balanced scorecard measures	Weighting	Performance	
Stronger Co-op	% of maximum weighting	Outturn	Summary
Co-op Operating Profit	50%	31.25% (Target +)	Our Co-op's revenue was up 5.6% to £11.5bn, an increase of £0.6bn on 2019. Our underlying profit before tax, which excludes the impact of non-trading items, was up to £100m - an increase of £65m. The Committee applied a discretionary reduction to the outturn, reducing from stretch (full 50% weighting achieved) to just above target.
Colleague – measures focused on building and maintaining colleague engagement	10%	5% (Target)	Despite the impact of the pandemic, our colleague engagement score was maintained at the same level as 2019. We saw an uplift in Net Promoter Scores which shows how our colleagues prioritised and valued support from their manager during the pandemic.
Stronger Communities			
Member – measures focused on our membership proposition	10%	4.16% (Threshold +)	Our performance was impacted by Covid and this manifested through dramatic changes in member and customer habits. Co-op membership has proven to be resilient and through the evolution of our membership offer (by the end of 2020 the Co-op app was installed 1.3m times and 500,000 members selected a digital offer in the last quarter) we now have a strong foundation to build on.
Community – measures focused on championing co-operation and engagement with community activities	10%	10% (Stretch)	A very strong performance against the targets set with colleagues across the business working together to maximise the impact of our community activity. We firmly positioned our "Co-operating for a Fairer World" vision at the heart of our community response with all measures outperforming.
Personal performance			
Assessment of how each Executive performs against their job requirements, Leadership index, Co-op behaviours and our Ways of Being	20%	-	Determined in reference to individual performance

Personal performance is an assessment of how the Executive performs against their job requirements and Co-op behaviours. These will vary by Executive responsibilities and include:

- Overall performance against plan.
- Leading through Covid-19.
- Operating model and managing costs.
- Transformation programmes.
- Sustainability.
- New membership launch.
- The Vision – 'Co-operating for a Fairer World'.
- Endless inclusion and leadership culture.

Additional Key requirement

Managing our debt levels is also an important performance measure to enable us to deliver the strategic objectives of our Co-op. Net debt/EBITDA had to be within 10% of our plan throughout the 2020 plan for any payments to be made, and this was achieved.

What deferred BP awards do our executives hold?

Awards are made annually under the BP, and any payments due are made in cash, with 50% of all awards paid in two years' time. The table below shows the value of the deferred award held by executives in post at 2 January 2021.

Table 2a – deferred BP awards held by our executives in post at 2 January 2021

Name of Executive	BP Award Year	Value of BP Award deferred £000	BP Deferred Award due in year (Note 1) £000
Steve Murrells	**2020**	**660**	**-**
	2019	615	-
	2018	-	696
Shirine Khoury-Haq	**2020**	**394**	**-**
	2019	117	-
Jo Whitfield	**2020**	**343**	**-**
	2019	283	-
	2018	-	306
Matt Atkinson	**2020**	**221**	**-**
	2019	196	-
	2018	-	227
Helen Webb	**2020**	**238**	**-**
	2019	181	-
	2018	-	182
Helen Grantham	**2020**	**172**	**-**
	2019	152	-
	2018	-	182

Notes to Table 2a

1. The Bonus Plan rules apply in respect of payments being made.

Table 2b – deferred BP awards for executives who have left our Executive

Name of Executive	BP Award Year	Value of BP Award deferred (Note 1) £000
Pippa Wicks	2019	424
	2018	525

Notes to Table 2b

1. In line with the BP rules, the deferred BP awards were forfeited as Pippa resigned.

What pension benefits are our executives entitled to?

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

Table 3a – Pension entitlements for executives in post at 2 January 2021

Name of executive	Date appointed to Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £000	Payment in Lieu of Pension Benefit £000	Total Pensions Benefits £000
Steve Murrells	16 Jul 2012	8	**2020** 2019	**-** -	**75** 75	**75** 75
Shirine Khoury-Haq	5 Aug 2019	1	**2020** 2019	**3** 2	**60** 23	**63** 25
Jo Whitfield	1 Mar 2017	5	**2020** 2019	**4** 6	**61** 54	**65** 60
Matt Atkinson	16 Oct 2017	3	**2020** 2019	 -	**45** 45	**45** 45
Helen Webb	17 Apr 2017	7	**2020** 2019	 -	**45** 40	**45** 40
Helen Grantham	11 Jan 2016	5	**2020** 2019	 -	**35** 35	**35** 35

Notes to Table 3a

1. All pension scheme members have the option of paying additional voluntary contributions to their respective pension scheme. Neither any contributions paid nor any benefits arising from them are shown in the above table.
2. Defined benefit accrual ceased in October 2015 for all colleagues.

Table 3b – Pension entitlements for executives who left our Executive during the 2020 financial year

Name of Executive	Date left the Executive	Years of Group Service	Period	Employer Contributions to Defined Contribution Pension £000	Payment in Lieu of Pension Benefit £000	Total Pensions Benefits £000
Pippa Wicks	30 Jun 2020	4	**2020** 2019	 -	**34** 70	**34** 70

What arrangements have been agreed for former executives?

No additional arrangements have been agreed for Pippa Wicks. No other Executive left during the 2020 financial year.

Pay ratio

Large public companies are required to report the ratio of pay between a firm's chief executive compared to the 25th, median and 75th percentiles of full-time employees.

To calculate each percentile, we've sorted all our colleagues in order of their total pay from high to low. We then split them into four equal groups to work out the percentiles i.e. if there are 101 colleagues, the 25th highest paid colleague is used for the 75th percentile, the 51st highest paid colleague for the median and the 75th highest paid colleague for the 25th percentile.

The pay ratios calculated in line with the Corporate Governance code guidance are set out below.

Year	Method	25th percentile ratio	Median pay ratio	75th percentile ratio
2020	Option C	122:1	117:1	102:1
2019	Option C	83:1	76:1	62:1
2018	Option C	116:1	111:1	92:1

Under the options provided in the guidance to calculate the pay ratio, we've opted to use option C. This allows us to select comparator colleagues for the 25th, 50th and 75th percentiles. All three options would give us a very similar result, and option C is the most practical and appropriate for the Co-op given the size and complexity of our payroll systems.

A large proportion of our colleagues work in frontline roles in our stores, and both the 25th percentile and the median comparators are CTMs in our Food stores.

The government pay ratio calculation is based on actual pay received. It therefore can change a lot as bonus payments are likely to vary each year given that they are linked to both business and personal performance. The reduction in 2019's pay ratio was largely due to no payment being made under the 2017-19 LTIP. Whereas the increase in 2020's ratio compared to 2019 is largely due to the deferred 2018 BP award being paid in May 2021. The BP replaced the LTIP plan that we previously had in place.

In addition, for the last four years we've shared our pay ratio based on target earnings rather than actual as this approach makes sense to us and we believe it will make it easier for members to compare progress over time. We'll continue to provide the ratio on this basis, and the ratio between our highest paid executive and lowest paid colleague for 2017 to 2021 on base pay and for base pay plus target bonuses is set out below.

Year	Base pay only	Base pay plus on target bonuses
1 April 2021	40:1	91:1
1 April 2020	43:1	96:1
1 April 2019	44:1	99:1
1 April 2018	48:1	96:1
1 April 2017	51:1	101:1

No changes were made to the Chief Executive's on target earnings in 2020, whereas we increased the pay of the comparator role, which is a Customer Team Member (CTM), by 5.5%.

Non-Executive Directors' remuneration

This section of the report includes details of the payments made to the Non-Executive Directors (NEDs) in office during 2020.

What are the fees for the NEDs for 2021?

NED Role	Fees
Chair	• The basic fee for the Chair role is £250,000 per annum. There has been no change in annual fee between 2015 and 2020. No additional fees are paid

Independent Non-Executive Directors (INEDs)	• The basic fee for an INED is £60,000 per annum
	• The following additional fees apply:
	  • Senior Independent Director £15,000
	  • Chair of Risk and Audit Committee £15,000
	  • Chair of Remuneration Committee £15,000
	• There is no additional fee for the Chair of Nominations Committee or for being a member of any committee

Member Nominated Directors (MNDs)	• The basic fee for an MND is £60,000 per annum • The same additional fees for the INEDs apply to MNDs who are Chairs of a committee. There is no additional fee for being a member of any committee

Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2020, it was paid to The Co-operative Community Investment Foundation. The Chair also has access to a pool car and driver for Co-op business if required. No other benefits will be provided for the Chair or any other NED member of our Board.

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

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

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

How long are directors appointed to our Board for?

Appointments to our Board are for the following periods:

- The INEDs (including the Chair) were initially appointed for two-year terms subject to election and re-election in accordance with the Rules. We amended our Rules in 2018 so that all INEDs and Executive Directors have to retire from office at each third AGM following their election/re-election. Our Board and the Council have the right to agree otherwise in order to avoid a situation where more than half of the other Directors (excluding the Member Nominated Directors) would be retiring from office at the same AGM.

- On this basis, any new appointments or re-appointments for INEDs are generally for three-year terms, subject to INEDs being able to serve a maximum of nine years. Executive Directors do not have a maximum term of office.

- MNDs were initially appointed for two year terms and could serve a maximum of three terms, subject to the Member Nominated Director Election Regulations. Following the 2018 Rule amendments, MNDs are generally appointed for three year terms and can serve a maximum of nine years.

What did the NEDs earn during the year?

The table below shows the fees paid to our NEDs during the 2020 financial year.

Table 4a – Non-executive members of our Board at 2 January 2021

	Notes	Board £000	Risk and Audit Committee Chair £000	Remuneration Committee Chair £000	Senior Independent Director £000	2020 Total £000	2019 Total £000
Allan Leighton (Chair)	1, 4	See note 1	-	-	-	-	See note 1
Chris Kelly	2, 3	60	-	-	**15**	75	75
Simon Burke	2	60	**15**	-	-	75	75
Stevie Spring	2	60	-	**15**	-	75	75
Lord Victor Adebowale		60	-	-	-	60	60
Hazel Blears		60	-	-	-	60	60
Margaret Casely-Hayford		60	-	-	-	60	60
Paul Chandler		60	-	-	-	60	60
Sarah McCarthy-Fry		60	-	-	-	60	38
Rahul Powar		60	-	-	-	60	60

Notes to Table 4a

1. Since his appointment date, the Chair has waived his fee of £250,000 per annum. Instead this is paid direct by our Co-op to charity. In 2020 it was paid to The Co-operative Community Investment Foundation.
2. The Risk and Audit Committee Chair, the Remuneration Committee Chair and the Senior Independent Director each receive an additional fee of £15,000 per annum.
3. Chris Kelly receives an additional £60,000 fee as the Chair of the Board of Co-op Insurance Services Limited.
4. No additional fee is paid to the Chair of the Nominations Committee.

For details of fees paid to Independent Non-Executive Directors on the boards of subsidiary businesses, please see the relevant accounts which are available on request from the Secretary.

Role of the Committee

The Committee is responsible for determining and overseeing the Executive Pay Policy for our Co-op to ensure a consistent approach across our Co-op and its subsidiaries.

Terms of reference

The terms of reference of the Committee are available on our website: **www.co-operative.coop/investors/rules**.

Members of the Committee

Details of the Committee members and their attendance at meetings during 2020 are provided on pages 67 and 68.

The Chief Executive, the Group Secretary and General Counsel, the Chief People and Services Officer and members of the Reward team are also invited to attend the meetings of the Committee but are not present when their own remuneration or terms and conditions are being considered. Other individuals are invited to attend for specific agenda items when necessary.

The Committee members are all non-executive. They have no personal financial interests in the Committee's decisions and they have no involvement in the day-to-day management of our Co-op. Our Board believes that all members of the Committee are independent for the purpose of reviewing remuneration matters.

Independent advice

In carrying out its responsibilities, the Committee has access to independent advice as required. During 2020 the Committee retained Deloitte as its independent remuneration adviser. The fees paid to Deloitte during this period totalled £44,175 excluding VAT.

Deloitte are a signatory of the Remuneration Consultants' Code of Conduct which requires their advice to be objective and impartial.

The Committee takes legal advice from our Co-op's internal legal team and also from external legal advisors.

Report of the Nominations Committee

Introduction from the Committee Chair

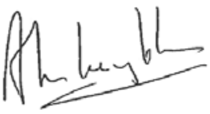
This year marks my sixth year as Co-op Chair and Chair of the Nominations Committee ('the Committee'). I'm pleased to report that the Committee remains confident that we have in place a strong team of Directors that have continued to successfully support and challenge our Executive and lead our Co-op. We have adapted our ways of working in 2020 in response to the challenges of Covid-19.

This report summarises the work undertaken by the Committee during 2020. The Committee met in January, March and July and focused on areas including:

- Leading further development of Board succession planning.
- Commissioning an externally facilitated Board Evaluation.
- Reviewing the Board Diversity and Inclusions Policy.

The Committee also continued to deal with all of its routine matters. This included checking the eligibility and membership criteria for Directors, recommending the re-election of INEDs at our 2020 AGM and reviewing the Committee terms of reference.

Board succession planning and board effectiveness will continue to remain a key focus for the Committee in 2021.



Allan Leighton
Chair, the Nomintions Committee

What does our Nominations Committee do?

Our Nominations Committee:

- Leads the appointment process for Executive Directors and INEDs having regard to (amongst other things): our Rules, our Board Composition Charter, our Board Diversity Policy, our Membership Regulations, our Board Election Regulations and Co-operative Values and Principles.
- Leads on other non-Board appointments if asked.
- Checks and approves the qualification and commercial experience requirements of INEDs and Executive Directors.
- Under the direction of the Chair, keeps the diversity and effectiveness of our Board under review and ensures it has the appropriate balance of skills and experience to provide effective leadership and oversight.
- Evaluates Director performance individually and collectively.
- Reviews and recommends succession plans for our Board.
- Submits proposals to the Non-Executive Directors' Fees Committee in respect of the remuneration of our Co-op Chair, INEDs and MNDs.

The Member Nominated Directors Joint Selection and Approval Committee (MNDJC) oversees the election process for MNDs and therefore who is put forward for direct election by members.

The Committee's Terms of Reference were reviewed during the year and minor amendments were made. They are available on our website: **www.co-operative.coop/investors/rules**.

2020 focus areas – Board succession planning

During the year, the Committee spent time considering the important topic of Board succession planning. The Committee reviewed the Emergency Succession Plan (used to ensure the Board is prepared for sudden or unexpected loss to key Board members) and were confident it remained appropriate. This Board Skills Matrix (used to help assess the current skills, knowledge and experience of the Board and any potential gaps that could be addressed in future appointments) was refreshed following input from the Directors. Our Non-Executive Directors comprise both INEDs and MNDs. While we can actively recruit for skills and skills gaps for INEDs our MNDs are elected directly by our members once they have been shown to meet the membership and eligibility criteria under our Rules.

The Committee was satisfied that the Board Succession Plans remain sufficiently robust, whilst acknowledging that there remains a 'cliff' in 2023/2024 during which a number of Board members will be required to retire within a relatively short space of time. This will continue to be a focus of the Committee during 2021 and the Committee has an agreed timeline in which to enable recruitment of new INEDs in the lead up to others stepping down.

In line with our Rules, the Chief Executive, with the support of the Chief People and Services Officer, continued to lead on succession planning for the wider Executive Team, in consultation with the Board. The plans were reviewed during the year by the Remuneration Committee on behalf of the Board.

Directors are subject to re-election every three years but for the first time in a few years, no Directors are subject to re-election at our 2021 AGM.

Hazel Blears' term of office as an MND is also coming to an end this year. She has decided not to re-stand for election and will be stepping down as an MND at the end of this year's AGM.

2020 focus areas – Re-appointment of Directors

During the year the Committee considered and recommended to the Board the re-appointment of Lord Victor Adebowale as a NED for a further period of 3 years.

The MNDJC was responsible for the MND election process which saw Margaret Casely-Hayford being re-elected for an additional term.

2020 focus areas – External Board Evaluation

As was reported last year, an externally facilitated evaluation was scheduled and conducted during the year, led by Sir Christopher Kelly as Senior Independent Director. The review was undertaken by Clare Chalmers Limited (CCL).

The evaluation was conducted in unusual circumstances, with the backdrop of Covid-19. Board practices and ways of working had been adapted during the year to avoid physical Board and committee meetings. Interviews and meetings with CCL were also held remotely via Microsoft Teams.

The review consisted of: an observation of Board and Committee meetings; interviews of all Directors, the Group Secretary, the Members' Council President, the Executive Team and the Director of Internal Audit; and a review of Board packs.

The conclusions of the review fell into two broad categories – those which related specifically to the challenges being faced due to working remotely as a result of the pandemic and others being more general in nature. An action plan has been reviewed and agreed with the Board in March 2021 covering both areas. Key areas of focus include:

- How best to manage remote meetings – balancing giving sufficient time to agenda items with the challenges of large meetings held via Microsoft Teams.
- Working to ensure effective and timely debate with a large Board in a remote environment.
- Ensuring a consistent standard in all Board papers.
- How best for committee chairs to feedback on the work of their committees.
- How to ensure the full Board has good visibility on Board and Executive succession planning, which is currently handled within Board committees.
- Refreshing the Matters Reserved for Board approval and the role descriptions for the Chair and Chief Executive (building on the requirements in our Rules).

2020 focus areas – Diversity and inclusion

We recognise the importance of a diverse Board that is representative of our membership, now and in the future, and which provides diversity of thought as well as bringing an appropriate mix of skills and experience.

Whilst we believe diversity goes beyond gender and ethnicity, we know this has rightly been a key area of focus over recent years. We are proud that our Board currently comprises:

- Men: (7) 58%.
- Women: (5) 42%.
- Black, Asian and Minority Ethnic (BAME): (4) 33%.

During the year, the Committee reviewed the Board Diversity and Inclusions Policy, and remained satisfied that it was aligned to our colleague Diversity and Inclusion Policy. The Board Diversity Policy can be found at: **www.co-operative.coop/investors/rules**.

In 2020, we launched 'Our Commitment to Racial Inequality and Inclusion' – a manifesto of how we would address racial inequalities across our Co-op. The Committee is proud of our commitment to be anti-racist – it is the right and fair thing to do. The Committee reviewed the Board Diversity and Inclusions Policy against this manifesto and was satisfied that the two were aligned.

For more information on our new commitments, targets and ways of working to address racial inequalities, please see our Co-operate Report.

2020 focus areas – Board Committee composition

During the year the Committee reviewed the composition and balance of skills on our Board Committees. As part of this review the Committee considered the membership of each Committee, the tenure of each Director, the Board Skill Matrix, diversity and input from the Committee Chairs.

Following the review, the Committee recommended to the Board that the composition of each Board Committee remained appropriate and that no changes be made.

Details of each of our Board Committees' members and their attendance at meetings held during 2020 are shown on pages 67 and 68.

2020 focus areas – Review of INEDs' and Executive Directors' qualification and commercial experience

Having reviewed the qualifying and commercial experience for INEDs and Executive Directors throughout the year (including the Membership Criteria and Eligibility Criteria) the Committee can confirm that the INEDs and the Executive Directors have all met the requirements and shown continued commitment to Co-operative Values and Principles.

Focus areas for 2021

For 2021 the focus areas for the Committee will include:

- Continuing to develop our Board Succession Plan.
- Progressing actions arising from the 2020 External Board Evaluation.
- Conducting an internally facilitated Board Evaluation.

Directors' report

The directors present their report, together with the audited financial statements for the period ended 2 January 2021.

Results and distributions

The profit before taxation (from continuing operations) was £127 million (2019: Profit £24 million). No interim dividend has been paid for 2020 and the members are not being asked to approve any distribution of profits for the year.

Going concern

The financial statements are prepared on a going concern basis as the directors have a reasonable expectation that the Group has enough money to continue in business for the foreseeable future. Our Co-op borrows money from banks and others, and as part of this process we have checked that we can comply with the terms of those agreements, for example, banking covenants and facility levels.

The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period, to 30 June 2022. Although our Co-op has a robust planning process, the current economic uncertainty caused by the Covid-19 pandemic and UK recession means that additional sensitivities and analysis have been applied to test the going concern under a range of downside test scenarios. The following steps have been undertaken to allow the directors to conclude on the appropriateness of the going concern assumption:

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

1) Understand what could cause our Co-op not to be a going concern

In making their assessment the directors have considered a wide range of information relating to present and future conditions, including future forecasts of profitability; cash flow and covenant compliance; and available capital resources. The potential scenarios which could lead to our Co-op not being a going concern are:

a. Not having enough cash to meet our liabilities as they fall due. Throughout the going concern period the facility limit within which we need to operate is £1,169m, which includes £769m non-bank facilities and £400m bank syndicate facilities; and/or

b. A breach of the financial covenants implicit in our bank facility agreement.

   - Net Debt Leverage: Consolidated net debt as a multiple of bank-defined EBITDA must not exceed 3.00:1.00 at each six-monthly covenant test date.
   - Adjusted Interest Cover: The bank-defined EBITDA (further adjusted by a fixed rental figure) as a multiple of the consolidated net finance charges, must not fall below 1.75:1.00 measured at each six-monthly covenant test date.

2) Board review and challenge the base case forecast

We have conducted a highly detailed forward planning exercise as part of our strategic plan. The Co-op's base case forecast includes prudence due to the uncertainty in the market and impact from recession. We have also planned for ongoing pandemic-related costs and provide contingency for risks materialising through the year. 2021 represents a high investment year for our Co-op as we seek to pay our frontline colleague a fair wage and invest in our prices across Retail and Funeralcare. The Board have reviewed and approved these plans.

3) Consider downside sensitivities across the base case forecast

In undertaking our going concern assessment, we have included assumptions related to the impact of the pandemic and sensitivities of internal and external factors on the financial projections including (but not limited to):

- A reduction in the sales demand in our Retail business, with a prudent 1% LFL reduction to sales calculated versus 2019.
- A reduction in the timely realisation of our transformation and working capital initiative benefits across our businesses.
- A reduction in the demand of our Funeralcare business, with a prudent 2% reduction in LFL sales. We also modelled a lower return on our funeral plan investments.
- Potential repayment of some of the Covid-19 related Government reliefs.
- Additional Covid-19 pandemic risks in high staff absence rates, lower fuel sales volumes and higher PPE safety costs. Covid-19 risks reverse in 2022 as they represent one-off costs that are only necessary during pandemic conditions.

The sensitivities identified above do not risk the validity of our Co-op as a going concern even before applying the mitigating actions set out below.

4) Examine what mitigating actions would be taken in the event of these scenarios

Whilst out of line with our strategic ambition, there are several options within the business's control we could exercise, if the above risks materialised. 2021 represents a high investment year and does therefore provide short-term options not available in previous years. Options include:

- Our Co-op's ability to control the level and timing of its capital expenditure programme (circa £550m over the going concern timeframe).
- Apply cost control measures across both variable and overhead budgets.
- Our Co-op's options to slow down and reduce investment into price and membership.

5) Perform a reverse stress test and assess any further mitigating actions

Whilst our initial going concern approach assesses likely risks to our base case forecasts through severe but plausible downside scenarios and options to mitigate them, the reverse stress test represents a worst-case scenario at which point the model breaks.

Whilst unlikely, to demonstrate the above, we have modelled a significant downturn in the grocery market of a further -3% retraction in Retail sales and a further reduction in funeral volume of -4%. In addition, we have modelled the impact of a significant shortfall in our transformation programme benefits delivery.

We note, however, that we could mitigate the reverse stress test scenario through a further reduction or delay in capital expenditure and a change in the timing of our investment into operational improvements. There is also the option to apply further cost control measures. Whilst all remain undesirable strategically there is also the option to apply further stringent cost control measures.

6) Conclude upon the going concern assumption

For the purposes of going concern we assume that no new facilities from re-financing are required or needed. We do not anticipate any change in this assumption, but this will be kept under review.

In addition, our Co-op has an accordion option with the banking syndicate to obtain £100m of additional revolving credit facilities. Whilst available to Co-op, this has not been included in our assessment as our base facilities are enough to cover our going concern calculations without any breach of covenants.

Further information relevant to the directors' assessment is provided within the General Accounting Policies section of the financial statements (page 197).

Longer term viability

The directors have assessed whether we will have enough money to continue in business over the longer term. In making that assessment the directors have considered our Co-op's current position and the potential impact of our principal risks as set out on pages 50 - 53. We have specifically assessed the projected impact of the pandemic and UK recession, including key assumptions as described in more detail in the 'Going concern' section above.

We believe that a three-year period to 31 December 2023 is an appropriate period over which to provide this longer-term viability statement. Retail is our largest business and the directors have therefore determined the three-year assessment period given the dynamic nature of the retail sector. This is consistent with other major food retailers and forms part of the detailed forecasts reviewed by the Group board as part of the strategic planning process.

Our RCF agreement is currently due to end in September 2023. Our current working assumption is that the extension option held within the agreement will be taken during this calendar year (2021). This will add a further one year onto our facility – extending the maturity to September 2024. Our first extension request was readily approved in September 2020 and the Board see no reason to believe the syndicate would not approve the second extension option request.

As part of the strategy planning process, the directors make a number of assumptions and judgements about business performance. We then flex the main financial assumptions to check that we still comply with the terms of our facilities, even if some of our principal risks happen.

The viability statement is a continuation of the going concern assessment into future years and is part of the strategic plan that the Co-op Board has challenged and approved. The fundamental assumptions and sensitivities underpinning the outer years of our plan align to those of 2021 and we therefore deem them appropriate to use in assessing 2023–2024 sensitivities.

The scenarios we have selected are severe but plausible and include considering risks in combination. We have ensured that the sensitivities modelled are representative of our principal risks as set out in the below table:

Principle Risks and Sensitivities Applied	
Change	• Operating model cost our programme under delivers £13m sensitivity in 2022 • Working capital benefits of £20m not delivered in 2021 • Food change activity of £10m per year not delivered
Competitiveness and External Environment	• Food LFL sales reduce by 1% equating to £13m in 2021 and £17m 2022-2023 • Nisa and Franchise volume risk of £2m per year • Funeralcare At Need volumes reduced by -2% per year • Rental income sensitivity of £2m 2021 and £3m 2022-2023
Pre-Need Funeral Plan Obligations	• There are significant assets and liabilities relating to funeral plans on the balance sheet. Applying prudent economic variables to funeral plan policies results in an estimated reduction in annual cash income received from these assets of £12m per year

When applying these viability sensitivities, there is no breach to our Co-op's financial covenants through to the end of 2023.

Following their review, the directors have therefore concluded that they have a reasonable expectation that the Group will have enough money to continue in business over the period to 31 December 2023.

Post balance sheet events

Sale of Co-op Health

On 12 March 2021 Co-op announced the sale of its Health business for an undisclosed sum and the sale was completed on 6 April 2021. Both the consideration from the transaction and the net assets disposed of were immaterial to the Group - the sale is treated as a post balance sheet event. As the sale was assessed as highly probable at the balance sheet date then the assets of our Health businesses were classified as held for sale (see note 19 to the financial statements).

Group Relief Creditor owed to The Co-operative Bank

At the year-end date the Co-op held a liability on its balance sheet of £147m due to The Co-operative Bank (the 'Bank'). This balance arose in 2015 when we agreed with the Bank that they would surrender their tax losses as group relief to Co-op. In order to claim these tax losses from the Bank, Co-op deferred the reliefs and capital allowances available to it. It was agreed that Co-op would pay the Bank for its losses surrendered when these previously deferred reliefs and capital allowances were used in future tax periods. An equivalent deferred tax asset of £147m is held at the balance sheet date representing the future benefit of those losses and capital allowances which were previously disclaimed.

In February 2021 the Bank agreed a full and final settlement of £48m as payment for the losses it had group relieved to Co-op Group. The settlement of the liability is a non-adjusting post balance sheet event (as it does not represent conditions at the balance sheet date) and as such does not impact our 2020 results. Instead the gain of £99m that arises on extinguishing a liability of £147m for £48m will be shown in our 2021 results. Due to its size and nature, the gain will be treated as a one-off item in 2021 (and so won't be included within our underlying trading results). Co-op retains the full value of the deferred tax assets.

The Reclaim Fund

On 30 March 2021, the entire issued share capital of Reclaim Fund Limited was sold to HM Treasury for nominal consideration. The sale has no material impact on the Group's financial statements since the Reclaim Fund Limited is no longer consolidated within the Group (see note 35 for further information on the de-consolidation of Reclaim Fund Limited).

Litigation

On 19 February 2021, the Technology and Construction Court handed down judgment in a claim brought by CISGIL against IBM United Kingdom Limited, relating to a failed programme to implement an IT platform. CISGIL was awarded damages of approximately £13m subject to any applicable VAT deduction and excluding interest, with the final amount of damages plus interest and costs to be determined. During 2019, CISGIL assigned in equity the proceeds of the litigation with IBM to Co-operative Group Limited for £14.1m. Following the sale of CISGIL (since renamed Soteria Insurance Limited) in 2020, any income relating to the claim will be reported through discontinued operations within the income statement in 2021.

Government support

Subsequent to the year end, the Board of our Co-op has decided to repay £15.5m of the money it received in Government support during the Covid-19 pandemic; this equates to the amount it claimed in furlough payments.

Greenhouse gas emissions

Since 2016, our total direct greenhouse gas (GHG) emissions have reduced by 47% as detailed in the table below. Total direct GHG emissions decreased by 12% in 2020. This is due to using less energy, a decrease in emissions from fugitive refrigerant gases and the UK grid electricity mix being less carbon intensive in 2020. In 2020 our total energy use was 744 GWh (2019: 790 GWh). We expect a proportion of our decrease in energy consumption to be due to lower site occupancy and restricted opening hours as a result of Covid-19 lockdowns.

We publish our GHG emissions figures in two ways, showing our direct emissions if our electricity was counted at UK grid average (known as location-based reporting), and also if we were to account for our purchase and generation of renewable electricity (known as market-based reporting).

We have set our GHG emissions reduction target in line with the reductions needed to keep global warming to 1.5C below pre-industrial temperatures, a threshold for the most dangerous impacts of climate change. Our targets have been reviewed and approved by the Science Based Targets initiative (SBTi), a coalition of leading environmental NGOs.

Direct greenhouse gas emissions since 2006 – location based

2006 $ktCO_2e$	2016 $ktCO_2e$	2017 $ktCO_2e$	2018 $ktCO_2e$	2019 $ktCO_2e$	**2020** $ktCO_2e$
1,205	653	542	436	397	**349**

Direct greenhouse gas emissions since 2006 – market based

2006 $ktCO_2e$	2016 $ktCO_2e$	2017 $ktCO_2e$	2018 $ktCO_2e$	2019 $ktCO_2e$	**2020** $ktCO_2e$
1,205	653	297	247	232	**206**

Scope 1 and 2 GHG emissions by source – location based

Source	2019 $ktCO_2e$	**2020** $ktCO_2e$
Energy (location based)	192	**167**
Transport	110	**108**
Refrigeration	95	**74**
Total (location based)	397	**349**

Scope 1 and 2 GHG emissions by source – market based

Source	2019 $ktCO_2e$	**2020** $ktCO_2e$
Energy (market based)	27	**24**
Transport	110	**108**
Refrigeration	95	**74**
Total (market based)	232	**206**

Carbon intensity

	2016	2017	2018	2019	**2020**
Tonnes CO_2-equivalent (location-based) GHG emissions per £m revenue	63.5	52.8	42.7	36.4	**30.5**

Energy efficiency

Our specification for all new stores includes energy-efficient equipment and natural refrigerants as standard. We're also looking at ways to reduce the carbon impact of our new stores throughout their full life cycle, through design improvements and the materials and construction methods used. We continue to source 100% high quality renewable electricity, and in 2020 we invested approximately £1 million in energy efficiency in our older buildings to keep driving down the GHG emissions from running our business.

Political donations

Like many other businesses of a comparable size, our Co-op engages with a wide range of political opinion formers and decision makers, designed to protect, promote and enhance our corporate reputation and to deliver our campaigning ambitions. On issues of relevance to our business, we are also an active participant in the work of business trade associations.

Separate to this corporate activity, our Co-op is a subscribing member of The Co-operative Party, which was founded by the co-operative movement in 1917 to promote its Values and Principles.

The Co-operative Party works to raise awareness of the benefits of co-operative and mutual models. We made donations totalling £598,000 (2019: £625,600) to The Co-operative Party, which is our financial subscription to the Party for 2020, in line with our members' approval at the Annual General Meeting in 2019. The Co-operative Party reports donations to the Electoral Commission in accordance with its reporting obligations as a registered political party under the Political Parties, Elections and Referendums Act 2000.

No political donations are made through the Local Community Fund ('the Fund') and its terms and conditions are explicit that the Fund cannot be used for party political purposes.

A motion was passed by our members at the 2020 Annual General Meeting regarding our political expenditure, including donations and/or subscriptions to political parties, not exceeding £750,000 in total for the year commencing 1 January 2021.

Compliance with Groceries Supply Code of Practice

In January 2020, the Groceries Code Adjudicator (GCA) published her view on the progress made by Co-operative Group Limited towards satisfaction of the recommendations set out in her March 2019 investigation report. We were pleased to note the GCA recognised the significant work that Co-op had undertaken to improve its Code compliance and that she had accordingly reverted the monitoring of Co-op compliance to business as usual.

We have maintained our whole business approach to monitoring compliance with the Code, with regular reporting at various governance forums. The Code Compliance Officer reports regularly to the Risk and Audit Committee on the programme of compliance activity. The Committee also approved the Annual Compliance Report for submission to the Competition and Markets Authority as required by the Groceries (Supply Chain Practices) Market Investigation Order 2009. See page 83.

In a year where the pandemic has caused massive disruption to our Co-op and our suppliers, our continuing commitment to a sustainable culture of self-sufficiency and self-regulation has helped maintain our levels of compliance.

Christine Tacon was succeeded as GCA by Mark White in October 2020, and we value his commitment to continue with the collaborative approach. Our Code Compliance Officer actively and visibly encourages suppliers to share their experiences of dealing with the Co-op and to report any Code related concerns in confidence (CCO@coop.co.uk).

In 2020, we trained 771 colleagues across Buying, Finance, Supply Chain and other functions. Our training has adapted to the challenges posed by working remotely. We have also tailored it to reflect the specific roles and responsibilities of the different teams and compliance risks they are exposed to. As per our duties with the Order all relevant colleagues receive a copy of the Code within seven days of starting in their role.

During 2020, suppliers raised 34 Code related issues with us. This includes one issue withdrawn by a supplier. We resolved the other concerns through discussion with suppliers, Buying, Finance, Supply Chain and other relevant functions, sometimes with the involvement of the CCO. Four issues were still under review at the end of the reporting period and only one is in dispute.

Statement of Co-op Board responsibilities in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations.

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 and additionally in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union for the 52-week period ended 2 January 2021.

The Group financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 (and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union) have been followed.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with The Co-operative and Community Benefit Societies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy.

Each of the Directors listed on pages 55 - 59 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 (and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union), give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The Strategic Report and Governance Report contained in the Annual Report and financial statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

In this context, 'the Group' means Co-operative Group Limited, and all the companies and societies it owns.

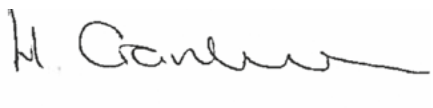
Financial statements

So far as the Directors are aware there is no relevant information that has not been disclosed to our auditor, and the Directors believe that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that our auditor has been made aware of that information.

Auditors

A resolution to re-appoint Ernst & Young LLP as auditors of the Group and to determine their remuneration for the forthcoming year was proposed at the 2020 Annual General Meeting and approved

By Order of the Board



Helen Grantham
Group Secretary and General Counsel

7 April 2021

Co-op's National Members' Council: annual statement for 2020

Our Members' Council is elected by you, our members.

Our Council is made up of 100 Co-op members from around the UK, including colleagues. We meet throughout the year (going virtual for 2020!) to hear about the things our Co-op is doing as a business. We also act as guardians of the Co-operative Values and Principles, making sure they're always at the heart of our Co-op's decisions and plans.

Council works for Co-op members

As a voice for members in the Co-op they own, Council has a responsibility to hold our Board to account on the performance of our businesses and the things that matter most to the communities we serve and support. To do this effectively, Board Members attend our Council meetings regularly, giving Council Members the chance to share their views and questions on the latest updates. Through Council's committees, working groups and advisory teams, we also talk with leaders and colleagues about business plans in more detail, providing input and feedback to help shape key pieces of work.

To give us a clear steer and focus for our discussions and priorities, we use a framework called the 'Co-op Compass'. It has four lenses that cover the main areas we hold the Board to account on:

- Member Value.
- Member Voice.
- Ethical & Sustainable Leadership.
- Co-operative Leadership.

With these themes as our guide, Council continued to champion a better way of doing business for our members and colleagues in 2020, despite the challenges of not being able to meet face-to-face since last February. To keep us connected to our Co-op, we started hosting virtual Council and committee meetings on Teams and Zoom – it's taken a bit of getting used to, but it's helped us become a more inclusive Council by introducing new ways to stay in touch.

We couldn't be prouder of how our Co-op rose to the immense challenge of feeding the nation and looking after our communities during unprecedented times; over the last 12 months, we built on this momentum and worked with our Board and teams from around the business to give members a platform for making a difference, tackle the injustices people are facing and help create a fairer world for everyone.

In the rest of this report, we'll share how Council worked for Co-op Members in 2020.

Member Value

Despite 2020 being a very tough year that brought normal life to a halt, our Co-op has remained commercially successful. Accelerating our online and home delivery plans and introducing new services for bereaved families are just some of the ways we've been able to demonstrate that there's value in our values. As a Council of keen co-operators, we're proud that our Co-op has been recognised as a business that invests in the future whilst doing good.

Through our Member Value lens, we challenge the Board to create, sustain and develop member value in everything we do. In September, our Co-op launched its new membership offer – providing personalised and exclusive deals for members and doubling the amount we give to communities when members choose our products. As part of shaping our evolved membership, Council Members in our Membership Advisory Team got involved in creating a proposition that enables members to make a difference with our Co-op in a way that suits them. Democracy is embedded in our membership strategy and Council's hoping our new approach will encourage more members to have a say in our Co-op.

Another huge moment for Council in 2020 came when our Co-op announced its move to the Real Living Wage, as we've been championing this on behalf of our fantastic frontline workers. This means that 33,000 colleagues will be earning at least £9.50 per hour outside of London and at least £10.85 in London, which is significantly more than the national minimum wage and is the recognition they deserve for their hard work during the pandemic.

Reviewing our Co-op's financial performance is a role our Member Value & Business Performance Committee carries out on behalf of our members. In 2020, the Committee prioritised the impacts of Covid-19 and Brexit costs on our Co-op at its meetings, discussing how these would affect annual results and future budgets and plans. It also met with Finance colleagues to understand the application of IFRS 15 to revenue from funeral plans in the business' accounts. Being closer to our members and customers remains an objective for our Food business but we want to be confident that we're making the right investments in our stores and communities, so the Committee spent time looking at our refits, appraisals and openings from 2017/18 and discussed our investment in Co-op Live too. Following the Real Living Wage announcement, the Committee also sought assurance that paying increased salaries is a sustainable commitment for us to make to our colleagues. How our strategy, investments and member proposition deliver value to members will be a continued area of focus.

Member Voice

Having an active, healthy Co-op democracy has always been important to Council. In 2020, we made some real progress in reaching more members and getting them involved in what's happening around our Co-op.

At a national level, we took our 'Join In Live' events online for the first time over four dates in October. This meant that members and co-operators could join us from the comfort of their own homes to help shape future plans, chat with Council Members and find out how they can get more from Co-op membership. We've had lots of positive feedback on this new format and Council is thrilled with how well the events went, so we're looking at what we can do in 2021 to keep the momentum going.

At a local level, we're pleased to share that our Co-op now has 1,000 Member Pioneers working around the UK to connect communities and provide support through our amazing initiatives. Council created the model for the programme, so seeing it go from strength-to-strength has been very fulfilling and we're looking forward to working with our local Member Pioneers to better understand what our communities and members need. Members who attended our October Join In Live online events were keen to find out more about how they could make a difference with our campaigns – like supporting mental wellbeing - closer to home, so we'll be working together to hold more Join In Live Local events in future as well.

To keep in touch with members outside of our events, we spent a lot of time in 2020 focusing on our Council communications. In 2019, we shared with you that we'd been carrying out research into developing and providing Co-operative Member Education, Training & Information (CMETI) and using our findings, we've created a communications strategy with our Member Participation team that combines educating members on our difference with getting them involved in our Co-op. It's a targeted approach that aligns with our new membership proposition, by talking to members about what interests them most, and Council's really excited to see how it energises our democracy.

Through our Member Voice lens, we challenge the Board to make sure our members feel engaged in our Co-op and want to contribute positively and proactively in our society – both economically and democratically. Working on this for our members and Council, our Member Voice Committee meets throughout the year.

For the first time ever, our AGM was solely held online in 2020 and allowed more members to join us on the day; to help us shape our thinking and plans for both digital and non-digital ways to get involved, the Committee and our Democratic Projects team used input from Council workshops. The voting numbers for our AGM and elections have decreased in recent years and this has been an area of concern and challenge for our Council. The Council's Governance and Member Voice Committees reviewed and discussed the 2020 AGM and Council shared a series of formal recommendations with the Board that look to increase participation and member engagement in our AGM and democracy, such as how members receive their voting information. Council made a recommendation to the Board to reintroduce full paper packs in 2021 to members who have voted by this channel in or before 2018 and Council is pleased to report that following discussion, the Board have agreed to this recommendation.

Council and the Committee have long championed our Join In platform as a way for members to get involved in our Co-op and throughout 2020, the Member Voice Committee caught up with colleagues from our Member Participation team to hear about the latest opportunities. Council also ran its own Join In survey in August/September, asking members to inform our priorities and tell us more about what matters to them; since then, we've been able to add their feedback to comments from our Join In Live online events and incorporate it into our discussions, projects and communication plans for 2021.

Some Council Members from the committee also make up our Community & Member Participation Joint Working Group. During its creation, they supported and inputted into our Co-op's Community Wellbeing Index and in March last year, they were invited to its parliamentary launch. At the event, members of parliament were asked to consider how the insights could be used to address issues at a local level and since then, other organisations and some local authorities have used the index to inform work in communities around the UK. Meeting with our Communities team, they've also been a part of conversations about our Co-operate 2022 plan, shaping our focus for supporting people through the pandemic and beyond.

Ethical & Sustainable Leadership

Now more than ever, ethical and sustainable issues are at the forefront of people's minds as we all try to do our bit to tackle the biggest threat to our planet: climate change. As an ethical retailer, our Co-op has always been a leader on key environmental and social issues, and we know this is really important to our members too.

Through our Ethical & Sustainable Leadership lens, we work with the Board and the business to demonstrate leadership in ethical and sustainable performance. At Co-op's 2020 AGM, Council put forward a motion that asked the business to accelerate its actions in the fight against climate change. Through crowdsourcing on social media, a Council Member from Yorkshire & the Humber was able to build members' input into the motion. This has continued to be a focus for us, and we've welcomed the progress that's been made throughout the year, with our Co-op's plastic film recycling scheme taking centre stage at our October Join In Live online events. In November, our Co-op announced that colleagues would become ethical browsers with the introduction of the Ecosia search engine to the business' networks and we're very proud that this move came on the back of a suggestion from a Council Member from the South West.

Reviewing our Co-op's ethical and sustainable business practices, policies and performance is a role our Ethical & Sustainable Leadership Committee carries out on behalf of our members.

As our Co-op was creating its recipe for our Future of Food 2030 ambition in 2018, the Committee took part in workshops to help shape our commitments for a sustainable future. In 2020, the Committee met with our Food Policy team to understand how new challenges brought on by the Covid-19 crisis have shifted priorities and to celebrate the progress made on our targets so far. Fairtrade is important to our Council and our members, and the committee is delighted with the support our Co-op has provided to producers to help them face into the challenges of Covid-19. The Committee has also shared feedback on how our Co-op promotes its ethical leadership and encourages more members and customers to choose our fantastic Fairtrade and own brand products.

As part of its remit, the Committee also supported the business with providing feedback on drafts of our 2019 'Co-operate: it's what we do' sustainability report. For our Co-op to have the biggest impact possible in the fight against climate change, it's crucial that we're making meaningful changes at all levels of our business; to help with this, the Committee spent some time towards the end of 2020 sharing suggestions with our Remuneration Committee for what sustainability targets for our Executive could look like.

Co-operative Leadership

As a champion of co-operation, it's important for our Co-op to demonstrate leadership in the UK and international co-operative movement.

Racism is an awful injustice that divides our communities and creates barriers for equal opportunities and fairness. In 2020, acts of racial discrimination and hate shocked the world and made us realise that enough is enough. Steve Murrells was the first UK CEO to condemn the murder of George Floyd and in September, our Co-op announced its Commitment to Racial Equality and Inclusion. Our manifesto is pioneering and bold and Council is fully supportive of everything our Co-op wants to achieve; through our Diversity and Inclusion Working Group, Council Members helped shape our commitments and targets and we'll be keeping it on our agenda for sessions with our Board to make sure delivering it remains a priority. Our role is to be a voice for our members, but we know we can't do this if we're not fully representative of the communities we serve and support. For our recent 'Stand for Election' campaign, we made diversity our focus and will continue to break down barriers in Council, so we can help the business break down barriers in our Co-op and society too.

Another major issue that we've been keen to support the business with addressing is retail crime. Since approving 'Safer Colleagues, Safer Communities' as a campaign in 2018, Council has regularly raised the abuse and violence our frontline colleagues face with our Board and senior leaders and fought for change. Co-op's Public Affairs & Campaigns team has worked tirelessly over the last two years with politicians, retailers and other co-ops to lobby the Government and urge them to better protect retail workers. While there's still more to be done, our Co-op has succeeded in changing the UK's attitudes towards retail crime and we remain hopeful that 2021 will be the year we see a new law come into effect. Protecting colleagues across the business and looking after their wellbeing is a key priority and Council has been keen to support colleagues during the sale of Co-op Insurance's underwriting business and through our campaigning work with Mind, SAMH and Inspire on mental health and wellbeing. Although our community fundraising activities have been impacted by the pandemic, we hope to restart local support in 2021.

A stronger, better connected co-operative movement is crucial for the future and Council remains a champion of our Co-op playing an active and supportive role. Throughout 2020, Council has been an advocate for the co-operative movement and raised concerns this year around potential changes to funding and the impacts this could have. We know that developing new and more sustainable ways of working is imperative but while these are being explored, we asked for the Board to consider maintaining our current commitments. We are also working to develop a joint Board and Council policy for monitoring our Co-op's affiliations with the wider co-operative movement.

Within our Co-operative Leadership lens, Council also has a role to review our Co-op's governance structures and practices. Our Governance Committee oversees this work and in 2020, it approved a new learning programme for Council Members following an evaluation of existing training. It also agreed changes to our Council Elections process to help us improve our diversity. Meeting with Sir Chris Kelly, Senior Independent Non-Executive Director, the Committee discussed the results of our Board effectiveness review too.

Focusing on the future

Council continues to work hard for Co-op Members. 2020 has shown us that there's real power in co-operation and our Co-op is well-placed to keep the momentum in our communities going and create a fairer world. We're incredibly grateful to colleagues throughout our businesses and on the frontline for everything they've done to help people through the pandemic.

We'd like to say a big thank you to our members for your continued support - you're helping us make a huge difference and shape a Co-op that's fit for the future. We'd also like to recognise our Board, Executive and Secretariat for their time and willingness to work together on our shared belief that co-operation is a better way of doing business.

Help us achieve more amazing things in the next 12 months by having your say on what matters to you. Participate by voting in our Board and Council elections, join us at our virtual AGM on the 15 May 2021, sign up to '**Join In**', support your local community using our Co-operate online community platform, or get in touch with a **local Council Member** anytime.

Report of the Scrutiny Committee

Our review of Board appointments and elections in 2020

After any Non-Executive Director is appointed or elected, our Co-op has an extra level of checking so members can be sure we've done everything fairly and openly in line with our Co-operative Values and Principles.

This checking is done by the Scrutiny Committee of the Members' Council and we're pleased to present our report to members for 2020.

It was confirmed that all Directors met our Co-op's trading requirement of 1,000 points. Also we've received assurances that all Independent Non-Executive Directors and Member Nominated Directors are 'independent' for the purposes of our Rules.

How Directors are appointed

All our Directors need to show their commitment to the Co-operative Values and Principles.

There are two types of Directors who don't work day-to-day as Executives for our Co-op: Independent Non-Executive Directors and Member Nominated Directors.

Independent Non-Executive Directors

There are those chosen specifically for their skills and experience, and to add diversity and balance to the Board. In 2020 the re-appointment of Lord Victor Adebowale, Simon Burke and Stevie Spring for three-year terms were also approved at the AGM. The re-appointment of Steve Murrells and appointment of Shirine Khoury-Haq, as Executive Directors was also approved at our 2020 AGM.

Member Nominated Directors

Our Co-op also has Directors directly elected by members. These individuals need to have the necessary skills and experience of a substantial organisation and awareness of the strategic and operational challenges of a business of the size and complexity of our Co-op. They also need to show very clearly their commitment to bringing the voice of members to the boardroom.

The Scrutiny Committee checks:

- That the selection process for the ballot is fair, transparent and objective.
- The background information gathered on the candidates is satisfactory.

Our findings

The Member Nominated Directors Joint Selection and Approval Committee has the primary responsibility for the selection process of MND candidates and is made up of both members of the Members' Council and Board. We interviewed the Chair of this committee and carefully scrutinised the decision-making process. As a result, the committee can confirm that the selection process leading to the shortlisting of Margaret Casely-Hayford, David Jones and Angela Luger to a ballot of members was fair, transparent and objective and that all proper background checks were made.

We're satisfied there was a contested election of Member Nominated Directors and hope that a greater number of candidates with 1,000 or more membership points with the required skills and experience can be sourced in the future.

Promoting the success of our Co-op

Section 172(1) Statement & Stakeholder Engagement

Reporting requirement

Our Co-op prepares its annual report and accounts substantially as though it were a company registered under the Companies Act 2006 ('the Act'). Whilst it is not a requirement for our Strategic Report to contain a Section 172(1) Statement, we are including one in line with best practice.

The Board considers that it has, in good faith, acted in a way that it considers would be most likely to promote the success of our Co-op for the benefit of members as a whole, and, in doing so, has recognised the importance of considering all stakeholders and other matters (as set out in s.172 (1) (a-f) of the Act) when making decisions.

The following pages comprise our Section 172(1) Statement, setting out how our Directors have, in performing their duties over the course of the year, had regard to the matters set out in Section 172(1) (a) to (f) of the Act.

Our approach

Corporate governance best practice underpins how we conduct ourselves as a Board; our culture, values, behaviours and how we do business. We are conscious of the impacts that our business and decisions have on our direct stakeholders as well as our wider societal impact.

Directors are briefed on their duties as part of a comprehensive induction programme and they are also documented in the Board's Code of Conduct.

For any key and principal decisions approved by the Board, a discussion takes place around impact on our key stakeholders, including our colleagues, our members and our customers. The relevance of each stakeholder group may vary by reference to the issue in question, so the Board seeks to understand the needs of each stakeholder group and any potential conflicts as part of its decision-making.

We have grouped our stakeholders into several key categories and have provided an overview of their interests, their concerns and the ways in which the Board acted with regard to these groups when taking its key strategic decisions during the year.

Our members

As a Co-op we are a different kind of business. We are the UK's largest consumer co-operative owned by over 4.34 million active members (individual members and other co-ops, not big investors), and our members get a chance to have a say in how we're run. Our members are at the heart of everything we do, which is why our Board uses an Ethical Decision Making Tool which considers the impact on, and impact of, members in relation to the decisions it makes.

Wherever it makes sense to do so, we ask members to connect with us on projects and activity where their input can make a real difference. During 2020, our 'Join In' online activity and our 'Join In Live' events have engaged over 200,000 members and enabled our members to put questions to our Council Members and Directors. Since their launch in September 2018 the 'Join In' activities have engaged over 500,000 members which has helped to shape our products and services.

In 2020, we successfully built our Member Pioneer structure to full UK coverage. Our Member Pioneers connect people in our communities, offer practical advice and enable involvement with community-based initiatives that make a difference. They bring together Co-op members, colleagues and local causes to make our communities a better place to work, play, live and learn. Member Pioneers have been a key resource for our Co-op and our communities during the Covid-19 pandemic. Our Member Pioneers are also establishing local forums and 'Join In Live Local' events which bring together members, colleagues, causes and the wider community. Covid restrictions have limited the opportunity for face-to-face gatherings, but networks are developing locally using digital solutions for now, which we hope will develop greatly as restrictions lift.

We encourage members to get involved in our AGM and elections, by voting and having their say on motions or by attending the AGM itself either digitally or in person. Our AGM is the forum through which our eligible members can hear more about our performance, ask questions to our Board and vote on AGM motions which have been put forward by our members, our Members' Council and our Co-op. Due to the unprecedented circumstances of the Covid-19 pandemic, in 2020 we asked members not to attend our AGM in person, instead we encouraged them to appoint a voting representative to vote for them. We then encouraged members to join the meeting online where they could hear about our performance, future plans and ask questions in real time. This 'digital' format was hugely successful and so we are planning to build on this for 2021. We will be continuing to review our arrangements for the meeting and we will keep members updated via our website at **co-operative.coop/agm.**

All motions are voted for on a 'one member, one vote' basis, except for Independent Society Members, which have their voting entitlement calculated based on the amount of trade they do with our Co-op.

Each year we publish a 'You Said, We Did' Report which outlines the actions our Board and Executive have taken in response to motions passed at our AGM.

We continue to interact with members through social media channels including Facebook and Twitter. As part of our member participation strategy for 2020, we successfully introduced our colleague Member Pioneers to our colleague hub social platform so they could start sharing key business messages with their online communities. Existing members also played a big part in helping to drive social conversation and support of our new membership proposition that launched in September, ultimately helping us in achieving our goal of recruiting new members.

Our Members' Council

In addition to formal routes there are many informal ways our Board, Chair and individual Directors interact with the Members' Council, its committees, working groups and members. During 2020 this included:

- Attendance at Members' Council sessions to update on developments in the Group.
- Directors' Forums where Board members answer questions from the Members' Council.
- The use of working groups with the Members' Council, particularly when our Board, the Executive or colleagues feel input would be useful and add value.
- Regular discussions between the Group Secretary and Council Secretary to make sure there is a good flow of information between the Board and Members' Council.

- Our Board and Members' Council provided reports on their meetings to each other.

We also have the non-governance Stakeholder Working Group (SWG), which is made up of four Co-op Board members and four Members' Council members (the Council President, the two Vice Presidents and one other). This meets as required to discuss issues that may arise so our Board and Members' Council can have an open debate and better understand the views of the other.

During 2020, our Members' Council continued to use its Co-op Compass tool to hold the Board to account under four themes: Member Value; Member Voice; Ethical & Sustainable Leadership; and Co-operative Leadership.

Our customers

Whilst we are committed to staying true to our Vision of 'Co-operating for a Fairer World' and our Co-operative Values and Principles, our relationship with non-member customers remains extremely important and is a priority of the Board.

All of our businesses proactively monitor and manage customer opinion and have a customer focused culture to ensure positive outcomes for all. Through understanding our customers' needs, we are able to offer products and services to fit their circumstances and by providing a positive customer experience, we aim to build relationships so they will continue to do business with us in the future.

During 2020, we actively promoted the Co-op difference - it is possible to do business in a better way through co-operation – including our commitment to inclusivity and our projects to improve mental wellbeing and access to food. We have worked to add new services in our Food stores as we explored ways to expand access to our products and services, including the roll-out of our own online grocery shop at pace during 2020, which was recognised as the 'e-Commerce Initiative of the Year' at The Grocer Gold Awards 2020. We're also proud that The Grocer Gold Awards 2020 awarded us the 'Business Initiative of the Year' for our 'Safer Colleagues, Safer Communities' campaign.

Community concern is core to our approach as colleagues have gone to extraordinary lengths to feed and care for our communities throughout 2020 when our businesses had to respond to Covid-19 and unprecedented challenges.

Our colleagues

Our Board recognises the importance of engaging our colleagues. We have not adopted one of the methods set out in the UK Corporate Governance Code to do this (a colleague appointed director, a workforce advisory panel or a designated non-executive director). However, our Directors are of the view that they are ALL responsible for hearing what our colleagues have to say and making sure these views are considered when making decisions. There are lots of formal and informal ways that this happens including through communicating with our colleague members (see more about how we communicate with members in the above section and the examples detailed in this section).

Having engaged colleagues, who are connected to our Co-op and feel valued for their contribution, is fundamental to our ongoing success. We measure colleague engagement and experience through our listening tools – Talkback, Pulse (which this year focused on Covid-19 wellbeing support) and Colleague Voice. These tools highlight where we need to focus to improve the everyday experience of our colleagues.

In 2020 our engagement score remained strong at 76% (2019: 76%), which is, in the main, ahead of the external industry benchmarks. Three quarters of colleagues would recommend Co-op as a place to work, a two percentage point increase on 2019. Our 2020 Talkback survey highlighted that colleagues value support for wellbeing, team working and learning and development opportunities. Analysis shows that taking action on colleague feedback is now our most important driver of engagement, and that physical and psychological safety are clear priorities for us as is our Purpose and community involvement.

Our Colleague Voice forum – a group of colleagues providing insight from across our Co-op – has continued to gain momentum. We've successfully digitalised our national forum as well as supported the growth and development of our 'local' forums.

Our colleagues do amazing things for our members, customers and communities and have shone more than ever during the extraordinary times faced over the last year. Our recognition framework aims to encourage the behaviours that underpin our Ways of Being and celebrate delivering our Vision, 'Co-operating for a Fairer World'. In 2020, 50,000 frontline workers received a 'local hero' badge and the #BeingCoop award 'local hero' category was created to recognise great work during the pandemic. 'You're Incredible' digital cards were created for home working colleagues to show appreciation online with 4,500 sent in the first six months. We celebrated more winners than ever at our #BeingCoop Awards, virtual awards ceremony and all Co-op colleagues joined our new career celebration scheme which recognises our colleagues earlier and more frequently for their commitment and loyalty. We now celebrate 9,000 more colleagues a year with a career celebration gift.

Our 2019 Talkback survey identified 'recognition' as a top five behaviour colleagues want to see more of from their manager. Through a series of virtual leaders unplugged sessions and events in 2020, Co-op leaders are supported to role model truly authentic appreciation as we move into 2021.

We also continued to supplement our existing communication channels by using Yammer. This is a communication platform used internally by approximately 15,000 of our Co-op colleagues.

Our Members' Council has a keen interest in our colleagues, and we have a number of colleague members on the Council. Council regularly holds the Board to account on colleague issues.

Our suppliers

Our Co-op has a range of suppliers, who provide goods and services to support our businesses and operations. The terms of those supplies, and the day-to-day relationships, are negotiated and managed by our Co-op Procurement team. The Board ensures we work with our suppliers so that everyone involved in producing our products is treated fairly. It monitors our relationship with our suppliers in a number of ways including via the Risk and Audit Committee on areas such as our compliance with the Groceries Supply Code of Practice (GSCOP), and our approach to sustainability issues.

Our Co-operative Values and Principles underpin all of our supplier relationships as we continue to balance commerciality with shared value and communities. In 2020, we continued to embed our Goods and Services Not for Resale (GNFR) Ethical Trade, Sustainability and Shared Value Strategy which builds on our Ethical Trade programme and is fully aligned to our central sustainability plans, with focus on the environment, protecting workers and skills development.

We also re-launched our Shared Value Supplier Charter, not only providing a call to action for suppliers to identify shared value activities aligned with our community plans, but also sharing our Co-op's Commitment to Racial Equality and Inclusion. In 2020 we became active members of MSDUK (Minority Supplier Development UK) to support the development of a more diverse and inclusive supply base.

You can read more about our approach to responsible sourcing within our Co-operate Report. The way we approach modern slavery can be viewed in our Modern Slavery Statement. Both reports are available on our website.

Fairtrade partners

Our commitment to Fairtrade spans over 25 years when we first stocked Café Direct and predates the launch of the Fairtrade mark by two years. In 1998 we became the first supermarket in the UK to start selling Fairtrade products in all our Co-op stores. Since then, our relationship with Fairtrade has continued to grow and in 2015 we became the largest seller of Fairtrade wine in the world. Since 2017 all the cocoa used as an ingredient in Co-op products is Fairtrade and 100% of our tea, coffee, bananas, African roses and bagged sugar is Fairtrade. We are committed to support Fairtrade producers and growers around the world. You can read more about our food sustainability plans to 2030 in our separate Future of Food publication available on our website.

Community

At our Co-op, our Purpose is to champion a better way of doing business for you and your community. The Board recognises the role of our Co-op in working with and supporting our communities, and this has never been more relevant than during 2020. Through our Membership Proposition, we aim to build stronger and more resilient communities by offering:

- Fairer Access to Food.
- Fairer Access to Mental Wellbeing Services.
- Fairer Access to Education & Employment for young people.

The funds raised by our members will be split two ways - we'll continue to support thousands of grassroots community causes through our Local Community Fund where members can select which cause in their local community to support. And through our Community Partnerships Fund, which creates lasting change on big issues we care about; targeting communities that need the extra help the most.

Our community plan is a critical part of delivering our Vision of 'Co-operating for a Fairer World' and our work to make things fairer for our people, our communities and members and our world. As the events of 2020 unfolded in communities across the UK, we recognised a need to focus our plan on tackling the stark inequalities in communities that the crisis highlighted even more strongly.

Our work to support vulnerable people during the crisis as well as insights from our Community Wellbeing Index, members, colleagues and causes helped us identify three interrelated community missions: Fair Access to Food; Fair Access to Mental Wellbeing Support; and Fair Access to Education & Employment for young people.

Across our businesses our colleagues have come together to deliver an outstanding response at a time when our communities have needed us most, and our achievements were recognised by the Corporate Covid Comms Awards where we won 'Best Community Initiative' for best adaptation of a community programme in response to Covid-19.

Additionally, the Better Society awards recognised our 'National Commitment to the Community' and the Community Wellbeing Index also received the 'Tech for Good' award at the recent National Technology Awards, all welcome external recognition of our contribution to communities across 2020.

Other co-ops

We recognise the benefits of working closely with other co-operatives.

We are the major shareholder in Federal Retail and Trading Services Limited (FRTS), which is collectively owned by our Co-op and Independent Society Members (ISMs). Through FRTS, our Co-op collaborates with ISMs on the management and operation of its centralised buying function, while observing competition law requirements. FRTS has an independent Chair and holds six formal meetings a year.

ISMs are members of our Co-op and are also represented on our Members' Council.

We are a member of Co-operatives UK, a network of Britain's thousands of co-operatives. In November 2019, Co-operatives UK published a revised version of the Co-operative Corporate Governance Code, a tool to help co-operatives of all sizes chart what good governance looks like. Before the code was published, we had the opportunity to provide feedback to Co-operatives UK on the draft version and were pleased to have participated in sharing our view.

We provide funding to a number of organisations which support the co-operative movement.

Co-op Academies Trust

Education is really important to us and we have continued to support the work of the Co-op Academies Trust (CAT).

Due to Covid-19, it was not possible to host visits or to hold a Board meeting at one of our academies in 2020, as has been customary in previous years. However, regular updates have been provided and arrangements made for a Board discussion with the CAT CEO and Chair in early 2021.

Our Co-op CEO was also pleased to meet with representatives from the CAT Board to mark the 10th anniversary since the opening of the first two Co-op Academies in Manchester and Stoke-on-Trent.

Financial statements

Consolidated income statement
for the period ended 2 January 2021

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	2020 £m	2019 (restated*) £m
Revenue	2	**11,472**	10,864
Operating expenses	3	**(11,277)**	(10,700)
Other income	5	**12**	9
Operating profit	1	**207**	173
Net finance costs (excluding funeral plans)	6, 7	**(108)**	(102)
Net finance income / (costs) on funeral plans	6, 7	**28**	(47)
Profit before tax	1	**127**	24
Taxation	8	**(55)**	25
Profit from continuing operations		**72**	49
Discontinued Operation			
Profit / (loss) on discontinued operations, net of tax	9	**5**	(16)
Profit for the period (all attributable to members of the Society)		**77**	33

Non-GAAP measure: underlying 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	2020 £m	2019 (restated*) £m
Operating profit (as above)		**207**	173
Add back / (deduct):			
One-off items	1	**(12)**	5
Property, business disposals and closures	1	**41**	22
Change in value of investment properties	26	**(1)**	(27)
Underlying operating profit	1	**235**	173
Less underlying loan interest payable	7	**(63)**	(64)
Less underlying net interest expense on lease liabilities	6, 7	**(72)**	(74)
Underlying profit before tax		**100**	35

The accompanying Notes on pages 135 - 197 form an integral part of these financial statements.

*We have restated our 2019 results as we have changed the way that we account for revenue on funeral plans. See Note 35 for details of the restatement.

**Refer to Note 1 for a definition of underlying profit before tax. Further details on the Group's alternative performance measures (APMs) is given in the Jargon Buster section on page 222.

Consolidated statement of comprehensive income
for the period ended 2 January 2021

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

	Notes	2020 £m	2019 (restated*) £m
Profit for the period		**77**	33
Items that will never be reclassified to the income statement:			
Remeasurement losses on employee pension schemes	27	**(83)**	(99)
Related tax on items above	8	**-**	17
		(83)	(82)
Items that are or may be reclassified to the income statement:			
Gains less losses on fair value of insurance assets**		**6**	8
Fair value losses on insurance assets transferred to the income statement**		**(2)**	(2)
Fair value losses on insurance assets transferred to the income statement on disposal of subsidiary**		**(18)**	-
Related tax on items above	8	**3**	(1)
		(11)	5
Other comprehensive losses for the period net of tax		**(94)**	(77)
Total comprehensive loss for the period (all attributable to members of the Society)		**(17)**	(44)

The accompanying Notes on pages 135 - 197 form an integral part of these financial statements.

*We have restated our 2019 results as we have changed the way that we account for revenue on funeral plans. See Note 35 for details of the restatement.

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

Consolidated balance sheet
as at 2 January 2021

What does this show? Our balance sheet is a snapshot of our financial position as at 2 January 2021. It shows the assets we have and the amounts we owe.

	Notes	2020 (2 January 2021) £m	2019 restated* (4 January 2020) £m	Opening 2019 restated* (6 January 2019) £m
Non-current assets				
Property, plant and equipment	11	**1,955**	2,001	2,005
Right-of-use assets	12	**1,031**	1,045	1,056
Goodwill and intangible assets	13	**1,105**	1,087	1,094
Investment properties	26	**17**	16	42
Investments in associates and joint ventures		**3**	3	3
Funeral plan investments	14	**1,331**	1,271	1,223
Derivatives	29	**3**	-	27
Pension assets	27	**1,931**	1,973	1,984
Trade and other receivables	17	**203**	111	81
Finance lease receivables	12	**34**	40	14
Contract assets (funeral plans)	18	**60**	54	47
Total non-current assets		**7,673**	7,601	7,576
Current Assets				
Inventories	16	**460**	454	458
Trade and other receivables	17	**546**	445	528
Finance lease receivables	12	**11**	11	3
Contract assets (funeral plans)	18	**6**	4	4
Cash and cash equivalents	20	**269**	308	278
Assets held for sale	19	**21**	1,090	1,113
Total current assets		**1,313**	2,312	2,384
Total assets		**8,986**	9,913	9,960
Non-current liabilities				
Interest-bearing loans and borrowings	21	**803**	803	976
Lease liabilities	12	**1,234**	1,277	1,329
Trade and other payables	22	**214**	183	202
Contract liabilities (funeral plans)	23	**1,570**	1,483	1,377
Derivatives	29	**1**	1	-
Provisions	24	**85**	95	163
Pension liabilities	27	**77**	109	125
Deferred tax liabilities	15	**161**	122	169
Total non-current liabilities		**4,145**	4,073	4,341
Current liabilities				
Interest-bearing loans and borrowings	21	**16**	200	66
Lease liabilities	12	**191**	193	185
Income tax payable		**-**	7	8
Trade and other payables	22	**1,747**	1,520	1,390
Contract liabilities (funeral plans)	23	**167**	158	134
Provisions	24	**46**	62	62
Liabilities held for sale	19	**5**	1,015	1,045
Total current liabilities		**2,172**	3,155	2,890
Total liabilities		**6,317**	7,228	7,231
Equity				
Members' share capital	25	**74**	73	73
Retained earnings	25	**2,594**	2,597	2,644
Other reserves	25	**1**	15	12
Total equity		**2,669**	2,685	2,729
Total equity and liabilities		**8,986**	9,913	9,960

*Refer to Note 35 for details of the restatement. As the restatement applies to all previous years including the closing 2018 balance sheet (as at 5 January 2019) then for comparative purposes we have also included an adjusted opening 2019 balance sheet (as at 6 January 2019).

The accompanying Notes on pages 135 - 197 form an integral part of these financial statements.

Board's certification
The financial statements on pages 130 - 204 are hereby signed on behalf of the Board pursuant to Section 80 (1) (a) of the Co-operative and Community Benefit Societies Act.

Allan Leighton - Chair
7 April 2021

Steve Murrells - Chief Executive

Helen Grantham - Group Secretary

Consolidated statement of changes in equity
for the period ended 2 January 2021

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

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

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

For the 52 weeks ended 4 January 2020 (restated**)	Notes	Members' share capital £m	Retained earnings £m	Other reserves £m	Total equity £m
Balance at 6 January 2019		73	2,644	12	2,729
Profit for the period		-	33	-	33
Other comprehensive income /(loss):					
Remeasurement losses on employee pension schemes	27	-	(99)	-	(99)
Gains less losses on fair value of insurance assets		-	-	8	8
Fair value gains on insurance assets transferred to the income statement		-	-	(2)	(2)
Tax on items taken directly to other comprehensive income	8	-	17	(1)	16
Total other comprehensive income / (loss)		-	(82)	5	(77)
Revaluation reserve recycled to retained earnings	25	-	2	(2)	-
Balance at 4 January 2020		73	2,597	15	2,685

**Refer to Note 35 for details of the restatement.

The accompanying Notes on pages 135 - 197 form an integral part of these financial statements.

Consolidated statement of cash flows
for the period ended 2 January 2021

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	2020 £m	2019 (restated*) £m
Net cash from operating activities	10	**672**	663
Cash flows from investing activities			
Purchase of property, plant and equipment		**(253)**	(352)
Proceeds from sale of property, plant and equipment		**35**	123
Purchase of intangible assets		**(60)**	(55)
Acquisition of businesses, net of cash acquired		**(31)**	(32)
Disposal of businesses		**104**	15
Payments to funds for pre-paid funeral plan sales		**(86)**	(111)
Receipts from funds for pre-paid funeral plans performed and cancelled		**107**	74
Net cash used in investing activities		**(184)**	(338)
Cash flows from financing activities			
Interest paid on borrowings		**(79)**	(86)
Interest paid on lease liabilities		**(77)**	(78)
Interest received on subleases		**3**	4
Interest received on deposits		**1**	1
Repayment of corporate investor shares	21	**(1)**	(2)
Repayment of borrowings	21	**(246)**	(343)
Proceeds from new borrowings	21	**-**	299
Settlement of interest rate swaps		**-**	27
Payment of lease liabilities		**(128)**	(115)
Net cash used in financing activities		**(527)**	(293)
Net (decrease) / increase in cash and cash equivalents		**(39)**	32
Net cash and overdraft balances transferred to held for sale	9	**-**	(2)
Cash and cash equivalents at beginning of period		**308**	278
Cash and cash equivalents at end of period		**269**	308
Analysis of cash and cash equivalents			
Cash and cash equivalents (per balance sheet)	20	**269**	308

*Refer to Note 35 for details of the restatement.

The balances above include cashflows from Discontinued operations.

The accompanying Notes on pages 135 - 197 form an integral part of these financial statements.

Group Net Debt	Notes	2019 £m	2018 (restated*) £m
Interest-bearing loans and borrowings:			
- current		**(16)**	(200)
- non-current		**(803)**	(803)
Total Interest-bearing loans and borrowings		**(819)**	(1,003)
Lease liabilities:			
- current		**(191)**	(193)
- non-current		**(1,234)**	(1,277)
Total Lease liabilities		**(1,425)**	(1,470)
Total Debt		**(2,244)**	(2,473)
- Group cash		**269**	308
Group Net Debt	21	**(1,975)**	(2,165)
Add back fair value / amortised cost adjustment	21	**34**	33
Group Net Debt (pre fair value / amortised cost adjustment)	21	**(1,941)**	(2,132)
Group Net Debt (interest-bearing loans and borrowings only)		**(550)**	(695)
Add back fair value / amortised cost adjustment	21	**34**	33
Group Net Debt (interest-bearing loans and borrowings only and pre fair value / amortised cost adjustment)	21	**(516)**	(662)

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.

2020

	Revenue from external customers (e)	Underlying segment operating profit / (loss) (a)	Operating profit / (loss)	Additions to non-current assets (d,e)	Depreciation and amortisation
	£m	£m	£m	£m	£m
Food	**7,765**	**350**	**316**	**264**	**(306)**
Wholesale	**1,577**	**6**	**6**	**6**	**(7)**
Funerals	**272**	**16**	**(2)**	**21**	**(29)**
Legal	**37**	**4**	**4**	**-**	**(1)**
Other businesses (c)	**8**	**(11)**	**(12)**	**-**	**-**
Federal (f)	**1,813**	**-**	**-**	**-**	**-**
Costs from supporting functions	**-**	**(130)**	**(105)**	**22**	**(37)**
Total	**11,472**	**235**	**207**	**313**	**(380)**

2019 (represented and restated*)

	Revenue from external customers (e)	Underlying segment operating profit / (loss) (a)	Operating profit / (loss)	Additions to non-current assets (d,e)	Depreciation and amortisation
	£m	£m	£m	£m	
Food	7,505	283	274	342	(299)
Wholesale	1,423	(10)	(39)	6	(10)
Funeral (c)	272	12	3	29	(32)
Legal (c)	39	6	6	-	(1)
Other businesses (c)	12	(8)	(9)	-	-
Federal (f)	1,613	-	-	-	-
Costs from supporting functions	-	(110)	(62)	30	(37)
Total	10,864	173	173	407	(379)

*Refer to (c) below and the general accounting policies section on page 197 for details of the representation and to Note 35 for details of the restatement.

a) Underlying segment operating profit / (loss) is a non-GAAP measure of segment operating profit before the impact of property and business disposals (including impairment of non-current assets within our businesses), the change in the value of investment properties, and one-off items.

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

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

The results of our Insurance underwriting business have been classified as discontinued operations from 2018 following the announcement of the proposed sale of CISGIL and are no longer shown in the tables above. See Note 9 (Loss on discontinued operations, net of tax) for further details.

The results of our Legal services business are now shown as a separate segment (for the 52 weeks ended 4 January 2020, Legal was aggregated with our Funerals business within a segment called Funeral and Life Planning). This follows a change in the way the information is reported to our Board.

Notes to the financial statements continued

1 Operating segments continued

In the current period Other businesses mainly comprises the results of Co-op Health and Co-op Insurance (our insurance marketing and distribution services business, excluding CISGIL). Co-op Insurance is currently an immature business and will be shown in its own separate segment once it reaches an appropriate level of maturity. The sale of our Co-op Health business was announced on 12 March 2021 (see Note 34 (Events after the reporting period)). In the comparative period other businesses mainly comprised the results of Co-op Electrical (which ceased trading in the second quarter of 2019) and Co-op Insurance.

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. There are no material transactions between the main operating segments.

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

g) Transactions between operating segments excluded in the analysis are £1m (2019: £1m) sales of legal cover made by Legal services to our Insurance underwriting business during the period. Our insurance underwriting business was sold on 3 December 2020 and was classified as a discontinued operation in 2019 and 2020 and so not shown in the segmental tables above.

h) Operating profit includes £16m of employee furlough payments received under the UK Government's Coronavirus Job Retention Scheme and £66m of assistance through business rates relief. These amounts have been netted against relevant cost lines in operating profit. Subsequent to the year end, the Board of The Co-op has decided to repay £15.5m of the money it received in Government support during the COVID-19 pandemic, this equates to the amount it claimed in Furlough payments (see Note 34 (Events after the reporting period)).

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

2020	Food	Wholesale	Funeral	Legal	Other businesses	Costs from supporting functions	Total
	£m	£m	£m		£m	£m	£m
Underlying segment operating profit / (loss)	**350**	**6**	**16**	**4**	**(11)**	**(130)**	**235**
One-off items	**15**	**-**	**-**	**-**	**-**	**(3)**	**12**
Property, business disposals and closures	**(49)**	**-**	**(18)**	**-**	**(1)**	**27**	**(41)**
Change in value of investment properties	**-**	**-**	**-**	**-**	**-**	**1**	**1**
Operating profit / (loss)	**316**	**6**	**(2)**	**4**	**(12)**	**(105)**	**207**

One-off items totalling a £12m gain (2019: £5m charge) includes £15m of income received for refunded business rates in relation to externally facing ATMs following the Supreme Court ruling that ATMs outside stores should not be separately assessed for business rates. One-offs also includes a £3m charge in respect of aligning guaranteed minimum pensions for members of our schemes who have previously transferred out of the scheme. In the prior period the £5m charge was made up of an £11m gain following a reduction in the contingent consideration payable that was originally recognised as part of the Nisa acquisition and a further £13m gain in relation to a reduction in the expected costs required to achieve final IT separation from the Co-operative Bank Limited off-set by a £29m impairment charge to reduce the carrying value of the intangible assets (customer relationships) recognised on the Nisa acquisition.

2019 (represented and restated*)	Food	Wholesale	Funeral	Legal	Other businesses	Costs from supporting functions	Total
	£m	£m	£m		£m	£m	£m
Underlying segment operating profit / (loss)	283	(10)	12	6	(8)	(110)	173
One-off items	-	(29)	-	-	-	24	(5)
Property, business disposals and closures	(9)	-	(9)	-	(1)	(3)	(22)
Change in value of investment properties	-	-	-	-	-	27	27
Operating profit / (loss)	274	(39)	3	6	(9)	(62)	173

*Refer to the general accounting policies section on page 197 for details of the representation and Note 35 for the restatement.

Notes to the financial statements continued

1 Operating segments continued

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

Continuing Operations	Notes	2020 £m	2019 (restated*) £m
Underlying operating profit		**235**	173
Underlying loan interest payable	7	**(63)**	(64)
Underlying net interest expense on lease liabilities	6, 7	**(72)**	(74)
Underlying profit before tax		**100**	35
One-off items	1	**12**	(5)
Loss on property, business disposals and closures (see table below)	1	**(41)**	(22)
Change in value of investment properties	26	**1**	27
Finance income (excluding any lease interest or fair value movement on funeral plans)	6	**41**	57
Unrealised fair value movement of funeral plan investments	6	**81**	11
Discount unwind on funeral plan debtors	6	**7**	1
Interest accruing on funeral plan liabilities	7	**(60)**	(59)
Other non-cash finance costs	7	**(14)**	(21)
Profit before tax from continuing operations		**127**	24

*Refer to Note 35 for details of the restatement.

Loss from property, business disposals, closures and impairment of non-current assets	2020 £m	2020 £m	2019 £m	2019 £m
Disposals, closures and onerous contracts				
- proceeds	**35**		123	
- less net book value written off	**(23)**		(94)	
- provisions recognised	**(17)**		(7)	
		(5)		22
Impairment of property, plant and equipment, right-of-use assets and goodwill		**(36)**		(44)
Total		**(41)**		(22)

Impairment charges are split: Food £36m (2019: £19m), Funerals £10m (2019: £15m) and Costs from supporting functions saw a net impairment reversal of £10m (2019: £10m charge) in respect of our non-trading property estate.

Notes to the financial statements continued

2 Revenue

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

	2020 £m	2019 (restated*) £m
Sale of goods	**7,806**	7,570
Member reward earned on sale of goods	**(41)**	(53)
Provision of services	**321**	317
Member reward earned on provision of services	**(4)**	(6)
Wholesale sales	**1,577**	1,423
Federal sales	**1,813**	1,613
Net revenue (as shown in the consolidated income statement)	**11,472**	10,864

Please refer to Note 35 for details of the restatement.

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

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

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

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

Notes to the financial statements continued

3 Operating expenses

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

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

	2020 £m	2019 £m
Cost of inventories recognised as an expense	**(8,135)**	(7,637)
Employee benefits expense (see below)	**(1,507)**	(1,433)
Distribution costs	**(496)**	(489)
(Loss) / gain on property, business disposals and closures (before impairments)	**(5)**	22
Impairment of plant, property and equipment and goodwill	**(26)**	(22)
Impairment of right-of-use assets	**(11)**	(25)
Impairment reversal on subleases	**1**	3
Net gain on other plant and equipment disposals	**2**	-
Change in value of investment properties	**1**	27
Depreciation of plant, property and equipment	**(250)**	(252)
Depreciation of right-of-use assets	**(113)**	(110)
Amortisation	**(17)**	(17)
Subscriptions and donations	**(4)**	(3)
Community reward earned	**(13)**	(11)

*Operating profit (see Note 1) includes £16m of employee furlough payments received under the UK Government's Coronavirus Job Retention Scheme and £66m of assistance through business rates relief. These amounts have been netted against relevant cost lines in operating profit. Subsequent to the year end, the Board of The Co-op has decided to repay £15.5m of the money it received in Government support during the COVID-19 pandemic, this equates to the amount it claimed in Furlough payments (see Note 34 (Events after the reporting period)).

Employee benefits expense

	2020 £m	2019 £m
Wages and salaries	**(1,323)**	(1,261)
Social security costs	**(82)**	(67)
Pension costs - defined benefit schemes	**(5)**	(4)
Pension costs - defined contribution schemes	**(60)**	(56)
Total employee benefits expense (continuing operations)	**(1,470)**	(1,388)
Total employee benefits expense (discontinued operations)*	**(37)**	(45)
Total employee benefits expense	**(1,507)**	1,433

Employee benefits expense includes executive directors.
The average number of people employed by the Group in the UK (including executive directors) was:

	2020 Number	2019 Number
Full-time	20,273	20,511
Part-time	43,982	41,320
Total (continuing operations)	**64,255**	61,831
Total (discontinued operations)*	**963**	1,093
Total	**65,218**	62,924

*The sale of our Insurance underwriting business (CISGIL) completed on 3 December 2020 and the results of that business have been included in Discontinued operations. The 2020 figures noted in the tables above reflect the 11 month period in 2020 that CISGIL was under Co-op ownership.

Remuneration of key management
For details regarding remuneration of the Board and the Executive refer to pages 85 - 102.

Notes to the financial statements continued

3 Operating expenses continued

Auditor remuneration and expenses	2020 £m	2019 £m
Audit of these financial statements	**1.2**	1.1
Amounts receivable by the Society's auditor in respect of:		
- Audit of financial statements of subsidiaries in respect of the Society	**0.3**	0.8
Services relating to:		
- Audit-related assurance services	**-**	0.1
- All other services	**0.1**	0.2
Total	**1.6**	2.2

Accounting policies

Operating expenses

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

4 Supplier income

What does this show? Sometimes our suppliers give us money back based on the amount of their products we buy and sell. This note shows the different types of income we've received 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	2020 £m	2019 £m
Food - Long-term agreements	**140**	139
Food - Bonus income	**130**	148
Food - Promotional income	**355**	330
Total Food supplier income	**625**	617
Wholesale supplier income	**163**	130
Total supplier income	**788**	747
Percentage of Food's Cost of Sales before deducting Supplier income	**%**	%
Long-term agreements	**2.3%**	2.4%
Bonus income	**2.2%**	2.5%
Promotional income	**5.9%**	5.8%
Total Food supplier income percentage	**10.4%**	10.7%
Wholesale supplier income percentage	**10.3%**	10.3%

Notes to the financial statements continued

4 Supplier Income continued

Accounting policies

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

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

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

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

5 Other income

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

	2020	2019
	£m	£m
Rental income from non-investment property	**11**	8
Rental income from investment property	**1**	1
Total other income	**12**	9

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

Notes to the financial statements continued

6 Finance income

What does this show? Finance income arises from the interest earned on our pension scheme, interest earned on monies held on deposit and the interest income earned on our subleases. 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 movements) if these are gains. 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 (see Note 14) as well as the discount unwind on funeral instalment plan debtors.

	2020 £m	2019 £m
Net pension finance income	**37**	57
Underlying interest income from finance lease receivables	**3**	4
Fair value movement on interest rate swaps (Note 29)	**4**	-
Unrealised fair value movement on funeral plan investments (Note 14)	**81**	11
Discount unwind on funeral plan debtors	**7**	1
Total finance income	**132**	73

*Refer to Note 35 for details of the restatement and Note 29 for details of our accounting policy for funeral plans.

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 our business) and the interest payments we incur on our lease liabilities. 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 movements) if these are losses. 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. Other finance costs also include the non-cash charge we incur each year on long-term provisions as the payout moves one year closer (the discount unwind).

	2020 £m	2019 £m
Loans repayable within five years	**(26)**	(30)
Loans repayable wholly or in part after five years	**(37)**	(34)
Underlying loan interest payable	**(63)**	(64)
Underlying interest expense on lease liabilities	**(75)**	(78)
Total underlying interest expense	**(138)**	(142)
Fair value movement on quoted Group debt (Note 21)	**(10)**	(7)
Fair value movement on interest rate swaps (Note 30)	**-**	(1)
Interest accruing on funeral plan liabilities (Note 23)	**(60)**	(59)
Non-underlying finance interest	**(4)**	(13)
Other finance costs	**(74)**	(80)
Total finance costs	**(212)**	(222)

*Refer to Note 35 for details of the restatement and Note 29 for details of our accounting policy for funeral plans.

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

Total interest expense on financial liabilities (including lease liabilities) that are not at fair value through the income statement was £98m (2019: £128m).

Notes to the financial statements continued

8 Taxation

What does this show? Our tax charge is made up of current and deferred tax - this note explains how those items arise. Additional explanatory footnotes are included to explain the key items. We were re-accredited with the Fair Tax Mark during 2020 and the additional disclosures we provide are in line with best practice guidance.

	Footnote	2020 £m	2019 (restated*) £m
Current tax charge - current period	(i)	-	(7)
Current tax charge - adjustment to group relief payable owed to The Co-operative Bank	(ii)	(16)	-
Current tax credit - adjustment in respect of prior periods	(iii)	-	1
Net current tax charge		**(16)**	(6)
Deferred tax charge - current period	(iv)	(39)	(17)
Deferred tax credit - adjustments in respect of prior periods	(v)	-	48
Net deferred tax (charge) / credit		**(39)**	31
Total tax (charge) / credit - in respect of continuing operations		**(55)**	25

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% (2019: 19%) as follows:

	Footnote	2020 £m	2019 (restated*) £m
Profit before tax from continuing operations		127	24
Loss before tax from discontinued operation		11	(23)
Total profit before tax		**138**	1
Tax charge at 19% (2019: 19%)		(26)	-
Deferred tax reconciliation:	(iv)		
Expenses not deductible for tax (including one-off costs)	(vi)	(1)	(6)
Depreciation and amortisation on non-qualifying assets	(vii)	(11)	(8)
Non-taxable (losses) / profits arising on business disposals	(viii)	(3)	1
Capital gains arising on property disposals	(ix)	(3)	(5)
Adjustment in respect of previous periods	(v)	-	48
Restatement of deferred tax to enacted rate (2019:17.0%)	(x)	(1)	1
Subtotal of deferred tax reconciling items		**(19)**	31
Current tax reconciliation:			
Adjustment in respect of previous periods	(iii)	-	1
Adjustment to group relief payable	(ii)	(16)	-
Subtotal of current tax reconciling items		**(16)**	1
Tax (charge) / credit at the effective tax rate (ETR) of 44% (2019: -3,200%)		**(61)**	32
Tax (charge) / credit reported in the income statement		(55)	25
Tax (charge) / credit attributable to a discontinued operation		(6)	7
Total tax (charge) / credit		**(61)**	32

The net tax charge of £61m on a profit before tax of £138m gives an effective tax rate of 44%, which is higher than the standard rate of 19%. The main reasons for this difference is the adjustment to group relief payable following the rate change enacted in the 2020 Budget and deprecation on non-qualifying assets, being debits of £16m and £11m respectively, see footnotes ii) and vii) on the following page for more detail.

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

	2020 £m	2019 £m
Actuarial gains and losses on employee pension scheme	-	17
Insurance assets held at fair value through other comprehensive income	3	(1)
	3	16

Of the tax taken directly to the consolidated statement of comprehensive income, £15m credit (2019: £17m credit) arises on the actuarial movement on employee pension schemes. There is also a £15m charge being the impact of rate change on the deferred tax related to the employee pension schemes. Following the disposal of CISGIL, the fair value gains on insurance assets are transferred to discontinued operations shown as a movement through the income statement. Therefore, the cumulative deferred tax liability on these fair value gains at disposal had to be transferred from equity reserves to the income statement. The £3m charge in the income statement is shown within the tax charge attributable to discontinued operations (2019: £1m charge).

2019 figures have been restated to show a further £12m credit that was recognised in the consolidated statement of changes in equity. This arises from the impact of the changes in how the Co-op Group applies IFRS 15 on recognition of certain income and expenses, see Note 15 and footnote (vii) for more details.

*See general accounting policies section on page 197 for details of the restatement.

Notes to the financial statements continued

Following last year's Budget, on 11 March 2020, the Chancellor revoked the enacted corporation tax rate reduction from 19% to 17%, thereby leaving it at 19%. Accordingly, each deferred tax balance has been re-measured individually based on the 19% enacted tax rate, (2019: 17.0%). This has contributed £1m to the deferred tax charge in the current year.

Following the 2021 Budget, on 3 March 2021, the Chancellor has announced that with effect from 1 April 2023 the corporation tax rate will increase by 6% to 25%. Under IFRS it is the rate(s) actually enacted at the balance sheet date that determine the amount of deferred tax to be recognised. Accordingly, this announcement does not effect how the deferred tax balance has been measured as at 02 January 2021. However, once the above rate change has been enacted later this year, for subsequent reporting periods the Co-op will take account of this increased rate for determining the amount of deferred tax to be recognised. If this 6% rate increase in 2023 had been applied instead of the current enacted rate of 19% the impact that would be expected to go through the income statement is a £9m charge.

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 2020 due to the fact it has a number of brought forward capital allowances (£295m gross claimed in 2020) and tax losses (£5m gross utilised in 2020) that offset its taxable profit for the period. These allowances and losses are explained in more detail in Note 15. The current tax charge of £3m primarily relates to discontinued operations and will be met by CISGIL following its disposal from the Group. 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 2020, giving rise to a small current tax liability of £0.3m (2019: £0.2m). This is the Group's only non-UK resident entity for tax purposes, which employs 106 part-time and 144 full-time colleagues out of our total Group headcount figure. All other income in the consolidated income statement is generated by UK activities and all other colleagues are employed in the UK.

The unaudited 2020 revenue of Manx Co-operative Society is £37m and all other revenue reflected in the consolidated income statement is generated by UK trading activities. The unaudited net assets of Manx Co-operative Society at 2 January 2021 were £12m, compared to net assets of the consolidated Group of £2,669m. The Manx assets represent the only overseas 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 2020 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 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.

ii) The Group holds a creditor balance in relation to group relief claimed from The Co-operative Bank ('the Bank') (see Note 22). Group relief is the surrender of tax losses made by one group company to another which made taxable profits. In 2012 and 2013, the Bank had tax losses that it was able to surrender to a number of Group companies which had taxable profits during those two years. This group relief payable is linked to and held at prevailing tax rates. Due to the enacted rate changed from 17% to 19% the creditor balance has been remeasured increasing the total liability by £16m to £147m (2019: £131m). It should be noted that due to the settlement of this creditor in February 2021, the rate change announced in the 2021 Budget will have no impact on creditor. See additional Note 34 (Events after the reporting period) for more detail on the early settlement of this in 2021.

iii) There was minimal adjustment in the current year relating to prior years. The 2019 current tax credit of £1m represented tax recoverable from a loss carry-back in one of our entities in 2018.

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 current year charge primarily relates to deferred tax arising on movements on our pension assets and fixed assets. Note 15 explains how each deferred tax balance has moved in the year. As the Group is not tax-paying in respect of 2020, 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 minimal adjustment in the current year relating to prior years. In 2019 there was a £48m credit for adjustment to deferred tax in respect of previous periods, primarily due to a one-off review of the method used to determine the temporary differences arising in respect of accelerated tax depreciation on fixed assets which resulted in a revised estimation technique as noted in the 2019 financial statements.

It is common for relatively small 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. Where there this gives rise to uncertainties a provision is recognised. Our position on the level of uncertain tax positions has reduced due to increased certainty gained through correspondence with HMRC during 2020.

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 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 2020, further re-measurement adjustments and costs to sell have been recognised in arriving at the fair value of our insurance underwriting business (CISGIL) following the completion of the deal on 3 December 2020. We are not permitted to deduct the re-measurement adjustments when calculating our profits for tax purposes. Further information is provided about the re-measurement in Note 9 (Loss on discontinued operations, net of tax).

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

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

Accounting policies

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

Notes to the financial statements continued

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

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

Discontinued operation - disposal of Insurance (underwriting) business
On 3 December 2020, the Co-op completed the sale of its insurance underwriting business (CISGIL) to Soteria Finance Holdings Limited for cash consideration of £104m. The assets and liabilities of CISGIL have been disposed and are no longer shown in the Consolidated balance sheet. The results of CISGIL for the period up to the point of disposal have been included within Discontinued operations along with the final loss on disposal calculation based upon the actual consideration received, the latest forecasts of final incremental costs to sell and the final fair value of the completion balance sheet at the point of disposal.

Since the sale of CISGIL, the Group is now focussed on marketing and distributing insurance products instead of underwriting them and as part of the disposal of CISGIL, the Group has signed a 13-year agreement with Markerstudy to provide marketing and distribution services for motor and insurance products. £78m has been included as deferred income within Trade and other payables (Note 22) in respect of this agreement because the Co-op group is being remunerated for future services. Of this deferred income of £78m, cash of £46m has been received at the balance sheet date with the remaining amout due in annual instalments over the next 3.5 years.

Results of discontinued operation - Insurance	2020 £m	2019 £m
Revenue	**273**	315
Operating expenses	**(352)**	(423)
Other income	**85**	68
Remeasurement adjustments recognised in arriving at fair value less costs to sell	**10**	26
Operating profit / (loss)	**16**	(14)
Finance costs	**(5)**	(9)
Profit / (loss) before tax	**11**	(23)
Tax	**(6)**	7
Profit / (loss) for the period from discontinued operation	**5**	(16)

* Figures cover the period to disposal (3 December 2020).

Relevant accounting policies covering the results of discontinued operations can be found in the 2017 Annual Report: Revenue (Note 2), Operating expenses (Note 3), Other income (Note 5) and Finance costs (Note 7). Details of accounting policies for insurance contracts are also shown in Note 28 to the 2019 Annual Report.

Segmental analysis - Insurance	Revenue from external customers £m	Underlying segment operating profit / (loss) £m	Operating loss £m	Additions to non-current assets £m	Depreciation and amortisation £m
Period ended 2 December 2020	**273**	**19**	**16**	**32**	**(43)**
52 weeks ended 4 January 2020	315	(10)	(14)	56	(58)

Notes to the financial statements continued

9 Loss on discontinued operations, net of tax continued

The fair value of CISGIL's balance sheet at the point of disposal is shown below:

Disposal group at cost	2020 (on disposal) £m
Property, plant & equipment and right-of-use assets	1
Deferred acquisition costs	17
Reinsurance assets	62
Other investments (Insurance assets)	705
Insurance receivables and other assets	178
Total assets	**963**
Reinsurance liabilities	7
Lease liabilities and borrowings	1
Insurance contract liabilities	654
Deferred tax liabilities	4
Insurance and other payables	27
Overdrafts	6
Total Insurance liabilities	**699**
Net assets of disposal group	**264**
Cash consideration (net of costs)	56
Loss on disposal of business	**(208)**

An initial estimated loss on disposal of £207m was recorded in the Group's 2018 Consolidated income statement within Discontinued operations following recognition of CISGIL as being held for sale at the 2018 balance sheet date. This was based on initial estimates as to the fair value of the consideration that was to be received and the expected costs to sell as well as the fair value of the net assets on disposal. These estimates have been updated in all subsequent reporting periods with any changes reflected in discontinued operations in the relevant reporting period. The final loss on disposal noted above reflects the actual consideration, costs to sell and net assets on disposal. Accruals of £5m and provisions of £5m included with the loss on disposal calculation are held in the consolidated balance sheet as at 2 January 2021 with the associated cashflow expected to occur within 6 months of the balance sheet date.

Net cash inflow arising on disposal:	2020 (on disposal) £m
Add: overdrafts disposed	56
Less: cash and cash equivalents disposed	6
	62

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

	2020 £m	2019 £m
Cash flows from / (used in) discontinued operations:		
Net cash from / (used in) operating activities	30	(26)
Net cash used in financing activities	(5)	(8)
Net cash from / (used in) discontinued operations	**25**	**(34)**

Cash flows from investing activities were not significant for the discontinued operation in 2020 or 2019.

Notes to the financial statements continued

9 Loss on discontinued operations, net of tax continued

Accounting policies

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Discontinued operations are those operations that can be clearly distinguished from the rest of the Group, both operationally and for financial reporting purposes, that have either been disposed of or classified as held for sale and which represent a separate major line of business. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the balance sheet. Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

A disposal group qualifies as a discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Notes to the financial statements continued

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.

	2020 £m	2019 (restated*) £m
Operating profit (Note 1)	**207**	173
Depreciation and amortisation charges (excluding deferred acquisition costs)	**380**	379
Non-current asset impairments	**36**	73
Loss / (profit) on closure and disposal of businesses and non-current assets	**3**	(22)
Change in value of investment properties	**(1)**	(27)
Retirement benefit obligations	**(35)**	(46)
Increase in inventories	**(6)**	(7)
Increase in receivables	**(248)**	(13)
Increase in contract assets (funeral plans)	**(8)**	(7)
Increase in contract liabilities (funeral plans)	**99**	119
Increase in payables and provisions	**215**	67
Net cash flow from operating activities before net cash operating inflow from discontinued operations	**642**	689
Net cash flow from operating activities relating to discontinued operations	**30**	(26)
Net cash flow from operating activities	**672**	663

*Refer to Note 35 for details of the restatement.

Accounting policies
Refer to Note 20 for details of the accounting policy for Cash and cash equivalents.

Notes to the financial statements continued

Section B - what are our major assets?

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

11 Property, plant and equipment

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

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

The impairment charge of £21m (2019: £15m) primarily relates to poor performing food stores and funeral branches (see also Critical accounting estimates and judgements section of this note for further detail on impairment).

Notes to the financial statements continued

11 Property, plant and equipment continued

For the period ended 4 January 2020

	Property £m	Plant and equipment £m	Total £m
Cost or valuation:			
At 5 January 2019	1,472	2,373	3,845
Impact on adoption of IFRS 16	-	(120)	(120)
Additions	46	262	308
Transfer from investment property (see Note 26)	1	-	1
Reclassified as assets held for sale (see Note 19)	(3)	(1)	(4)
Disposals	(53)	(77)	(130)
At 4 January 2020	1,463	2,437	3,900
Depreciation:			
At 5 January 2019	578	1,221	1,799
Impact on adoption of IFRS 16	-	(79)	(79)
Charge for the period	25	227	252
Impairment	6	9	15
Reclassified as assets held for sale (see Note 19)	(1)	-	(1)
Disposals	(20)	(67)	(87)
At 4 January 2020	588	1,311	1,899
Net book value:			
At 4 January 2020	875	1,126	2,001
At 5 January 2019	894	1,152	2,046
Capital work in progress included above	30	65	95

Notes to the financial statements continued

11 Property, plant and equipment continued

Critical accounting estimates and judgements

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

The key assumptions in the value in use calculations are as follows:

Assumption	Food Segment	Funeral Segment
Structure of a CGU	Each individual food store is deemed to be an individual CGU.	A CGU is deemed to be a local network of interdependent branches, known as a Funeralcare Hub.
Cash flow years / assumptions	Future cash flows derived using historical store performance adjusted for expected growth in sales and/or costs. These forecasts are extrapolated over a period of 4 years and then subject to a long term growth rate of 0% (2019: 1.9%). Where lease terms are shorter than this, the remaining lease terms have been used. Perpetuities are included in cash flows 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.	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 0% (2019: 1.9%) is applied beyond Board approved four-year plan horizon.
Covid considerations	Store cash flows observed over the last 12 months have been heavily impacted by Covid-19 trading conditions. This has resulted in a number of stores seeing their profitability levels fall significantly due to Covid-19 enforced lockdown restrictions, particularly city centre locations. Significant judgement has been applied in determining whether the impact of Covid-19 will be temporary or permanent, and if temporary, at what point the store will return to its pre-Covid trading levels. 31 stores have been identified as being particularly negatively impacted as a result of Covid-19 lockdown restrictions. The assets attributable to these stores total £20m. If these stores are not able to recover to their pre-Covid trading levels as expected, there is a risk that impairment of up to £20m may need to be recognised in future periods. A number of previously impaired stores have seen their profitability levels improve as a result of increased trading from Covid-19 enforced lockdown restrictions. However impairment has not been reversed in these cases as the impact of Covid-19 is only expected to be temporary for these stores.	The impact of Covid-19, specifically the impact on future average selling price movements, funeral volume assumptions and payroll costs assumptions are embedded within the Funeralcare four-year plan approved by the Board.
Discount rate	Post tax discount rate representing the Food segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 8.2% (2019: 8.2%). Post tax WACC 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 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 overleaf. Our main sensitivity in relation to our Food store impairment testing is shown in the Covid considerations box above.	Post tax discount rate representing the Funeralcare segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 9.5% (2019: 8.2%). Post tax WACC 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 overleaf.

Notes to the financial statements continued

11 **Property, plant and equipment** continued

Critical accounting estimates and judgements

Goodwill impairment - sensitivity testing

The key assumption used in the review for potential impairment of goodwill within the Food business is cash flows from operation of stores (no growth rates (short or long term)) have been applied within our impairment testing, to reflect the current levels of uncertainty within the UK economy as a result of the Covid-19 pandemic (2019: 1.9% - 2.5%)) based on management's best estimate based on the profile of the stores, and including an allocation of central costs, taken into perpetuity and discounted to present value at a pre-tax rate of 8.2% (2019: 8.2%). In each of the current and comparative years, sensitivity analysis has been performed on this assumption, testing for a 1% increase in discount rate and a decrease in growth to minus 1%; within both these sensitivities the cash flows remain well in excess of the current carrying value. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

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. Cash flows have been projected based on the four-year plan and into perpetuity from year five and discounted back to present value using a pre-tax discount rate of 9.5% (2019: 8.2%). No long term growth rates have been applied beyond the four-year plan period (2019: 1.9%). Sensitivity analysis has been performed with the discount rate increased by 1% and a decrease in growth by minus 1%, and under these sensitivities no further material amounts of impairment are calculated. The sensitivity analysis performed considers reasonably possible changes in the discount rate and growth rate assumptions.

Accounting policies
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:

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

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

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

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

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

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

Notes to the financial statements continued

12 Leases

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

A. As a lessee

Right-of-use assets	Property £m	Plant and equipment £m	Total £m
Balance at 4th January 2020	**979**	**66**	**1,045**
Depreciation charge for the year	**(98)**	**(15)**	**(113)**
Additions	**93**	**28**	**121**
Disposals	**(9)**	**-**	**(9)**
Transfer to assets held for sale (see Note 19)	**(2)**	**-**	**(2)**
Impairment	**(11)**	**-**	**(11)**
Balance at 2nd January 2021	**952**	**79**	**1,031**
Balance at 6th January 2019	1,011	45	1,056
Depreciation charge for the year	(98)	(12)	(110)
Additions	100	33	133
Disposals	(9)	-	(9)
Impairment	(25)	-	(25)
Balance at 4th January 2020	979	66	1,045

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 (2019: 1 and 20 years), and leases of funeral branches are typically between 1 and 8 years in length (2019: 1 and 8 years). Vehicle and equipment leases are typically between 1 and 4 years in length (2019: 1 and 4 years) and in some cases the Group has options to purchase the assets at the end of the contract term

Lease liabilities	2020 £m	2019 £m
Current	**(191)**	(193)
Non-current	**(1,234)**	(1,277)
Lease liabilities included in the Consolidated balance sheet	**(1,425)**	(1,470)

Lease liabilities	2020 £m	2019 £m
At the start of the period	**(1,470)**	(1,482)
Additions	**(114)**	(145)
Disposals	**26**	42
Interest expense	**(77)**	(78)
Transfer to liabilities held for sale (see Note 19)	**5**	-
Payments	**205**	**193**
Total lease liabilities	**(1,425)**	**(1,470)**

The Group recognised rent expense from short-term leases of £3m (2019: £1m).

Notes to the financial statements continued

12 Leases continued

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

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

As at 2 January 2021, potential discounted future cash outflows of £139m (2019: £124m) 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 £125m (2019: £135m) 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 £7m (2019: £30m) was received, a net lease liability of £2m (2019: £7m) was recognised and net book value of £3m (2019: £19m) disposed creating a profit on disposal of £2m (2019: £4m).

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

	2020 £m	2019 £m
Operating lease (i)		
Lease income	12	9
Finance lease (ii)		
Finance income on the net investment in the lease	3	4

i. Operating lease

The Group leases out its investment property. 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.

	2020 £m	2019 £m
Less than one year	7	8
One to two years	6	7
Two to three years	5	6
Three to four years	4	4
Four to five years	4	4
More than five years	45	77
Total undiscounted lease payments receivable	71	106

Notes to the financial statements continued

12 Leases continued

B. As a lessor continued

ii. Finance lease continued

The Group also sublease 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.

	2020 £m	2019 £m
Less than one year	**12**	12
One to two years	**11**	11
Two to three years	**8**	10
Three to four years	**7**	8
Four to five years	**7**	7
More than five years	**31**	38
Total undiscounted lease payments receivable	**76**	86
Less: Unearned finance income	**(21)**	(24)
Present value of minimum lease payments receivable	**55**	62
Impairment loss allowance	**(10)**	(11)
Finance lease receivable (net of impairment allowance)	**45**	51

	2020 £m	2019 £m
Current	**11**	11
Non-current	**34**	40
Finance lease receivable as per Consolidated balance sheet	**45**	51

The average term of finance leases entered into is 8 years (2019: 8 years).

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

Accounting policies

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

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

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

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

Notes to the financial statements continued

13 Goodwill and intangible assets

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

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

For period ended 4 January 2020	Goodwill	Computer software	Acquired customer Relationships and other intangibles	Total
	£m	£m	£m	£m
Cost:				
At 5 January 2019	1,302	211	43	1,556
Additions	1	54	-	55
Disposals	(8)	(1)	-	(9)
At 4 January 2020	1,295	264	43	1,602
Accumulated amortisation and impairment:				
At 5 January 2019	376	83	3	462
Charge for the period	-	13	4	17
Impairment	7	-	29	36
At 4 January 2020	383	96	36	515
Net book value:				
At 4 January 2020	912	168	7	1,087

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Goodwill
The components of goodwill are as follows:

	2020 £m	2019 £m
Food	**866**	883
Other businesses	**27**	29
	893	912

Food goodwill includes £638m (2019: £652m) that is allocated to the group of cash-generating units that is Food as a whole (this includes £98m (2019: £98m) in relation to goodwill arising on the acquisition of Nisa), £68m (2019: £70m) allocated to stores as part of the Alldays group acquisition and £160m (2019: £161m) assessed against other specific components of the Food business, none of which is individually significant.

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

For further detail in relation to the critical accounting policies and estimates used in the Group's impairment assessment of goodwill, please refer to Note 11.

Notes to the financial statements continued

13 Goodwill and intangible assets continued

Accounting policies

Goodwill

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

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

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

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

Acquisition costs are expensed to the income statement when incurred.

Computer software

Computer software is stated at cost less accumulated amortisation and impairment. In Financial Services, all 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.

Assets in the course of construction

Assets in the course of construction includes directly attributable software development costs and purchased software that are not an integral part of the related hardware, as part of strategic projects that meet the capitalisation requirements under IAS 38 (Intangible Assets) but which have not yet been brought into use. The costs are held within assets in the course of construction until the project has gone live or the related asset is brought into use. At that point the costs will be transferred out of this classification and will be amortised based on the useful economic life as defined by the intangible asset accounting policy noted below.

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.

<u>Food:</u>

In the Food business, the CGUs to which goodwill has been allocated and the level at which it is monitored are deemed to be the respective acquired retail chains of stores. For example the impairment testing of smaller acquisition groups such as Alldays is carried out using the acquired stores within the acquisition group as the CGU.

The goodwill that arose on the acquisition of Somerfield and Nisa is allocated to Food as a whole to reflect the synergies (principally buying benefits) that benefit the whole business. Accordingly, impairment testing for the Somerfield and Nisa goodwill balances is carried out using all the food stores as the CGU.

<u>Other businesses:</u>

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

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

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

Notes to the financial statements continued

14 Funeral plan investments

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

Funeral plan investments as per the balance sheet:	2020 £m	2019 £m
Current	-	-
Non-current	1,331	1,271
Funeral plan investments	**1,331**	1,271

Funeral plan investments held by the Group are as follows:	2020 £m	2019 £m
Fair value through the income statement:		
Funeral plan investments (see below)	1,331	1,271
Total Funeral plan investments	**1,331**	1,271

Funeral plan investments:	2020 £m	2019 £m
At start of period	1,271	1,223
Net plan investments (including ongoing instalments)	86	111
Plans redeemed or cancelled	(107)	(74)
Unrealised fair value movement on funeral plan investments (Note 6)	81	11
At end of period	**1,331**	1,271

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

Notes to the financial statements continued

14 Funeral plan investments continued

The 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 subject to an annual actuarial valuation. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The most recent valuation was performed as at 30 September 2020 and the headroom achieved is shown in the table below.

Funeral Plan Investments Actuarial Valuation	30th September 2020 £m	30th September 2019 £m
Total Assets	**1,287**	1,296
Liabilities:		
Present value (wholesale basis)	**1,247**	1,207
Total Liabilities	**1,247**	1,207
Headroom	**40**	89
Headroom as a % of liabilities	**3%**	7%

During the period plan sales significantly exceeded plan redemptions which, all other things being equal, would increase both total assets and liabilities. A slight reduction in the inflation assumption has been offset by an increase in the wholesale cost per funeral and a lower expected investment return, given market expectations at 30 September 2020. However, it should be recognised that the group continues to manage plans for the medium to long term given, in the normal course of business, this is when the majority of the liability will crystallise.

Key assumption	30th September 2020	30th September 2019
Average total wholesale costs per plan funeral	**£2,646**	£2,563

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. A 0.1% increase in the inflation assumptions would reduce the surplus by approximately £24m (2019: £21m).

The "wholesale" actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees etc) as if the Group were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Group fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus.

Accounting policies
See Note 29 Financial Instruments for the accounting policies relating to other investments.

Notes to the financial statements continued

15 Deferred taxation

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

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 19.0% (2019: 17.0%). 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:		2020 £m	2019 (restated*) £m
Deferred tax asset - continuing operations		**336**	325
Deferred tax liability - continuing operations		**(497)**	(447)
Deferred tax liability - discontinued operation		**-**	(4)
Net deferred tax liability		**(161)**	(126)
Comprised of:	Footnote:		
Other temporary differences	(i)	**(3)**	(4)
Retirement benefit obligations	(ii)	**(352)**	(317)
Capital allowances on fixed assets	(iii)	**255**	240
Unrealised gains on investment properties, rolled-over gains and historic business combinations	(iv)	**(125)**	(112)
Claims equalisation reserve and available for sale assets	(v)	**-**	(4)
Tax losses	(vi)	**19**	14
IFRS 15 restatement	(vii)	**-**	12
IFRS 16 transition adjustment taken through Opening Reserves	(vii)	**45**	45
		(161)	(126)

The movements in the net deferred tax liability during the period are set out below:

		2020 £m	2019 (restated*) £m
At beginning of the period		**(122)**	(174)
Adjustment to opening reserves re IFRS 15	(vii)	**-**	5
Restated balance brought forward		**(122)**	(169)
Income statement (charge) / credit:			
Group (see Note 8)	(iv)	**(39)**	31
Adjustment in respect of deferred tax classified as assets held for sale (see Note 8)		**(3)**	1
Transferred to assets held for sale		**-**	(1)
Charged to equity:			
Retirement benefit obligations (see Note 8)	(ii)	**-**	17
Fair value through other comprehensive income assets - Insurance (see Note 8)		**3**	(1)
At end of the period (continuing operations)		**(161)**	(122)

Following last year's Budget, on 11 March 2020, the Chancellor revoked the enacted corporation tax rate reduction from 19% to 17%, thereby leaving it at 19%. Accordingly, each deferred tax balance has been re-measured individually based on the 19% enacted tax rate, (2019: 17.0%). The impact on the net deferred tax liability was an increase of £16m, but of this amount only £1m was charged to P&L within the £38m shown above. The remaining £15m was a charge directly to the consolidated statement of comprehensive income in respect of retirement benefit obligations. This charge was offset by a separate £15m credit (2019: £17m credit) that arises on the actuarial movement on the retirement benefit obligation.

Following the 2021 Budget, on 3 March 2021, the Chancellor has announced that with effect from 1 April 2023 the corporation tax rate will increase by 6% to 25%. Under IFRS it is the rate(s) actually enacted at the balance sheet date that determine the amount of deferred tax to be recognised. Accordingly, this announcement does not affect how the deferred tax balance has been measured as at 2 January 2021.

However, once the above rate change has been enacted later this year, for subsequent reporting periods the Co-op will take account of this increased rate for determining the amount of deferred tax to be recognised. If this 6% rate increase in 2023 had been applied instead of the current enacted rate of 19% the impact on the balance sheet would have been to increase the net deferred tax liability per Note 15 by £50m.

*See general accounting policies section on page 197 for details of the restatement.

Notes to the financial statements continued

15 Deferred taxation continued

Footnotes:

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

ii) This amount represents the theoretical future tax cost to the Group in respect of the current pension scheme surplus. The overall increase in 2020 was £35m. This is primarily the impact of the rate change going from 17% to 19%, being £37m charge and split between income statement and other comprehensive income as £22m and £15m respectively. In addition there is a £2m credit for movement in the total schemes' surpluses which is split between income statement and other comprehensive income as £13m charge and £15m credit respectively. The split between other comprehensive income and the income statement reflects the movement in the overall pension scheme surplus.

iii) A deferred tax asset arises on capital allowances where the tax value of assets is higher than the accounts value of the same fixed assets. The reason the Group has a higher tax value for these fixed assets is due to the fact the Group has not made a full claim to its maximum entitlement to capital allowances since 2013 due to reduced levels of trading profits in the intervening years. However, impairment, disposals and depreciation have continued to reduce the accounts value for our assets. The Group expects to use these allowances to reduce future trading profits. The £15m increase in year is mainly due to the £29m impact of the rate change less partial unwind of the difference as trading profits are now higher than in past years. (See Note 8 footnotes (v) for more detail.)

A provision of £1m (2019: £2m) is included in this balance in respect of uncertain tax positions (see Note 8 footnote (v) for more detail). In the event of an adjustment arising from uncertain tax positions, offset would arise through increased capital allowance claims.

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).

v) Following the disposal of CISGIL the Group no longer has deferred tax in relation to claims equalisation reserve that belonged to CISGIL.

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

The increase of £5m represents a £2m impact from the rate change plus £3m net additional tax allowable losses that have been identified as arising in prior years and agreed with HMRC.

vii) Due to the IFRS 15 restatement the 2019 opening reserves reduced by £25m and the 2019 income statement showed a net debit of £43m before tax. The tax impact of these adjustments are credits of £12m, being shown in the movement of deferred tax in the main Note 15 above, and £7m, being the reduction in tax charge following restatement in 2019, respectively. The total deferred tax asset of £12m shown on the restated balance sheet for 2019 is then released in 2020 as a charge to tax in the income statement for 2020, when the IFRS 15 restatements are allowed for tax.

viii) On the adoption of IFRS 16, with effect from 1 January 2019, the opening reserves were restated down by £286m. Tax relief is provided for this restatement by spreading a deduction over the combined weighted average length of leases. The current year unwind of £4m is broadly offset by the impact of the rate change leaving the balance unchanged overall.

ix) This movement is made up of current year movements as explained in footnotes (i) to (viii) above and a prior year adjustment. The net effect of the prior year adjustments in each of the above items is minimal, see Note 8 footnotes (v) for more detail.

Accounting policies

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

Notes to the financial statements continued

16 Inventories

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

Inventories include the following:

	2020 £m	2019 £m
Raw materials, consumables and work in progress	**4**	5
Finished goods and goods for resale	**456**	449
	460	454

The period end inventory provision is £23m (2019: £20m) and a net charge of £3m (2019: £nil charge) 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).

	2020 £m	2019 £m
Non-current	**203**	111
Current	**546**	445
	749	556

	2020 £m	2019 £m
Trade receivables	**277**	242
Prepayments	**9**	10
Accrued income	**139**	126
Other receivables	**336**	186
	761	564
Allowance for expected credit losses	**(12)**	(8)
	749	556

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

Non-current debt includes £178m (2019: £111m) that relates to pre-paid funeral plan instalments where customers have been invoiced before the funeral has occurred. £41m (2019: £32m) of current debt also relates to pre-paid funeral plan instalments which are £219m (2019: £143m) in total. Non-current debt also includes £25m of deferred income in respect of the agreement with Markerstudy to provide marketing and distribution services for motor and insurance products with an additional £10m included in current. These balances are all included within Other receivables. See Note 9 (Profit / (Loss) on discontinued operation, net of tax) for details.

Within trade receivables is £48m (2019: £37m) of supplier income that is due from Food and Wholesale suppliers. Accrued income includes £120m (2019: £116m) in relation to supplier income that has been recognised but not yet billed. As at 7 April 2021, £46m (2019: £34m) of the trade receivables balance had been invoiced and settled and £111m (2019: £81m) of the accrued income balance has been invoiced and settled.

Notes to the financial statements continued

17 Trade and other receivables - continued

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

	2020 £m	2019 £m
Opening allowance for expected credit losses	**8**	10
Charge to the income statement	**12**	9
Credit to the income statement	**(8)**	(11)
Closing allowance for expected credit losses	**12**	8

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.

	2020 £m	2019 £m
Current	**6**	4
Non-current	**60**	54
Total	**66**	58

	2020 £m	2019 £m
Opening contract assets	**58**	51
Fulfilment costs - incurred on new funeral plan sales	**12**	11
Fulfilment costs - transferred to the income statement on funeral plan redemptions	**(3)**	(3)
Fulfilment costs - transferred to the income statement on funeral plan cancellations	**(1)**	(1)
Closing contract assets	**66**	58

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

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

Notes to the financial statements continued

19 Assets and liabilities held for sale

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

	2020 £m	2019 £m	2020 £m	2019 £m
	Assets held for sale		Liabilities held for sale	
(a) Discontinued operation - Insurance (see Note 9)	-	1,087	-	1,015
(b) Other assets and liabilities held for sale (see below)	21	3	5	-
Total	**21**	1,090	**5**	1,015

(a) Discontinued operation - Insurance

The results of our Insurance underwriting business have been classified as a discontinued operation from 2018 as the sale of the business was highly probable at the 2018 and 2019 year end dates. The business has subsequently been sold on 3 December 2020 and the assets and liabilities have been removed from the balance sheet on disposal. Further detail on the final disposal accounting is given in Note 9 (Loss on discontinued operations, net of tax).

	2020 £m	2019 £m	2020 £m	2019 £m
(b) Other assets and liabilities classified as held for sale	Assets held for sale		Liabilities held for sale	
Goodwill and Intangible assets	10	-	-	-
Right-of-use assets (leases)	2	-	-	-
Lease liabilities	-	-	5	-
Property, plant and equipment	9	3	-	-
	21	3	5	-

Goodwill and intangible assets held for sale includes £6m in relation to the proposed sale of our Health business which was highly probable at the balance sheet date. Further details are given in Note 34 (Events after the reporting period).

Accounting policies

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

Notes to the financial statements continued

20 Cash and cash equivalents

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

Cash and cash equivalents	2020 £m	2019 £m
Cash in hand	**99**	93
Cash at banks	**170**	215
Cash and cash equivalents	**269**	308
Cash and cash equivalents (as above)	**269**	308
Bank overdrafts	**-**	-
Net cash and cash equivalents	**269**	308

Cash at banks includes amounts receivable from banks for credit card and debit card transactions of £35m (2019: £30m) which clear the bank shortly after the transaction takes place.

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

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

Amounts held in trustee-administered bank accounts of the Group of £28m (2019: £31m), 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.

Notes to the financial statements continued

Section C - what are our major liabilities?

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

21 Interest-bearing loans and borrowings

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

Non-current liabilities:	2020 £m	2019 £m
£105m 7.5% Eurobond Notes due 2026 (fair value)	**128**	121
£245m 7.5% Eurobond Notes due 2026 (amortised cost)	**259**	261
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	**298**	299
£109m 11% Final repayment subordinated Notes due 2025	**109**	109
£20m 11% Instalment repayment Notes (final payment 2025)	**9**	13
Total (excluding lease liabilities)	**803**	803
Lease liabilities	**1,234**	1,277
Total Group interest-bearing loans and borrowings	**2,037**	2,080

Current liabilities:	2020 £m	2019 £m
£11m 6.875% Eurobond Notes due 2020 (fair value)*	**-**	11
£165m 6.875% Eurobond Notes due 2020 (amortised cost) *	**-**	167
£165m 6.875% Eurobond Notes due 2020 (amortised cost) - interest accrued *	**-**	5
£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**	1
£400m Sustainable revolving credit facility	**-**	1
Corporate investor shares	**3**	4
Total (excluding lease liabilities)	**16**	200
Lease liabilities	**191**	193
Total Group interest-bearing loans and borrowings	**207**	393

* In-line with the contractual expiry terms of the instrument then the Group repaid £176m of the principal balance of the 6.875% 2020 Eurobond on the 8 July 2020.

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

Notes to the financial statements continued

21 Interest-bearing loans and borrowings - continued

Reconciliation of movement in net debt

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

For period ended 2 January 2021	Start of period	Non cash movements		Cash flow	End of period
		New leases	Other		
	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:					
- current	(200)	-	(54)	238	(16)
- non-current	(803)	-	-	-	(803)
Lease liabilities					
- current	(193)	(15)	(188)	205	(191)
- non-current	(1,277)	(99)	142	-	(1,234)
Total Debt	**(2,473)**	**(114)**	**(100)**	**443**	**(2,244)**
Group cash:					
- cash & overdrafts	308	-	-	(39)	269
Group Net Debt	**(2,165)**	**(114)**	**(100)**	**404**	**(1,975)**
Less fair value / amortised cost adjustment	33	-	1	-	34
Group Net Debt before fair value / amortised cost adjustment	**(2,132)**	**(114)**	**(99)**	**404**	**(1,941)**

For period ended 4 January 2020	Start of period	Impact on adoption of IFRS 16	Non cash movements		Cash flow	End of period
			New leases	Other		
	£m	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings:						
- current	(66)	-	-	(182)	48	(200)
- non-current	(976)	-	-	176	(3)	(803)
Lease liabilities						
- current	(4)	(177)	(19)	(186)	193	(193)
- non-current	(28)	(1,273)	(126)	150	-	(1,277)
Total Debt	(1,074)	(1,450)	(145)	(42)	238	(2,473)
Group cash:						
- cash & overdrafts	278	-	-	-	30	308
Group Net Debt	(796)	(1,450)	(145)	(42)	268	(2,165)
Less fair value / amortised cost adjustment	46	-	-	1	(14)	33
Group Net debt before fair value / amortised cost adjustment	(750)	(1,450)	(145)	(41)	254	(2,132)

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

The tables above do not include balances in relation to CISGIL which was classified as Held for sale in both periods and subsequently disposed of on 3 December 2020.

Notes to the financial statements continued

21 Interest-bearing loans and borrowings - continued

Terms and repayment schedule

The 2026 £350m 7.5% bond has an original value of £350m (carrying amount of £387m). This bond has been paying an additional 1.25% coupon since 8 July 2013 following the downgrade of the Group's credit rating to sub-investment grade. On maturity this bond will be repaid at par.

The Group also has two subordinated debt instruments in issue - £109m 11% final repayments Notes due 2025 and £20m 11% instalment repayment Notes, final repayment 2025. As at 2 January 2021 the £109m 11% final repayments Notes had an outstanding value of £109m. The £20m 11% instalment repayment Notes had an outstanding value of £11m.

The Group issued a £300m Sustainability bond in May 2019. The bond is repayable in May 2024 and has an interest rate of 5.125%. As at 2 January 2021, the bond proceeds had been fully allocated against the cost of purchasing Fairtrade products for resale (2019: £240m).

The £400m RCF facility now matures in September 2023, following the exercise of the Group's first extension option. A second extension option remains exerciseable in 2021. The RCF has been agreed on a sustainable basis with rates of interest linked to the Group's CO2 emission targets.

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

Corporate investor shares

Corporate investor shares represent borrowings the Group has with other co-operative societies. The rate of interest payable on the borrowings is determined by reference to the London Interbank Offered Rate (LIBOR). The borrowings are split into Variable Corporate Investor Shares (VCIS) and Fixed Corporate Investor Shares (FCIS). The VCIS are repayable on demand and the rate of interest that is charged is fixed across all societies based on a policy of LIBOR minus 0.5% with a minimum of 0.25%. The FCIS are fixed term borrowings at fixed rates of interest (currently 1%). Corporate investor shares may be issued to existing corporate members who hold fully paid corporate shares and are registered under the Co-operative and Communities Benefit Act 2014.

Accounting policies

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

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

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

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

Notes to the financial statements continued

22 Trade and other payables

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

	2020 £m	2019 (*represented) £m
Current	**1,747**	1,520
Non-current	**214**	183
	1,961	1,703

	2020 £m	2019 (*represented) £m
Trade payables	**1,118**	1,035
Value Added Tax, PAYE and social security	**42**	41
Accruals	**425**	328
Deferred income	**79**	2
Deferred consideration	**38**	65
Other payables	**259**	232
	1,961	1,703

* £202m previously shown within Other payables in 2019 has been reclassified within accruals in the table above. Refer to the general accounting policies section (page 197) for details of the representation.

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

Deferred income includes £78m (2019: £nil) in relation to the 13 year marketing and distribution arrangement entered into with Markerstudy following the sale of our Insurance underwriting busines (CISGIL). Accruals includes capital expenditure accruals of £85m (2019: £74m), payroll accruals of £127m (2019: £110m), interest accruals of £15m (2019: £18m) as well as standard cost accruals of £198m (2019: £126m).

Deferred consideration includes £38m (2019: £65m) in respect of the Nisa acquisition and is contingent on the level of trade that passes through Nisa.

Other payables include an amount owed to The Co-operative Bank of £147m (2019: £131m) in respect of historic group relief. See Note 8 (Taxation) & Note 34 (Post balance sheet subsequent events) for further details. Other payables also includes £30m (2019: £26m) 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 (2019: £2m release) of member reward earned has been charged / written back to the income statement in line with a prudent assessment of the likelihood that members won't redeem their rewards.

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 suppliers agreed payment terms. The Group's trade creditors balance includes £57m (2019: £38m) relating to payments due to Co-op suppliers under these arrangements. During the year ended 2 January 2021, the maximum facility was £105m.

Accounting policies

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

Notes to the financial statements continued

23 Contract liabilities

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

	2020 £m	2019 (restated*) £m
Contract liabilities - Funeral plans	**1,737**	1,641
Current	**167**	158
Non-current	**1,570**	1,483
	1,737	1,641

Contract liabilities - Funeral plans comprise £1,309m (2019: £1,284m) relating to fully paid plans, £214m (2019: £148m) on instalment plans and £214m (2019: £209m) of deferred income. Included in the balances above are Low Cost Instalment Funeral Plans (LCIP) of £261m (2019: £144m). This relates to 52,095 live plans (2019: 32,315 live plans). Refer to Note 29 for further details of the accounting policies for funeral plans, contract liabilities and LCIP's.

Contract Liabilities:	**2020** £m	2019 (restated*) £m
Opening contract liabilities	**1,641**	1,510
New plan additions	**96**	153
Interest accruing on funeral plans liabilities	**60**	59
Plans cancelled or redeemed outside of the Group	**(6)**	(12)
Recognised as revenue in the period	**(54)**	(69)
Closing contract liabilities	**1,737**	1,641

*Refer to Note 35 for details of the restatement.

Notes to the financial statements continued

24 Provisions

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

	2020 £m	2019 £m
Non-current	**85**	95
Current	**46**	62
	131	157

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

2019	Uninsured claims £m	Property provisions £m	Restructuring & integration £m	Regulatory / other £m	Total £m
At beginning of the period	49	204	30	14	297
Impact on adoption of IFRS 16	-	(72)	-	-	(72)
Credit to income statement	(14)	2	(13)	(2)	(27)
Charge to income statement	23	12	-	3	38
Discounting	-	4	-	-	4
Payments	(20)	(56)	(6)	(1)	(83)
At end of the period	38	94	11	14	157

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 running costs, excluding rental costs, of leasehold properties that are vacant or not planned to be used for ongoing operations. Property provisions are expected to be utilised over the remaining periods of the leases which range from 1 to 97 years. Note that under IFRS 16, right-of-use assets are recognised on balance sheet and are depreciated and subject to impairment, this is in place of recording a rental expense through the income statement. See Note 12 for further detail.

Restructuring and integration

Provisions totalling £88m were made in 2013 and 2014 in respect of the expected costs of separating Group IT and other change management systems from The Co-operative Bank. £6m of the provision was left at the start of the period of which a further £5m has been utilised or released during the period leaving a remaining provision of £1m. Costs for these provisions are expected to be incurred within the next year.

Provisions of £5m have been recognised during the year following the sale of our insurance underwriting business (CISGIL) on 3 December 2020. The expected costs reflect latest estimates of programme delivery costs associated with the sale and are all expected to be incurred within the next year.

Regulatory / other

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

Accounting policies

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

Notes to the financial statements continued

Section D - other Notes to the accounts

This section (Notes 25 - 35) 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.

	2020 £m	2019 (restated*) £m
Individual shares of £1 each	**65**	64
Corporate shares of £5 each	**9**	9
Share capital	**74**	73
Other reserves	**1**	15
Retained earnings	**2,594**	2,597
Total Retained earnings and Other reserves	**2,595**	2,612
Total capital resources	**2,669**	2,685

* Refer to Note 35 for details of the restatement.

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

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

Both classes of share maintain a fixed nominal value with corporate shares attracting a limited rate of interest. Under the Society's current rules, voting for Independent Society Members is in proportion to trade with the Society, with Independent Society Members totalling 21.9% (2019: 21.9%) of the vote at the Annual General Meeting. Each individual member has one vote with individual members totalling 78.1% (2019: 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 £0.3m in the period being the net of new member contributions of £0.4m and withdrawals of £0.1m. There are 16.5m individual member records on the share register.

Notes to the financial statements continued

25 Members' share capital and reserves - continued

Other reserves

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

Restated*	Revaluation Reserve £m	Investments held at FVOCI £m	Total £m
Balance at 5 January 2019	3	9	12
Gains less losses on fair value of insurance assets	-	8	8
Fair value gains on insurance assets transferred to the income statement	-	(2)	(2)
Revaluation reserve transferred to retained earnings	(2)	-	(2)
Tax on items taken directly to other comprehensive income	-	(1)	(1)
Balance at 4 January 2020	1	14	15

* Refer to Note 35 for details of the restatement.

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.

Investments held at fair value through other comprehensive income (FVOCI)
We sold our Insurance underwriting business (CISGIL) on 3 December. 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 £58m in 2020 (2019: £70m). See Note 33 for more details. It has also invested in future growth through cash capital expenditure additions of £313m (2019: £407m) and still kept within its net debt limits. Total member funds decreased during the period by £16m (2019: decreased £245m).

Notes to the financial statements continued

26 Investment properties

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

	2020 £m	2019 £m
Valuation at beginning of period	**16**	42
Disposals	-	(52)
Transfer to property, plant and equipment (Note 11)	-	(1)
Revaluation gain recognised in income statement	**1**	27
Valuation at end of period	**17**	16

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 are carried at fair value as determined by independent valuers each year in accordance with the RICS Appraisal and Valuation Manual. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement.

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

Notes to the financial statements continued

27 Pensions

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

	2020 £m	2019 £m
Pension schemes in surplus	**1,931**	1,973
Pension schemes in deficit	**(77)**	(109)
Closing net retirement benefit surplus	**1,854**	1,864

Defined benefit (DB) plans
The Group operates five 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 80% of the Group's pension assets. The DB section of Pace ('Pace Complete') closed to future service accrual on 28 October 2015. Further information about Pace is set out below.

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

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

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

Balance sheet position for DB plans
The table below summarises the net surplus in the balance sheet by scheme:

	Net 2020 £m	Net 2019 £m
Schemes in surplus		
The Co-operative Group Pension Scheme (Pace)	**1,854**	1,869
Somerfield Pension Scheme	**71**	104
Yorkshire Co-operatives Limited Employees' Superannuation Scheme	**6**	-
Total schemes in surplus	**1,931**	1,973
Schemes in deficit		
United Norwest Co-operatives Employees' Pension Fund	**(43)**	(73)
The Plymouth and South West Co-operative Society Limited Employees' Superannuation Fund	**(29)**	(31)
Other unfunded obligations	**(5)**	(5)
Total schemes in deficit	**(77)**	(109)
Total schemes	**1,854**	1,864

Recognition of accounting surplus

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

Notes to the financial statements continued

27 Pensions continued

Events arising during the year - Pace Bulk Annuities
During the year, the Trustees of the Co-operative Group Pension Scheme (Pace) entered into pension insurance buy-in contracts with Aviva (in January 2020 and again in May 2020), worth a total of £1,368m and Pension Insurance Corporation (PIC), in February 2020, worth c£1,032m. As a result of these transactions, the Co-op section of the scheme will receive regular payments from Aviva and PIC to fund all future pension payments for c16,300 current pensioners.

The methodology used to value these transactions results in a decrease in the value of the surplus by £400m in the Pace Scheme. As the insurance contracts are assets of the scheme and the scheme has retained all responsibility to meet future pension payments to pensioners this will not be recognised as a settlement and consequently the decrease in value of £400m has been recognised as a charge through Other Comprehensive Income at the 2020 year end.

Events arising during the year - Revisiting historic transfer values to account for GMP Equalisation
In 2018 an allowance was made in the accounts in respect of revisiting Guaranteed Minimum pensions in light of the judgement on the back of the Lloyds case. A second hearing in November 2020 concluded that schemes must top-up past transfer payments paid since 17 May 1990 that failed to take account of the obligation to equalise for GMPs. A charge of £3m has been made and this is included within one off items in the Consolidated income statement.

Pace - nature of scheme
As Pace represents around 80% of the Group's pension assets, further information has been included on Pace below. As all of the DB schemes will be exposed to similar risks to Pace, we have not provided additional commentary on each scheme.

Benefits accrued in Pace between 6 April 2006 and 28 October 2015 are calculated based on an individual's average career salary. Benefits accrued prior to 6 April 2006 are linked to final salary until scheme members end their pensionable service.

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

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

As a multi-employer pension scheme, Pace exposes the participating employers to the risk of funding the pension obligations associated with the current and former colleagues of other participating employers. The sectionalisation of Pace largely removes The Co-operative Bank's (the 'Bank's') 'last man standing' obligation to the rest of the Pace scheme but an obligation on the Group to support the pension liabilities of the Bank section could arise in limited circumstances if the Bank were to not meet its own section's pension liabilities. The Bank element of Pace is fully funded on both an IAS 19 accounting and a statutory funding basis. At 31 December 2020, the Bank reported an overall defined benefit pension scheme surplus of £643m (2019: £682m). This included £509m in relation to the Pace scheme consisting of assets of £2,169m and liabilities of £1,660m. Given this surplus position then then 'last man standing' risk for the Group is very limited.

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

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

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

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

Deficit contributions over the 2020 financial year totalled £43.2m (broadly £50m pa agreed and paid until the end of June 2020 and then £35m pa paid from July 2020). Deficit contributions to Pace and Somerfield have now ceased but contributions are still required to the United, Yorkshire and Plymouth schemes. 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. Total expected deficit contributions required in 2021 is £35m.

The average duration of the liabilities is approximately 22 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.

Notes to the financial statements continued

27 Pensions continued

Legislative framework for DB schemes - scheme funding regime continued

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 2017
Plymouth and South West Co-operative Society Limited Employees' Superannuation Fund ('Plymouth Fund')	31 March 2019
Yorkshire Co-operatives Limited Employees' Superannuation Fund ('Yorkshire Fund')	31 January 2017

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. 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. 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.
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

	2020	2019
Discount rate	**1.47%**	1.97%
RPI Inflation rate	**3.10%**	3.18%
Pension increases in payment (RPI capped at 5% p.a.)	**3.04%**	3.11%
Future salary increases	**3.35%**	3.43%

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.

Notes to the financial statements continued

27 Pensions continued

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) 2019 projections and a long-term future improvement rate of 1.25% p.a. (2019: CMI 2018 1.25% p.a.). The actuaries considered no adjustment necessary in respect of Covid experience.

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

Life expectancy from age 65	2020	2019
Male currently aged 65 years	**21.0**	20.9
Female currently aged 65 years	**23.4**	23.2
Male currently aged 45 years	**22.0**	22.0
Female currently aged 45 years	**24.6**	24.5

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.

	2020	2019
Change in liability from a 0.1% increase in discount rate	**(197)**	(200)
Change in liability from a 0.1% decrease in RPI inflation	**(147)**	(154)
Change in liability from a 0.25% increase in long-term rate of longevity improvements	**129**	128

Changes in the present value of the defined benefit obligation (DBO)	2020 £m	2019 £m
Opening defined benefit obligation	**9,304**	8,412
Interest expense on DBO	**179**	247
Remeasurements:		
a. Effect of changes in demographic assumptions	**22**	(357)
b. Effect of changes in financial assumptions	**958**	1,464
c. Effect of experience adjustments	**(251)**	(37)
Past service costs	**3**	-
Benefit payments from plan	**(361)**	(425)
Closing defined benefit obligation	**9,854**	9,304

Notes to the financial statements continued

27 **Pensions** continued

Changes in the fair value of the plan assets	**2020 £m**	2019 £m
Opening fair value of plan assets	**11,168**	10,271
Interest income	**216**	304
Return on plan assets (excluding interest income)	**646**	972
Administrative expenses paid from plan assets	**(5)**	(4)
Employer contributions	**44**	50
Benefit payments from plan	**(361)**	(425)
Closing fair value of plan assets	**11,708**	11,168

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.

	2020 Quoted £m	**2020 Unquoted £m**	**2020 Total £m**	2019 Quoted £m	2019 Unquoted £m	2019 Total £m
Equity instruments	**276**	**-**	**276**	265		265
Liability driven investments	**4,139**	**-**	**4,139**	4,974	-	4,974
Real estate	**17**	**-**	**17**	31	-	31
Investment grade credit	**3,014**	**-**	**3,014**	3,689	-	3,689
Illiquid / other credit	**-**	**1,377**	**1,377**	-	1,385	1,385
Alternative investments	**-**	**374**	**374**	-	368	368
Cash and cash equivalents*	**69**	**2,442**	**2,511**	35	421	456
	7,515	**4,193**	**11,708**	8,994	2,174	11,168

* £2,441m of the unquoted 'Cash and cash equivalents' represents the value of the insurance buy-in contracts in respect of Pace and Somerfield.

Amounts recognised in the balance sheet	**2020 £m**	2019 £m
Present value of funded obligations	**(9,849)**	(9,299)
Present value of unfunded liabilities	**(5)**	(5)
Fair value of plan assets	**11,708**	11,168
Net retirement benefit asset	**1,854**	1,864

Amounts recognised in the income statement and other comprehensive income	**2020 £m**	2019 £m
Interest expense on defined benefit obligations	**(179)**	(247)
Interest income on plan assets	**216**	304
Administrative expenses and taxes	**(5)**	(4)
Past service cost*	**(3)**	-
Total recognised in the income statement	**29**	53
Remeasurement losses on employee pension schemes	**(83)**	(99)
Total recognised in other comprehensive income	**(83)**	(99)
Total	**(54)**	(46)

* A charge of £3m has been made in respect of the obligation to equalise GMPs. This is included within one off items in our Consolidated income statement.

Notes to the financial statements continued

27 **Pensions** continued

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

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

Notes to the financial statements continued

28 Financial risk management

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

Financial risk management

The main financial risks facing the Group are set out below. Overall Group risks and the strategy used to manage these risks are discussed in the Principal Risks and Uncertainties section on pages 50 - 53.

Credit risk

Credit risk arises from the possibility of customers and counterparties failing to meet their obligations. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The Group does not require security in respect of financial assets. The majority of businesses in the Group have cash-based rather than credit-based sales and so customer credit risk is relatively small.

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

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

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

	Carrying amount 2020 £m	Carrying amount 2019 £m
Trade and other receivables (excluding prepayments and accrued income)	**601**	420
Interest rate swaps	**3**	(1)
Foreign exchange contracts and commodity swaps	**(1)**	-
Funeral plan investments	**1,331**	1,271
Finance lease receivables	**45**	51
Cash	**269**	308

Interest rate risk and hedging

Interest rate risk arises from movements in interest rates that impact on the fair value of the assets and liabilities and related finance flows. The Group adopts a policy of ensuring that 50-90% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The fixed proportion as at 2 January 2021 was 86% (at 4 January 2020: 89%). Interest rate swaps, denominated exclusively in sterling, have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. The swaps mature over the next six years following the maturity of the related bond and have fixed swap rates ranging from 0.72% to 0.80% (at 4 January 2020: 0.72% to 0.80%). At 2 January 2021, the Group had interest rate swaps with a notional contract amount of £105m (at 4 January 2020: £105m).

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

The net fair value of swaps at 2 January 2021 was a net asset of £3m (2019: net liability £1m) comprising assets of £3m (2019: £nil) and liabilities of £nil (2019: £1m). These amounts are recognised as fair value derivatives on the face of the Consolidated balance sheet.

Notes to the financial statements continued

28 Financial risk management continued

Foreign currency risk

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

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

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

At 2 January 2021, the Group had forward currency transactions in Euros and US Dollars with a notional contract amount of £89m (2019: £20m).

Liquidity risk

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

As at 2 January 2021, the Group had available borrowing facilities totalling £1,170m (2019: £1,348m), which was made up of uncommitted facilities of £nil (2019: £nil) and committed facilities of £1,170m (2019: £1,348m). These are detailed below:

Bank facilities as at 2 January 2021

	2020		2019	
	Expiry	**£m**	Expiry	£m
Sustainable Revolving Credit Facility	**Sept 2022**	**400**	Sept 2022	400
£176m 6.875% Eurobond notes due 2020 *	-	-	July 2020	176
£109m 11% Final repayment subordinated notes due 2025	**December 2025**	**109**	December 2025	109
£300m 5.125% Sustainability Bond due 2024 (amortised cost)	**May 2024**	**300**	May 2024	300
£20m Instalment repayment notes (final payment 2025)	**December 2025**	**11**	December 2025	13
£350m 7.5% Eurobond notes due 2026	**July 2026**	**350**	July 2026	350
		1,170		1,348

* In-line with the contractual expiry terms of the instrument then the Group repaid £176m of the principal balance of the 6.875% 2020 Eurobond on the 8 July 2020.

Notes to the financial statements continued

28 Financial risk management continued

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

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

The following are the maturities of financial liabilities as at 4 January 2020:

	Carrying amount £m	Contractual cash flows £m	6 months or less £m	6 - 12 months £m	1 - 2 years £m	2 - 5 years £m	More than 5 years £m
Non-derivative financial liabilities							
£11m 6.875% Eurobond 2020 - (fair value) *	(11)	(11)	-	(11)	-	-	-
£165m 6.875% Eurobond 2020 (amortised cost) *	(172)	(165)	-	(165)	-	-	-
£105m 7.5% Eurobond 2026 (fair value)	(121)	(105)	-	-	-	-	(105)
£245m 7.5% Eurobond 2026 (amortised cost)	(270)	(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)	(13)	(13)	-	(1)	(2)	(5)	(5)
Lease liabilities	(1,470)	(2,112)	(96)	(92)	(181)	(505)	(1,238)
Trade and other payables	(1,703)	(1,703)	(1,507)	(19)	(38)	(35)	(104)

* £176m Eurobond repayment - in line with the contractual expiry terms of the instrument then the Group repaid £176m of the principal balance of the 6.875% 2020 Eurobond on the 8 July 2020.

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 2 January 2021 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 as described in the Interest rate risk and hedging section.

Foreign exchange risk

At 2 January 2021 and 4 January 2020, if the Euro and US dollar had strengthened or weakened by 10% against sterling (GBP) with all variables held constant, there would have been no material impact to post-tax profit.

Guarantees

In the course of conducting its operations, the Group is required to issue bank guarantees and bonds in favour of various counterparties. These facilities are provided by the Group's banking syndicate and as at 2 January 2021 the total amount of guarantees / bonds outstanding is £38m (2019: £34m).

Notes to the financial statements continued

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

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

Derivatives

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

	2020			2019		
	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	3	-	105	-	(1)
Foreign exchange contracts	89	-	(1)	20	-	-
Commodity swaps (diesel)	14	-	-	-	-	-
Total recognised derivative assets / (liabilities)	208	3	(1)	125	-	(1)

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

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

a) Financial instruments at fair value through the income statement

Deposits with credit institutions (Insurance)

All Insurance investments were classified as held for sale in 2019 and have subsequently been disposed of in 2020. See Note 9 (Loss on discontinued operations, net of tax) for further details. In 2019 the fair value of financial assets designated at fair value through the income statement, being short-term (less than one month) fixed rate deposits, approximated to their nominal amount.

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 £nil in 2020 and £1m in 2019 (see Note 7).

Fixed rate sterling Eurobonds

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

b) Financial instruments at fair value through other comprehensive income (Insurance - underwriting business)

All insurance investments were transferred to held for sale in 2019 and have subsequently been disposed of in 2020. See Note 9 (Loss on discontinued operations, net of tax) for further details. The fair value of listed debt securities was based on clean bid prices at the balance sheet date without any deduction for transaction costs. Assets were regularly reviewed for impairment. Objective evidence of impairment can include default by a borrower or issuer, indications that a borrower or issuer will enter bankruptcy or the disappearance of an active market for that financial asset because of financial difficulties. These reviews gave particular consideration to evidence of any significant financial difficulty of the issuer or measurable decrease in the estimated cash flows from the investments.

c) 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.

d) 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.

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 2020	Fair value 2020	Carrying value 2019	Fair value 2019
	£m	£m	£m	£m
Interest-bearing loans and borrowings	691	769	871	875

Notes to the financial statements continued

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

The table below analyses financial instruments by measurement basis:

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

2019	Fair value through income statement £m	Amortised cost £m	Loans and Receivables £m	Total £m
Assets				
Other investments	1,271	-	-	1,271
Trade and other receivables	-	-	420	420
Cash and cash equivalents	-	308	-	308
Total financial assets	1,271	308	420	1,999
Liabilities				
Interest-bearing loans and borrowings	132	871	-	1,003
Derivative financial instruments	1	-		1
Trade and other payables (*represented)	-	1,373	-	1,373
Total financial liabilities	133	2,244	-	2,377

*Refer to the general accounting policies section (page 197) for details of the representation.

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 can not guarantee that the prices they provide are based on actual trades in the market then all of the corporate bonds are classified as Level 2.

Notes to the financial statements continued

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

Valuation of financial instruments

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

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

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

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

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	-	-	1,271	1,271
Total financial assets at fair value	-	-	1,271	1,271
Liabilities				
Financial liabilities at fair value through the income statement				
- Fixed rate sterling Eurobond	-	132	-	132
- Derivative financial instruments	-	1	-	1
Total financial liabilities at fair value	-	133	-	133

Notes to the financial statements continued

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

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.

Notes to the financial statements continued

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

Funeral benefit options (FBOs)
FBOs are attached to Guaranteed Over 50 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.

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

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

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

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

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

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

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

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

Notes to the financial statements continued

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

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

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

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

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

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

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

Notes to the financial statements continued

30 Commitments

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

a) Capital expenditure that the Group is committed to but which has not been accrued for at the period end was £14m (2019: £20m).

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	2020 £m	2019 £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 £1,813m (2019: £1,613m) and the amount due from ISMs in respect of such sales was £138m at 2 January 2021 (2019: £128m). No distributions have been made to ISMs based on their trade with the Group in either the current or prior periods.

Transactions with directors and key management personnel

Disclosure of key management compensation is set out in the Remuneration Report. A number of small trading transactions are entered into with key management in the normal course of business and are at arm's length. Key management are considered to be members of the Executive and directors of the Group. At the balance sheet date, certain key management personnel had transacted with Funeralcare. These transactions totalled £2,000 (2019: £7,000). Other than the compensation set out in the Remuneration Report, there were no other transactions greater than £1,000 with the Group's entities (2019: £nil). Total compensation paid to key management personnel is shown below.

Key management personnel compensation	2020 £m	2019 £m
Short-term employee benefits	**6.4**	6.5
Post-employment benefits	**0.4**	0.4
Other long-term benefits	**1.6**	0.4
Total	**8.4**	7.3

Notes to the financial statements continued

32 Principal subsidiary undertakings

What does this show? This note shows the main companies and societies we own, what percentage we own and the type of business they are involved in.

All of the principal subsidiary undertakings as at the period end are registered in England and Wales and their principal place of business is the UK. See general accounting policies section on page 197 for a Group structure diagram.

	Society holding %	Nature of business
Angel Square Investments Ltd*	100	Holding company
CFS Management Services Ltd*	100	Service company
Reclaim Fund Ltd*	100	Reclaim Fund
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-operative Legal Services Ltd	100	Legal services
The Co-operative Care Ltd	100	Healthcare
Rochpion Properties (4) LLP	100	Holds property

All of the above have been fully consolidated into the Group's accounts except for Reclaim Fund Ltd (see general accounting policies section on page 197 for further background on the non-consolidation and details of the net assets and results of Reclaim Fund). There are no non-controlling interests in any of these entities.

Notes

i) All of the principal subsidiaries are audited by EY LLP.
ii) *Entities noted with an asterisk have a year end of 31 December as they report on a monthly cycle rather than a periodic Saturday close cycle which is used by the other Group businesses. See also general accounting policies section on page 197 for further details on accounting dates.
iii) All transactions between entities are in the usual course of business and are at arms length.
iv) We no longer consolidate Reclaim Fund Ltd and, on 30 March 2021, the entire issued share capital of Reclaim Fund Limited was sold to HM Treasury for nominal consideration.

Notes to the financial statements continued

33 Membership and community reward

What does this show? This note shows the number of active members that we have at the end of the period as well as the benefits earned by those members for themselves and their communities during the period. Active members are defined as those members that have traded with one or more of our businesses within the last 12 months.

Members	2020 (unaudited) £m	2019 (unaudited) £m
Active members	**4.3**	4.6

Membership and community rewards (within the income statement)	£m	£m
Member reward earned	**45**	59
Community reward earned	**13**	11
Total reward	**58**	70

From October 2020 Member and Community rewards are earned at 2% (prior to that Member reward was 5% and Community was 1%).

Full details of our overall investment in our Communities can be found in our Co-operate Report.

34 Events after the reporting period

What does this show? This note gives details of any significant events that have happened after the balance sheet date but before the date that the accounts are approved. These are things that are of such significance that it is appropriate to give a reader of the accounts further detail as to the impact of such events on the financial statements or any expected likely impact in future periods.

Group Relief Creditor owed to The Co-operative Bank - At the year end date the Co-op held a liability on its balance sheet of £147m due to The Co-operative Bank (the 'Bank'). This balance arose in 2015 when we agreed with the Bank that they would surrender their tax losses as group relief to Co-op. In order to claim these tax losses from the Bank, Co-op deferred the reliefs and capital allowances available to it. It was agreed that Co-op would pay the Bank for its losses surrendered when these previously deferred reliefs and capital allowances were used in future tax periods. An equivalent deferred tax asset of £147m is held at the balance sheet date representing the future benefit of those losses and capital allowances which were previously disclaimed.

In February 2021 the Bank agreed a full and final settlement of £48m as payment for the losses it had group relieved to Co-op Group. The settlement of the liability is a non-adjusting post balance sheet event (as it does not represent conditions at the balance sheet date) and as such does not impact our 2020 results. Instead the gain of £99m that arises on extinguishing a liability of £147m for £48m will be shown in our 2021 results. Due to its size and nature then the gain will be treated as a one-off item in 2021 (and so won't be included within our underlying trading results). Co-op retains the full value of the deferred tax assets.

Sale of Co-op Health - On 12 March 2021 the Group announced the sale of its Health business and the sale was completed on 6 April 2021. Both the consideration from the transaction and the net assets disposed were immaterial to the Group. As the sale was assessed as highly probable at the balance sheet date then the assets of our Health businesses were classified as held for sale (see Note 19).

Government support - Subsequent to the year end, the Board of The Co-op has decided to repay £15.5m of the money it received in Government support during the COVID-19 pandemic, this equates to the amount it claimed in Furlough payments.

Reclaim Fund - On 30 March 2021, the entire issued share capital of Reclaim Fund Limited was sold to HM Treasury for nominal consideration. The sale has no material impact on the Group's financial statements since the Reclaim Fund Limited is no longer consolidated within the Group (see Note 35 for further information on the de-consolidation of Reclaim Fund Limited).

Litigation - On 19 February 2021, the Technology and Construction Court handed down judgment in a claim brought by CISGIL against IBM United Kingdom Limited, relating to a failed programme to implement an IT platform. CISGIL was awarded damages of approximately £13m subject to any applicable VAT deduction and excluding interest, with the final amount of damages plus interest and costs to be determined. During 2019, CISGIL assigned in equity the proceeds of the litigation with IBM to Co-operative Group Limited for £14.1m. Following the sale of CISGIL (since renamed Soteria Insurance Limited) in 2020, any income relating to the claim will be reported through discontinued operations within the income statement in 2021.

35 Prior year restatement

What does this show? Occasionally we realise that the numbers we published in the accounts last year may not have been right due to a material error (which might include when we may decide that there is a more appropriate way to account for certain transactions). When this is the case it may be appropriate to revise (restate) the prior year numbers to correct them for the error. In such circumstances then this note explains how the error happened and what we have done to correct it and the impact this has had on the Group's accounts in the prior year.

Revenue recognition for funeral plans - The Group adopted the new accounting standard for revenue recognition in 2018 and at that time we applied a judgement that the revenue to be recognised for a funeral plan was variable and so changed over time. When a customer takes out a plan, the monies are invested in whole of life insurance policies whose value changes over time until redemption. The key judgement we took was that on redemption of a policy, the monies received from the policy was 'consideration' receivable for the funeral. Therefore, investment gains from the policy were deferred on the balance sheet and only recognised as revenue at the point the funeral is performed. Our auditors disagreed with this judgement and qualified their 2019 audit opinion on that basis, with the view that the fair value investment gains do not represent variable consideration because they are not payments from the customer for the future provision of a funeral. Instead, their view was that investment gains should be reflected in the consolidated income statement as they arise. Consequently, because payments are received in advance of the delivery of a funeral then a financing transaction is recognised, such that the payments received from the customer are accreted by a rate which reflects a financing rate between the Group and the customer. We were also subsequently advised by the Financial Reporting Council's (FRC) Corporate Reporting Review team that our 2019 accounts were subject to review including specific reference to our accounting for funeral plans.

During the second half of the year, and following discussions with the FRC and our auditors, we have reflected on this matter and we have agreed to change the judgement we apply in 2020. Any investment gains and losses from our whole of life insurance policies are now measured at fair value through our income statement in accordance with IFRS 9 rather than being deferred on the balance sheet until the funeral is performed. Previously we considered revenue to be the amounts received on redemption of a whole of life insurance policy, and this was considered to be variable consideration as the value changed over time according to the value of the underlying policy. We now consider revenue to be the amounts we receive from the customer in accordance with IFRS 15 rather than from the redemption of the whole of life insurance policy. Hence there is no variable consideration. Under this policy, payments are received from the customer in advance of a funeral being performed and so we will 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. The gains or losses arising from movements in the fair value of funeral plan investments are now recognised within our finance income or finance costs each year.

This change of judgement has been accounted for in accordance with IAS 8 and our 2019 numbers have been restated to reflect the new accounting treatment as if it had always been the case. The changes impact the Group's 2019 consolidated income statement, 2019 consolidated balance sheet, 2019 consolidated cashflow and 2019 statement of changes in equity. As this restatement is material, we have presented an additional third balance sheet, being our balance sheet as at the start of our 2019 financial year as required under IAS 1.

Reclaim Fund de-consolidation - previously Co-op have included the assets and liabilities of the Reclaim Fund Limited (RFL) in our consolidated balance sheet. This was based on a judgement that we controlled RFL and that we were exposed to changes in the financial results of RFL. During 2020, the Group has been reflecting on this judgement especially in the context of the proposed sale of 100% of the share capital of RFL to Her Majesty's Treasury as discussed further in the post balance sheet event note (Note 34).

Whilst the Group was considering this judgement, it also received notification that the Group's Annual Report and Accounts to 4 January 2020 were subject to review by the Financial Reporting Council's (FRC) Corporate Reporting Review team. In response to this review and as part of the Group's ongoing review of this judgement, it has been concluded that the Group has not met the criteria to consolidate RFL under the criteria set out in IFRS 10 'Consolidated Financial Statements'. In arriving at this conclusion, it is noted that the Group is not exposed to any variable returns from RFL, be they positive or negative and as such consolidation is not permitted under IFRS 10 in such circumstances.

Furthermore, the Group's judgement is that it has insufficient ability to direct the relevant activities of RFL, and as a result RFL should not be treated as an associate within the Group's accounts either. Accordingly, RFL has been treated as an investment in the financial statements and held at nil value. Consequently, the deconsolidation of RFL has been treated as a prior year restatement.

A summary of the impact of the prior year adjustments on the 2019 consolidated income statement, the 2019 consolidated balance sheet and the 2019 consolidated cashflow statement is noted below. We also include the impact on the opening 2019 balance sheet (as at 6 January 2019).

Consolidated income statement for the period ended 4 January 2020	As previously reported	Funeral plans	Reclaim Fund	As restated
Continuing Operations	**£m**	**£m**	**£m**	**£m**
Revenue	10,860	4	-	**10,864**
Operating expenses	(10,700)	-	-	**(10,700)**
Other income	9	-	-	**9**
Operating profit	169	4	-	**173**
Finance income	61	-	-	**61**
Finance costs	(163)	-	-	**(163)**
Net finance costs on funeral plans	-	(47)	-	**(49)**
Profit before tax	67	(43)	-	**24**
Taxation	18	7	-	**25**
Profit from continuing operations	85	(36)	-	**49**
Loss on discontinued operation, net of tax	(16)	-	-	**(16)**
Profit for the period (all attributable to members of the Society)	69	(36)	-	**33**

Notes to the financial statements continued

35 Prior year restatement continued

Consolidated balance sheet as at 4 January 2020	As previously reported £m	Funeral plans £m	Reclaim Fund £m	As restated £m
Non-current assets				
Funeral plan investments	1,271	-	-	**1,271**
Contract assets (funeral plans)	54	-	-	**54**
Reclaim Fund assets	206	-	(206)	**-**
Other non-current assets	6,276	-	-	**6,276**
Total non-current assets	7,807	-	(206)	**7,601**
Current assets				
Contract assets (funeral plans)	4	-	-	**4**
Reclaim Fund assets	478	-	(478)	**-**
Other current assets	2,308	-	-	**2,308**
Total current assets	2,790	-	(478)	**2,312**
Non-current liabilities				
Contract liabilities (funeral plans)	1,435	48	-	**1,483**
Reclaim Fund liabilities	540	-	(540)	**-**
Deferred tax	134	(12)	-	**122**
Other non-current liabilities	2,468	-	-	**2,468**
Total non-current liabilities	4,577	36	(540)	**4,073**
Current liabilities				
Contract liabilities (funeral plans)	137	21	-	**158**
Reclaim Fund liabilities	70	-	(70)	**-**
Other current liabilities	2,997	-	-	**2,997**
Total current liabilities	3,204	21	(70)	**3,155**
Equity				
Share Capital	73	-	-	**73**
Other Reserves	89	-	(74)	**15**
Retained earnings	2,654	(57)	-	**2,597**
Total equity	2,816	(57)	(74)	**2,685**

Consolidated statement of cashflows for period ended 4 January 2020	As previously reported £m	Funeral plans £m	Reclaim Fund £m	As restated £m
Net cash from operating activities	626	37	-	**663**
Net cash used in investing activities	(301)	(37)	-	**(338)**
Net cash used in financing activities	(293)	-	-	**(293)**
Net cash and overdraft balances transferred to held for sale	(2)	-	-	**(2)**
Cash and cash equivalents at beginning of the period	278	-	-	**278**
Cash and cash equivalents at end of the period	308	-	-	**308**

Notes to the financial statements continued

35 **Prior year restatement** continued

2018 Consolidated balance sheet	Closing position as reported (5 January 2019) £m	IFRS 16 * £m	Restated for IFRS 16 (5 January 2019) £m	Funeral plans £m	Reclaim Fund £m	Opening position restated (6 January 2019) £m
Non-current assets						
Property, plant & equipment	2,046	(41)	2,005	-	-	**2,005**
Right-of-use assets	-	1,056	1,056	-	-	**1,056**
Goodwill and intangibles	1,094	-	1,094	-	-	**1,094**
Investment properties	42	-	42	-	-	**42**
Investments in associates	3	-	3	-	-	**3**
Funeral plan investments	1,223	-	1,223	-	-	**1,223**
Derivatives	27	-	27	-	-	**27**
Pension assets	1,984	-	1,984	-	-	**1,984**
Trade and other receivables	81	-	81	-	-	**81**
Finance lease receivables	-	14	14	-	-	**14**
Contract assets (funeral plans)	47	-	47	-	-	**47**
Reclaim Fund assets	209	-	209	-	(209)	**-**
Total non-current assets	**6,756**	**1,029**	**7,785**	**-**	**(209)**	**7,576**
Current assets						
Inventories	458	-	458	-	-	**458**
Trade and other receivables	528	-	528	-	-	**528**
Finance lease receivables	-	3	3	-	-	**3**
Contract assets (funeral plans)	4	-	4	-	-	**4**
Cash and cash equivalents	278	-	278	-	-	**278**
Asset held for sale	1,113	-	1,113	-	-	**1,113**
Reclaim Fund assets	410	-	410	-	(410)	**-**
Total current assets	2,791	3	2,794	-	(410)	**2,384**
Total assets	9,547	1,032	10,579	-	(619)	**9,960**
Non-current liabilities						
Interest-bearing loans and borrowings	976	-	976	-	-	**976**
Lease liabilities	28	1,301	1,329	-	-	**1,329**
Trade and other payables	214	(12)	202	-	-	**202**
Contract liabilities (funeral plans)	1,353	-	1,353	24	-	**1,377**
Provisions	215	(52)	163	-	-	**163**
Pension liabilities	125	-	125	-	-	**125**
Deferred tax liabilities	223	(49)	174	(5)	-	**169**
Reclaim Fund liabilities	472	-	472	-	(472)	**-**
Total non-current liabilities	3,606	1,188	4,794	19	(472)	**4,341**
Current liabilities						
Interest-bearing loans and borrowings	66	-	66	-	-	**66**
Lease liabilities	4	181	185	-	-	**185**
Income tax payable	8	-	8	-	-	**8**
Trade and other payables	1,470	(80)	1,390	-	-	**1,390**
Contract liabilities (funeral plans)	132	-	132	2	-	**134**
Provisions	82	(20)	62	-	-	**62**
Liabilities held for sale	1,045	-	1,045	-	-	**1,045**
Reclaim Fund liabilities	73	-	73	-	(73)	**-**
Total current liabilities	2,880	81	2,961	2	(73)	**2,890**
Equity						
Share Capital	73	-	73	-	-	**73**
Other Reserves	86	-	86	-	(74)	**12**
Retained earnings	2,902	(237)	2,665	(21)	-	**2,644**
Total equity	3,061	(237)	2,824	(21)	(74)	**2,729**
Total equity and liabilities	9,547	1,032	10,579	-	(619)	**9,960**

* The Group initially applied IFRS 16 (Leases) at the 6 January 2019 using the modified retrospective approach. Under this approach, comparative information was not restated and the cumulative impact of applying the new standard was recognised in retained earnings at the date of initial application. As the restatement for IFRS 16 was taken through reserves then a full restated balance sheet as at 6 January was not reported but is presented now for completeness and to aid understanding given the current year restatements for Reclaim Fund and revenue recognition on funeral plans.

General accounting policies

What does this show? This section outlines the general accounting policies that relate to the financial statements as a whole. Details of other accounting policies are included within the Notes to the financial statements to which they relate. This allows readers easy access to the relevant policy. This section also gives details of the impact of any new accounting standards that we've applied for the first time and the expected impact of upcoming standards that will be adopted in future years where that impact is likely to be significant.

General information

Co-operative Group Limited ('the Group') is a registered co-operative society domiciled in England and Wales. The address of the Group's registered office is 1 Angel Square, Manchester, M60 0AG, and the trading locations of all stores and branches can be located on our website https://finder.coop.co.uk/food.

Basis of preparation

The Group accounts have been prepared in accordance with international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 and additionally in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union for the 52 week period ended 2 January 2021. 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.

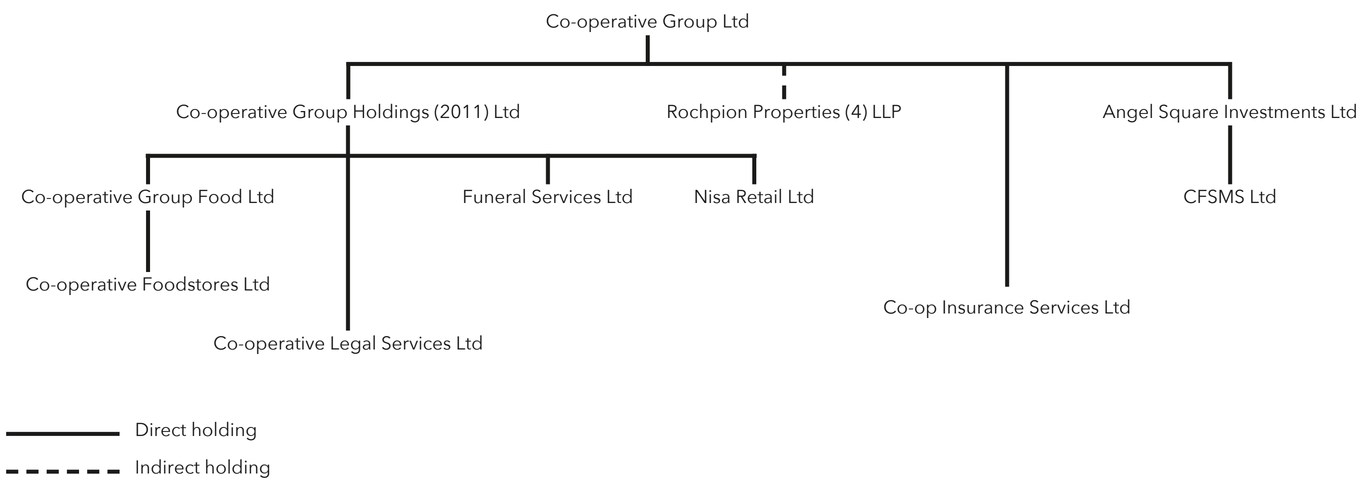
The accounting policies set out in the Notes have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

The accounts are prepared on a going concern basis. See later section on '**Going Concern**'.

Basis of consolidation

The financial statements consolidate Co-operative Group Limited, which is the ultimate parent society, and its subsidiary undertakings. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The diagram below shows the composition of the Group and its principal subsidiaries. Further details can be found in Note 32. A full list of subsidiaries that make up the Group for the purposes of these financial statements can be found at: http://www.co-operative.coop/corporate/aboutus/oursubsidiaries/



All shareholdings are 100% owned unless otherwise stated.

Change in accounting policy

As explained further in Note 35, during the second half of the year and following discussions with the FRC and our auditors, we have we have agreed to change the judgement we apply in 2020 in respect of accounting policy for revenue recognition for funeral plans. The change in accounting policy impacts the amount of revenue we recognise on a funeral plan but does not change the timing of recognition, which is on performance of a funeral. The policy also impacts our accounting for our plan investments, as these are now recognised at fair value through the income statement in accordance with IFRS 9. Further details of the accounting policy can be found in Note 2 and Note 29. The change in policy requires our 2019 results to be restated in accordance with IAS 8 *accounting policies, changes in accounting estimates and errors*. Further details on this change in policy can be found in the 'key judgements' section below.

We also no longer consolidate The Reclaim Fund Limited, further details can be found in the 'key judgements' section below.

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 2 January 2021. Comparative information is presented for the 52 weeks ended 4 January 2020. Since the financial periods are virtually in line with calendar years, the current period figures are headed 2020 and the comparative figures are headed 2019.

Co-operative Insurances Services Limited and certain small holding companies have prepared accounts for the period ended 31 December 2020. This differs from the Group and the other subsidiaries. For the period ending 2 January 2021, there are no significant transactions or events which need to be adjusted for to reflect the difference in reporting dates.

One-off items and non-GAAP (Generally Accepted Accounting Procedures) measures

One-off items include costs relating to activities such as large restructuring programmes and costs or income which would not normally be seen as costs or income relating to the underlying principal activities of the Group.

To help the reader make a more informed judgement on the underlying profitability of the Group, a non-GAAP measure: underlying profit before tax, has been presented. This is shown at the bottom of the income statement and we show the adjustments between this measure and operating profit. In calculating this non-GAAP measure, property and business disposals (including individual store impairments), the change in value of investment properties, net finance income/costs from funeral plans and one-off items are adjusted for.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to do so and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements that comply with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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:

- *Revenue from contracts with customers: Funeral plans*

The Group adopted the new accounting standard for revenue recognition in 2018 and at that time we applied a judgement that the revenue to be recognised for a funeral plan was variable and so changed over time. When a customer takes out a plan, the monies are invested in whole of life insurance policies whose value changes over time until redemption. The key judgement we took was that on redemption of a policy, the monies received from the policy was 'consideration' receivable for the funeral. Therefore, investment gains from the policy were deferred on the balance sheet and only recognised as revenue at the point the funeral is performed. Our auditors disagreed with this judgement and qualified their 2019 audit opinion on that basis, with the view that the fair value investment gains do not represent variable consideration because they are not payments from the customer for the future provision of a funeral. Instead, their view was that investment gains should be reflected in the consolidated income statement as they arise in accordance with IFRS 9. Consequently, because payments are received in advance of the delivery of a funeral then a financing transaction is recognised, such that the payments received from the customer are accreted by a rate which reflects a financing rate between the Group and the customer. We were also subsequently advised by the Financial Reporting Council's (FRC) Corporate Reporting Review team that our 2020 accounts were subject to review including specific reference to our accounting for funeral plans.

During the second half of the year, and following discussions with the FRC and our auditors, we have reflected on this matter and we have agreed to change the judgement we apply in 2020. Any investment gains and losses from our whole of life insurance policies are now measured at fair value through our income statement in accordance with IFRS 9 rather than being deferred on the balance sheet until the funeral is performed. Previously we considered revenue to be the amounts received on redemption of a whole of life insurance policy, and this was considered to be variable consideration as the value changed over time according to the value of the underlying policy. We now consider revenue to be the amounts we receive from the customer in accordance with IFRS 15 rather than from the redemption of the whole of life insurance policy. Hence there is no variable consideration. Under this policy, payments are received from the customer in advance of a funeral being performed and so we will 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. The gains or losses arising from movements in the fair value of funeral plan investments are now recognised within our finance income or finance costs each year.

This change of judgement has been accounted for in accordance with IAS 8 and our 2019 numbers have been restated to reflect the new accounting treatment as if it had always been the case. The changes impact the Group's 2019 consolidated income statement, 2019 consolidated balance sheet, 2019 consolidated cashflow and 2019 statement of changes in equity. As this restatement is material, we have presented an additional third balance sheet, being our balance sheet as at the start of our 2019 financial year as required under IAS 1.

A significant accounting judgement is present in deriving a suitable financing rate to apply to the monies received from a customer. This financing rate is fixed for the duration of the plan. The accretion rate applied is based on an estimated 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. This accretion rate is derived from UK AA rated average corporate bond yields.

- *Determination of accretion rate: Funeral plans*

As noted above, 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.

- *Consolidation of Reclaim Fund*

The Group holds 100% of the share capital of Reclaim Fund Ltd (RFL). RFL is a not-for-profit organisation whose surplus is held entirely for the benefit of The National Lottery Community Fund (TNLCF) and the Group derives no financial benefit from RFL nor can it access RFL's reserves. RFL was established in 2011 following the enactment of the Dormant Bank and Building Society Accounts Act 2008. RFL makes it possible for money in dormant bank and building society accounts to be used for good causes through distributions to TNLCF. As at 31 December 2020, RFL had net assets of £74m, made distributions to TNLCF of £69m and made a £nil profit after taxation.

The Group has previously applied judgement in consolidating RFL into the Group's results. The consolidation of RFL was done through disclosure of single line items on the Group Balance sheet for current and non-current assets and liabilities of RFL rather than consolidation on a line-by-line basis within the Group's balance sheet.

During 2020, the Group has been reflecting on this judgement especially in the context of the proposed sale of 100% of the share capital of RFL to Her Majesty's Treasury for a nominal fee as discussed further in the post balance sheet event note (Note 34). Whilst the Group was considering this judgement, the FRC's Corporate Reporting Review team also included this matter in their letter to the Group as referred to above. In response to this review and as part of the Group's ongoing review of this judgement, it has been concluded that the Group has not met the criteria to consolidate RFL under the criteria set out in IFRS 10 'Consolidated Financial Statements'. In arriving at this conclusion, it is noted that the Group is not exposed to any variable returns from RFL, be they positive or negative and as such consolidation is not permitted under IFRS 10 in such circumstances.

Furthermore, the Group's judgement is that it has insufficient ability to direct the relevant activities of RFL, and as a result RFL should not be treated as an associate within the Group's accounts either. Accordingly, RFL has been treated as an investment in the financial statements and held at nil value. Consequently, the deconsolidation of RFL has been treated as a prior year restatement. The impact of this restatement can be seen in Note 35.

- *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.

- *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.

The Group applies the judgement that it is acting as the principal in these transactions as opposed to an agent, in accordance with IFRS 15. In making this judgement, the Group has considered the nature of its sales to other independent co-operatives and the level of control the Group has over the goods sold to those co-operatives.

<u>Key estimates and assumptions:</u>

The key assumptions and areas of uncertainty around key assumptions at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Group based its assumptions and estimates on information available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

• *Pensions (Note 27)* – the Group's defined benefit pension obligations are determined following actuarial advice and are calculated using the projected unit method. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which may not necessarily be borne out in practice. The most significant assumptions relate to the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, the Group's defined benefit obligation is highly sensitive to changes in these assumptions. Further details of the financial and demographic assumptions that have been used are shown in Note 27 along with associated sensitivities to those assumptions.

• *Impairment of non-financial assets (Notes 11, 12 & 13)* - the carrying amount of non-financial assets (such as property, plant and equipment, right-of-use assets, goodwill and intangibles) are reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated.

The recoverable amount is the greater of the fair value of the asset (less costs to sell) and the value in use of the asset. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its estimated recoverable amount. For property assets the fair value less costs to sell are measured using internal valuations based on the rental yield of the property.

The Group considered whether the Covid-19 pandemic and the accompanying economic uncertainty had the potential to represent a significant impairment indicator as at 2 January 2021. Despite additional associated costs of responding to the pandemic, which are expected to be temporary, the Group's main business areas have proved resilient and the performance of the Group's cash-generating units has remained strong. Therefore, management concluded that the impact of Covid-19 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.

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 8-10% dependent on the business.

The key assumptions used to determine the recoverable amount for the different CGUs, and the sensitivity analysis that is undertaken, are disclosed and further explained in Note 11.

• *Provisions (Note 24)* – a provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The most significant provision for the Group relates to property provisions for non-rental costs associated with properties that are no longer used for trading purposes and significant assumptions and estimates are made in relation to the estimation of future cash flows and the discount rate applied. See Note 24 for further details.

• *Pre-need funeral plan obligations (Note 14 & Note 23)* – the Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts. The investments are subject to an annual actuarial valuation. This gives an assessment as to the headroom of the funeral plan investments over an estimated present value (on a wholesale basis) of delivering the funeral. The headroom is estimated to be £40m (2019: £89m), 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. A 0.1% increase in the inflation assumptions would reduce the surplus by approximately £24m (2019: £21m).

The "wholesale" actuarial valuation is based upon the Group's estimate of the direct cost for a third party funeral director to perform the promised services and the payment of associated disbursements (crematoria, clergy fees, etc) as if the Group were not in a position to carry out these funerals. No incremental overheads are included because it's assumed that the provider could absorb these funerals into existing infrastructures. As the Group fully intends to perform these funerals and undertake the professional funeral services itself the actual cost would in reality be lower and subsequent marginal cost surplus would be higher than the wholesale cost surplus.

Restatement and Representation

The comparative figures presented within these financial statements for the financial year ended 4 January 2020 have been restated. Full detail of the restatements is shown in Note 35. Additionally, we have represented the following areas of the 2019 accounts:

Funeral and Life Planning - the results of our Legal Services business are now shown as a separate operating segment (Note 1). For the 52 weeks ended 4 January 2020 they were included in Funeral and Life Planning. This follows a change in the way the information is reported to our Board.

Trade and other payables – following a reassessment of their true nature then certain balances originally reported within other payables have been represented in accruals. There is no impact on the consolidated income statement or the line items in the consolidated balance sheet.

The tables below show the impact on those line items in the Consolidated income statement and the Trade and other payables note affected by the representations:

Operating Segments (for period ended 4 January 2020) £m	Funeral and Life Planning (as reported	Funerals (represented)	Legal (represented)
Revenue from external customers	307	268	39
Underlying segment operating profit	14	8	6
Operating profit / (loss)	5	(1)	6
Additions to non-current assets	29	29	-
Depreciation and amortisation	(33)	(32)	(1)

Trade and other payables (as at 4 January 2020) £m	As reported	Representation	Represented
Trade payables	1,035	-	1,035
Value added tax, PAYE and social security	41	-	41
Accruals	128	202	330
Deferred consideration	65	-	65
Other payables	434	(202)	232
Total	**1,703**	**-**	**1,703**

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 5 January 2020 and concluded that they are either not relevant to the Group or do not have a significant impact on the financial statements:

- Amendments to References to the Conceptual Framework in IFRS Standards;
- Definition of Material (Amendments to IAS 1 and IAS 8);
- Interest Rate Benchmark Reform Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Definition of a Business (Amendments to IFRS 3)
- Covid-19 Related Rent Concessions (Amendments to IFRS 16)

Standards, amendments and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 2 January 2021 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:

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 & IFRS 16)
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint
- Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment–Proceeds before Intended Use
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The adoption of the following standards will or may have a material impact on the Group's accounts when adopted and the Group's assessment of the impact of these new standards and interpretations is set out below:

Title	IFRS 17 Insurance Contracts
Nature of the change	IFRS 17 is a comprehensive new accounting standard covering recognition, measurement, presentation and disclosure of insurance contracts and replaces IFRS 4 Insurance Contracts. In contrast to IFRS 4, the new standard provides a comprehensive model (the general model) for insurance contracts, supplemented by the premium allocation approach (which is mainly for short-duration contracts such as certain non-life insurance contracts). IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.
Impact	The standard will be effective for annual periods beginning on or after 1 January 2022 and management are currently assessing the impact of the new standard upon the Group's Insurance business.
Date of adoption by the Group	Applicable to annual reporting periods beginning on or after 1 January 2022.

Going concern

The Directors have considered the Group's business activities, together with the factors likely to affect its future development, performance and position. The Directors have also assessed the financial risks facing the Group, its liquidity position and available borrowing facilities. These are principally described in Note 21 to the accounts. In addition, Notes 21 and 28 also include details of the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its financial instruments and hedging activities. The directors have specifically considered the ongoing impact of Covid-19 and the UK recession as explained in more detail in the Directors' Report.

In making their assessment the Directors have noted that the consolidated group accounts show a net current liability position. The Group meets its working capital requirements through a number of separate funding arrangements, as set out in detail in Note 28, certain of which are provided subject to continued compliance with certain covenants (Debt Covenants). Profitability and cash flow forecasts for the Group, prepared for the period to June 2022 (the forecast period), and adjusted for sensitivities considered by the Board to be reasonably possible in relation to both trading performance and cash flow requirements, indicate that the Group will have sufficient resources available within its current funding arrangements to meet its working capital needs, and to meet its obligations as they fall due. Sensitivities have been applied to the market conditions of each of our trading businesses, as well as applying sensitivities to our key strategic activities and in respect to the projected impact of Covid-19.

Further details of the Director's assessment can be found in the Going concern and Longer term viability sections of the Directors' report on pages 107 - 110.

After making all appropriate enquiries, the Directors have a reasonable expectation that the Society and the Group have access to adequate resources to enable them to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

Independent auditor's report to the members of Co-operative group limited

Opinion

In our opinion:

- Co-operative Group Limited's consolidated financial statements (the "financial statements") give a true and fair view of the state of the Group's affairs as at 2 January 2021 and of the Group's income and expenditure for the period then ended;
- the financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

We have audited the financial statements of Co-operative Group Limited for the period ended 2 January 2021 which comprise:

Group
Consolidated balance sheet as at 2 January 2021
Consolidated income statement for the 52-week period ended 2 January 2021
Consolidated statement of comprehensive income for the 52-week period ended 2 January 2021
Consolidated statement of changes in equity for the 52-week period ended 2 January 2021
Consolidated statement of cash flows for the 52-week period ended 2 January 2021
Related notes 1 to 35 to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Co-operative and Communities Benefit Societies Act 2014 and, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included the following:

We confirmed our understanding of the Group's going concern assessment process as well as the review process over the going concern model and management's related Board memoranda;

We assessed the adequacy of the going concern assessment period to the end of 30 June 2022, considering whether any events or conditions foreseeable after the period indicated a longer review period would be appropriate;

We obtained the base case, and severe yet plausible downside, cash flow forecasts covering the going concern assessment period prepared by management and used by the Board in its assessment. These forecasts included an assessment of available debt facilities, the adequacy of liquidity headroom and EBITDA headroom related to compliance with debt covenant test ratios;

We checked the arithmetical accuracy of the cash flow forecast models and assessed the Group's historical forecasting accuracy;

With the assistance of our specialists, we considered the adequacy of liquidity headroom and available facilities plus cash generation as per the base and downside case forecasts and applied sensitivity analysis. We challenged the appropriateness of the inputs and key assumptions used in the forecast models including:

- the level of government assistance included in the projections and agreed this to government announcements in relation to the duration of the Covid-19 lockdown and subsequent restrictions, with specific reference to the UK Food, Wholesale and Funeral sectors. This included assumptions in respect to the UK Government's Business Rates relief scheme, Job Retention Scheme, VAT deferral scheme and its applicability to the operations of the Group;
- like for like sales movements, store closures and staff absences, expected credit losses on Partner debtors and recoverability of supplier income balances;
- the working capital assumption of the Group, given it is in a net current liability position, that the current debtors cycle will continue to be significantly shorter than the working capital cycle for the current liabilities;
- No draw down on the £100m accordion feature within the Revolving Credit Facility;

We obtained a copy of all the facility agreements, understood the terms and conditions including those related to covenant test ratio requirements and checked the calculation of headroom in respect of the financial covenant test ratios;

We assessed the Group's forecast banking covenant compliance and other obligations through to the end of the review period;

We considered for management's downside case whether the downside risks captured reasonable scenarios that had a higher than remote possibility of occurring;

We considered management's reverse stress test, which breached liquidity and covenant headroom, specifically whether these scenarios had a remote possibility of occurring;

We assessed management's ability to execute feasible mitigating actions available to respond to the downside scenario based on our understanding of the group and sector; and

We assessed the appropriateness of the going concern disclosures in describing the risks associated with the group's ability to continue as a going concern for the review period to the end of 30 June 2022.

Key observations to the Risk and Audit Committee

We identified the following significant judgements made by management as part of their going concern assessment:

- The comparator for base case cash flows in the Retail business being a pre-pandemic year-ended 2019;
- Reduction in Funeralcare volumes due to the assumed reduction in Covid-19 related deaths;
- Achievement of transformation and working capital initiative benefits delivery;
- Sufficient committed financing in place throughout the Going Concern assessment period.

Based on the work we have performed, we have not identified material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for the period to 30 June 2022. Going concern has also been determined to be a key audit matter.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the Food, Wholesale, Funeralcare and Corporate components and specific audit procedures on material balances for a further two components, Property and CFS Management Services (CFSMS). Further to this, we performed specified procedures on the Insurance component and review scope procedures on the Legal, Health, and Reclaim Fund components. • The components where we performed full or specific audit procedures accounted for 104% of Profit before tax, 100% of Revenue and 95% of Total assets. The profit before tax coverage of 104% represents components having a positive contribution, which is offset by other components having a negative contribution of 4%.
Key audit matters	• Revenue recognition • Supplier income • Accounting for pre-need funerals • Reclaim Fund Limited • Nisa Component Audit
Materiality	• Overall group materiality of £48m which represents 0.5% of adjusted Revenue.

An overview of the scope of the group audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each component entity.

In assessing the risk of material misstatement to the financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the eleven (2019: thirteen) reporting components of the Group, we selected ten (2019: ten) components covering entities which represent the principal business units within the Group.

Of the ten components selected, we performed an audit of the complete financial information of Food, Wholesale, Funeralcare and Corporate components ("full scope components") which were selected based on their size or risk characteristics. For the Property and CFSMS components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. Of the remaining four components, three were designated as review scope; Legal, Reclaim Fund and Health whilst the other component, Insurance, was designated as specified audit procedures scope.

The below tables summarise the coverage which has been obtained in respect of the Group's Profit before tax, Adjusted Revenue and Total Assets in both the current and prior audit periods.

The audit scope of the Specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also performed specified procedures over certain aspects of one component; Insurance, as described in the Risk section. With regards to Insurance, this was classified as held for sale at the prior balance sheet date and has been sold in the period. We designed and performed audit procedures to allow us to conclude upon the appropriateness of the amounts recorded within the Income Statement and Balance Sheet in relation to the insurance component. For Insurance, specific procedures were performed in respect of the accounting for the disposal, sale proceeds and allocation of consideration for future service obligations retained by the Group.

Of the remaining four components that together represent 0.5% of the Group's adjusted revenue, none are individually greater than 0.5% of the Group's adjusted revenue. For these components, we performed other procedures, including detailed analytical review to respond to potential risks of material misstatement to the financial statements.

Current period coverage

Components	Profit before tax %	Adjusted revenue[1] %	Total assets %
Full scope components (4)	99	99	92
Specific scope components (2)	5	0	3
Other procedures (4)	(4)	1	5
Total	**100**	**100**	**100**

Prior period coverage

Components	Profit before tax %	Adjusted revenue[1] %	Total assets %
Full scope components (4)	71	99	93
Specific scope components (2)	17	0	3
Other procedures (4)	12	1	4
Total	**100**	**100**	**100**

[1] Adjusted revenue was calculated as total Group revenue less revenue generated by the Federal Joint Buying Group (Federal per Note 1 of the accounts) as this revenue is passed through at nil margin therefore does not represent revenue the Group has performed services to obtain from which it derives an economic benefit.

Changes from the prior period

Based on the findings of the prior period audits and the growth of the Health component we have revised our scoping to increase the scope assigned to the Health component from other procedures to review scope in the period. The Health component revenue represented 0.03% of adjusted revenue and the loss from this component represents 5% as a proportion of the Group's profit before tax. We did not perform procedures on the Electrical component in the current period as Electrical is no longer a material component to the group with no balance representing more than 5% of the Group.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY UK firms operating under our instruction. Of the four full scope components, audit procedures were performed on two of these directly by the primary audit team, the rest were performed by the component audit teams except for certain central balances audited directly by the primary audit team. For the two specific scope components, the audit work was performed by the primary audit team.

During the audit, an EY group-wide team planning event was held with representatives from all full and specific scope component teams in virtual attendance which involved discussing the approach with the component teams. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, discussed issues arising from their work, virtually attended closing meetings with component management, reviewed key working papers and were responsible for the scope and direction of the audit process. During the current period's audit cycle, regular status video-conferences were undertaken by the primary audit team with the Food component team. The other full scope components; Wholesale, Funeralcare and Corporate were led by the group audit partner. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern addressed above, the other key audit matters are listed in the table below.

Risk	Our response to the risk
Revenue recognition (2020: £11,472 million; 2019: £10,864 million) *Refer to Note 2 of the Consolidated Financial Statements (page 138)* The timing of when revenue is recognised is relevant to the reported performance of the Group. There remains opportunity through management override of controls and manual journals to misstate the allocation of revenue between periods.	**Applicable to all material revenue streams** • We have gained an understanding of and documented the key processes used to record revenue transactions by performing a walkthrough of the processes. • We have performed analytical review procedures over revenue in the period, comparing results with our expectations and corroborated differences. In particular, we have performed procedures in the month preceding and subsequent to the period-end. • We have tested whether the Group's revenue recognition policy is in line with the criteria set out in IFRS 15: Revenue from Contracts with Customers. • We have also tested manual journals to revenue during the period and around period-end to a lower threshold and evaluated explanations provided by management for any unexpected fluctuations.
Food Retail/Wholesale/Funeralcare There is a risk related to management's ability to record fictitious journals in revenue throughout the year. **Funeralcare – Revenue** At need revenues maybe overstated/understated through management recording manual top-side adjustments to revenue. Please also refer to the below KAM specifically in relation to pre-need funeral accounting. **Food – Stores revenue** There is a risk that management may record fictitious revenue transactions or manipulate the recorded revenue results through manual adjustments to revenue (including the adjustment where stores recognised revenue outside the normal automated process at period end). **Wholesale** Revenue is recognised when goods are shipped to customers. Some goods sold by the wholesale business are delivered directly to customers by external suppliers and the business is informed of these sales when the supplier submits the related invoice for processing and payment. These submissions occur over a number of weeks subsequent to delivery and manual adjustments are required to recognise these sales. At period-end, there is a risk management may manipulate revenue transactions to manipulate the result.	**Funeralcare** • We have evaluated all manual journals posted to revenue during the period and corroborated the postings to supporting source evidence. **Food** • We have tested manual journals relating to instances where stores recognised revenue outside the normal automated process and ensured that there is no duplication of stores within the population or unusual amounts of revenue recognised, we have corroborated these revenue journals through to cash. • We have performed journal analysis to identify sales journals that have not resulted in cash receipts and have tested a sample of these to supporting evidence to ensure revenue has been recognised correctly. • We have tested manual journals posted to revenue by management throughout the period and pre-period end using lower thresholds. • We have challenged manual adjustments made in relation to "non-polled" store data adjustments by comparing these against averages for those stores. **Wholesale** • We have agreed a sample of supplier invoices and delivery notes to confirm the date of the sales transaction. • We have tested a sample of sales transactions to shipping documentation to ensure the proper allocation of revenue between periods for these transactions. • We have tested manual journals to revenue and other transactions to the revenue account that do not follow the expected critical path from revenue to debtors to cash to identify any material instances of misallocation between periods. • We have tested cut-off of debtor transactions to ensure that transactions are recognised in the correct period.
Other group considerations There is opportunity through management override and manual journals to misstate the allocation of revenue between periods on consolidation.	**Other Group Considerations** • We have understood and documented key processes and controls over the manual consolidation process. • We have performed testing around manual consolidation adjustments. • We have performed analytical review procedures across all revenue streams comparing expectations and actuals and corroborated variances. • We have tested cut-off and debtor transactions to ensure these transactions are recognized in the correct period. • We have tested manual journals to revenue throughout the period and also at period end whereby we corroborated these postings to pieces of audit evidence. We performed full and specific scope audit procedures over this risk area, which covered 99% of the risk amount.

Key Observations to the Risk and Audit Committee
Revenue has been recognised appropriately in accordance with IFRS 15: Revenue from Contracts with Customers. We did not identify instances of management override of controls in relation to revenue.

Risk	Our response to the risk
Supplier Income (2020: £788 million; 2019: £747 million) *Refer to Note 4 of the Consolidated Financial Statements (pages 140 and 141)* The Group receives money back from suppliers specifically through the Food and Wholesale divisions. This supplier income is categorised as bonus income, promotional income and long-term agreements (LTAs). The terms of agreements with suppliers can be complex and varied. There can be performance conditions or promotional periods that span the Group's reporting date. Due to the complexity and judgement required in relation to bonus income and LTA income, there is a risk that an error in the calculation of income may occur either accidentally or purposefully through management override of controls and this could arise at any time during the period. Additionally, at period end there is a risk that supplier income could be manipulated in order to inflate or defer profits. Promotional Income relates to short time promotions which are less complex and settled through offset in the period. The risk of misstatement through the period is reduced, however, the risks related to manipulation at period-end remain.	• We focused our audit procedures on the areas where management apply judgement, where the processing is either manual or more complex and where the value of agreements is high. • We performed a walkthrough of the process for recording the three different arrangement types, additionally we tested controls over Bonus and LTA Income. However, for promotional income the control environment is not yet robust enough to enable a controls-based approach and instead we completed a fully substantive audit. • For a sample of supplier income recognised in the income statement during the period, we issued direct requests to third party vendors and confirmed the terms of arrangement and sales volumes used in the calculation of the income recognised. We also recalculated the income recognised for this sample. • We selected a sample of period-end balances from the trade receivables ledger and requested third party balance confirmations. • For cut-off purposes, we tested an additional sample of supplier income recognised during December to agreement terms and volume submissions from suppliers to ensure the related income was recognised in the correct period. • We tested a sample of credit notes received during January 2021 and assessed whether any of these related to arrangements in 2020. • We performed analytical review procedures over supplier income compared to cost of sales throughout the period to identify any unusual or unexpected trends and then investigated any discrepancies. • Using the data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier income. • We have tested provisions in place for queries and disputes by comparing the period-end provisions to the proportion of disputes settled in favour of vendors throughout the period and investigated the post period-end outcome of a sample of disputes. We also investigated aged unpaid supplier billings and ensured the provisions in place for these amounts were sufficient. • We reviewed management's disclosure with respect to supplier arrangement amounts recorded in the Income Statement and Balance Sheet. • We verified that management's allocation of supplier income earned jointly with other independent societies through the member buying group was applied appropriately. We performed full scope audit procedures over this risk area in the Food and Wholesale components, which covered 100% of the amounts subject to this risk.

Key Observations to the Risk and Audit Committee
Supplier income arrangement amounts are appropriately recognised in the Income Statement and Balance Sheet and the disclosures included are appropriate. We did not identify instances of management override of controls in relation to supplier income.

Risk	Our response to the risk
Correction of error in application of accounting policy for pre-need funeral policies under IFRS 9/IFRS 15: the critical judgments and assumptions applied. The Group previously accounted for pre-need funeral policies as set out in the general accounting policies on pages 215 and 216 of the 2019 annual report. That policy relied on a key judgement that fair value gains on funeral plan investment assets represent variable consideration for the performance of a funeral at a future date and therefore were deferred until recognised as revenue at the point of funeral delivery. Under the Group's revised accounting policy, as set out on pages 199 and 200 of this annual report, there are two significant changes in accounting: - fair value gains on funeral plan assets are reflected in the income statement as they arise in accordance with IFRS9: Financial Instruments; and - the funeral plan liability, being the amount initially received from the customer less an administrative charge, is accreted each year by a financing charge. The determination of the accretion rate is a critical judgement as it is applied throughout the lifetime of the contract until the funeral is provided at which time the value that has been accreted is recognised as revenue in the income statement. During the lifetime of the contract, the increase in the value of the liability is taken to the income statement as a finance expense. There is a risk of misstatement to the valuation of the funeral plan liability and measurement of revenue and finance cost recognised in the Consolidated income statement should the accretion rate not reflect an appropriate borrowing rate as required under IFRS15. As this is a critical judgement, there is opportunity that management may influence the determination of this rate to achieve a desired outcome. In the prior period we disagreed with the accounting policy applied to pre-need funeral revenues and qualified our opinion in relation to the accounting adopted in the 2019 financial statements.	• We have performed a walkthrough of the new accounting policy and the way in which transactions are initiated, recorded, processed and reported and noted key controls within the process. • We read the Group's responses to questions sent by the FRC regarding the historic accounting policy. We also attended a meeting between representatives from the FRC and the Co-op to evaluate the interpretation of IFRS 9 and IFRS 15 in respect of pre-need funeral plans. • We have understood and evaluated the key data points in management's revised accounting policy for the current period financial statements. The key data points under the revised accounting policy were determined to be the effective date of plans, the cash value of the plans at inception, the cancellation or redemption dates of plans and the accretion rate applied by management. • We performed testing to assess the completeness and accuracy of data inputs to the model prepared by management to calculate the liability accretion expense in the current period and the cumulative prior year impact. • We built a sophisticated data analytics tool which aided in the assessment of the correct current year application of the policy by recalculating the accreted liability for all funeral plans and assessing the sensitivity of the accretion rate applied management. • We involved our valuation specialists to assist us in challenging the appropriateness of the liability accretion rate by reference to industry practice and external sources of lending rates with risk characteristics similar to the risk profile of the liabilities. • We evaluated the appropriateness of the disclosure of the new alternative performance measures: underlying operating profit before tax and underlying profit before tax, to facilitate the understanding of the increased volatility in the consolidated income statement following the change in accounting policy. • We read the disclosures in the financial statements to check they are compliant with the requirements of IFRS 9, IFRS 15 and the relevant guidance on use of alternative performance measures and to check that an appropriate reference to the involvement of the FRC in concluding on the revised accounting policy was disclosed. We performed full scope audit procedures over this risk area in the Funeralcare component, which covered 100% of the amounts subject to this risk.

Key Observations to the Risk and Audit Committee
The revised accounting policy adopted by management in the current period is in accordance with IFRS 9/ IFRS 15. The resulting prior period misstatement has been recorded and explained appropriately in the financial statements.

Risk	Our response to the risk
Correction of error in consolidation of Reclaim Fund Limited subsidiary under IFRS10 The Group has owned 100% of the issued share capital of Reclaim Fund Limited since its incorporation in 2011 and has accounted for the entity as a fully consolidated subsidiary each period. This has been disclosed as a critical judgement due to the unique nature of Reclaim Fund Limited and the Group's restricted ability to influence control of the subsidiary. In the current period, the requirements of IFRS10 "Consolidated Financial Statements" have been reconsidered. The Group has determined that they have not had control, as the defined by the criteria set out in IFRS10, since the incorporation of the subsidiary as disclosed in the general accounting policies set out on pages 200 and 201 of the annual report and corrected this error in accordance with IAS8. The judgement relating to the determination of control under IFRS10 in this circumstance is subjective and requires understanding and interpretation of the Dormant Bank and Building Society Accounts Act 2008, the Articles of Association, the Shareholder Agreement between the Reclaim Fund and the Group, and the objective of HM Government in establishing a Reclaim Fund. These judgements impact the value of the Group's consolidated net assets and deconsolidation of this subsidiary has reduced the prior period net assets by £74m reflecting the total net asset position of the Reclaim Fund at the beginning and end of the prior period.	In relation to our ongoing consideration of the basis of accounting for the reclaim fund we: • read correspondence between the Group, the Office for National Statistics and HM Treasury during the current period in respect of the status of the entity and whether it could be deemed an entity under public control. • obtained management's accounting analysis paper and assessed whether the reclaim fund met the control criteria as prescribed within IFRS 10: Consolidated Financial Statements corroborating the absence of exposure to variable returns by reference to relevant clauses within the Dormant Bank and Building Society Accounts Act 2008, the Articles of Association of Reclaim Fund, and the Shareholder Agreement between the Reclaim Fund and the Group. • read the Group's responses to questions sent by the FRC regarding the historic accounting policy. We also attended a meeting between representatives from the FRC and the Co-op to evaluate the interpretation of IFRS 10 in respect of the Group's ability to control Reclaim Fund Limited. • assessed the adequacy of the disclosures in relation to the prior period adjustment in relation to the criteria in IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and to check that an appropriate reference to the involvement of the FRC in concluding on the revised accounting policy was disclosed. We performed full scope audit procedures over this risk area in the Corporate component, which covered 100% of the amounts subject to this risk.

Key Observations to the Risk and Audit Committee
The deconsolidation of Reclaim Fund Limited and the disclosures in relation to the prior period error and ongoing accounting for the Fund are appropriate.

Risk	Our response to the risk
Nisa component audit Management identified a number of financial reporting adjustments which were required to the Wholesale segment during their review of control account reconciliations as a part of the 2019 period-end financial statement close process. These adjustments related to both the 2019 period and preceding accounting periods, including the 2018 acquisition accounting in relation to the Nisa business. As noted in the 2019 Strategic Report (page 11), these adjustments highlighted weaknesses in the control environment of the Wholesale segment. Management have implemented a financial controls improvement plan and while progress is being made, the plan has not yet been completed.	In relation to the additional risk attached to the Nisa component audit as a result of the historic internal financial control weaknesses which were identified in the prior year, our procedures included: • allocating this division a lower performance materiality resulting in lower testing thresholds and additional work being undertaken in significant areas, specifically in those areas of known risk (GRNI, accruals, cash, inventory in transit) and key account reconciliations. • performing additional procedures which were directly relating to the risk of management override of controls, such as enhancing our journals testing. • engaging with our EY forensics team to understand and challenge the extent and appropriateness of management's control improvement plans in light of the findings noted in the prior period audit, internal audit reviews and management's findings from the review performed. • assigning more experienced and senior audit team members to the component audit, specifically ensuring that the audit of that component was led by the group audit partner. • incorporating a higher degree of unpredictability in our sampling approach by increasing our journal entry testing and challenging unexpected changes to accounting policies or application of existing policies. We performed full scope audit procedures over this risk area in the Wholesale component, which covered 100% of the amounts subject to this risk.

Key Observations to the Risk and Audit Committee
The control weaknesses identified in prior periods continue to be improved but are yet to be fully remediated. We did not identify material misstatements in the Wholesale component financial reporting.

In the prior period, our auditor's report included one key audit matter in relation to the following: Implementation of IFRS 16: Leases. In the current period, given the implementation was done in the prior year we have renamed this risk 'Ongoing risk of IFRS 16 Implementation' and this area has been downgraded to an area of audit focus as the points of judgement and complexity were audited and agreed in the prior period.

Our application of materiality

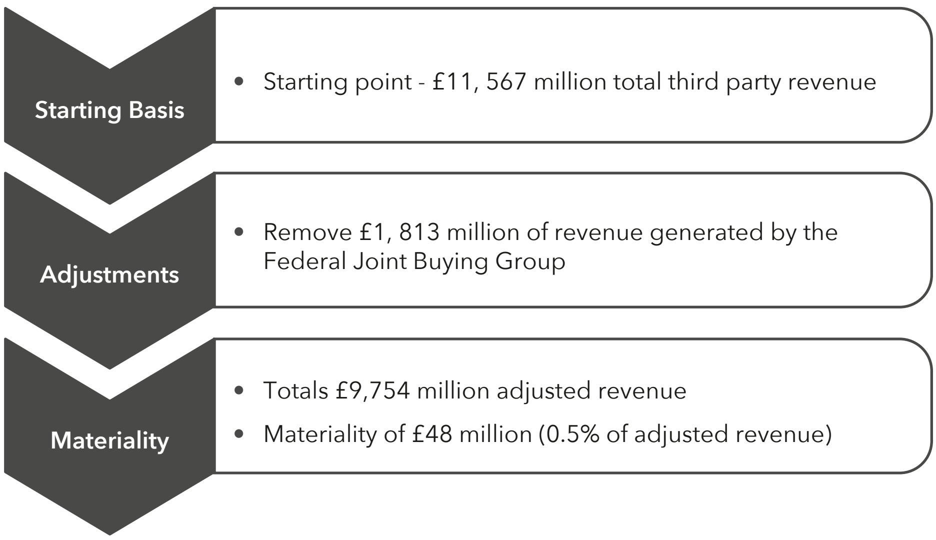
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £48 million (2019: £46 million), which is 0.5% (2019: 0.5%) of adjusted revenue. Revenue is a key performance indicator used by management to monitor the Group's performance and also the figure which we believe to be the most relevant to the members when assessing the performance of the Group. However, we considered adjusted revenue to be a more appropriate performance metric on which to base our materiality calculation. Adjusted revenue was calculated as total Group revenue less revenue generated by the Federal Joint Buying Group (Federal per Note 1 of the accounts). We concluded it was appropriate to deduct Federal revenue as it is passed through at nil margin and therefore does not represent revenue the Group has performed services to obtain from which it derives an economic benefit.

In concluding on this benchmark, we considered that the primary users of the financial statements were the Members. Meaningful Membership benefits, employee discounts and charitable contributions are key performance indicators for Members. These amounts are a function of revenue. Accordingly, we consider revenue to be a more relevant performance benchmark than profit before tax. This benchmark is consistent with the prior year. We also considered whether the impact of the COVID-19 pandemic would result in a change in metric. We concluded that the trading performance overall within the Group during the pandemic was such that no COVID-related compensation was necessary.



During the course of our audit, we reassessed initial materiality based on the final figures used per the financial statements, this led to no change in our materiality levels.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, our assessment of the Group's overall control environment which included conversations with the group internal audit function, and the number of audit adjustments identified in the prior period, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £24.3m (2019: £22.9m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current period, the range of performance materiality allocated to components was £2.4m to £18.3m (2019: £4.5m to £17.2m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Risk and Audit Committee that we would report to them all uncorrected audit differences in excess of £2m (2019: £2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we have been requested to report in accordance with our engagement letter

The directors have instructed us to express an opinion on whether, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Code is in compliance with the following provisions; Section 2 provision 3, Section 5 provisions 1, 3, 5 and 6 of Co-operatives UK Limited's Corporate Governance Code issued in November 2019 ('the Code'). We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Co-operative and Community Benefit Societies Act 2014 requires us to report to you if, in our opinion:

- The Society has not kept proper books of account; or
- The Society has not maintained a satisfactory system of control over its transactions; or
- The financial statements are not in agreement with the books of account; or
- We have not received all the information and explanations we required for our audit.

Corporate Governance Statement

International Standards on Auditing (ISAs) require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 107;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 109;
- Directors' statement on fair, balanced and understandable set out on page 115;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 115;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 46; and;
- The section describing the work of the audit committee set out on page 73.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 115, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the group and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the direct laws and regulations relating to elements of company law and tax legislation, and the financial reporting framework i.e. Co-operative and Community Benefit Societies Act 2014 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union. Our considerations of other laws and regulations that may have a material effect on the financial statements include the Groceries Supply Code of Practice (GSCOP), FCA Disclosure Guidance and Transparency Rules (DTR), the UK Corporate Governance Code 2018, Health and Safety at Work Act 2015, National Minimum Wage Act 1998, Food Hygiene Regulations 2006 and Money Laundering Regulations 2019.
- We understood how the Group is complying with those frameworks by making enquiries with management, internal audit, and those responsible for legal and compliance matters. We also: reviewed correspondence between the Group and various UK regulatory bodies; reviewed minutes of the Board and Risk and Audit Committee; and gained an

understanding of the Group's approach to governance. This final point was demonstrated by the board of directors' approval of the governance framework and its review of the risk management framework and internal control processes. Throughout the above procedures we noted that there was no contradictory evidence to the enquiries held.

- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that might otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement including complex transactions, performance targets, economic or external pressures and the impact that these have on the control environment. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk, refer to the Key Audit Matters section for further details. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items. For both direct and other laws and regulations, our procedures involved; making enquiries with those charged with governance and senior management for their awareness of non-compliance with laws and regulations, inquiring about policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the Society's methods of enforcing and monitoring compliance with such policies and inspecting significant correspondence with regulatory authorities. We communicated relevant items from these procedures to the relevant component teams who performed sufficient and appropriate audit procedures on these areas, supplemented by audit procedures performed at the Group level.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

Following the recommendation from the Risk and Audit Committee we were appointed by the Society on 21 May 2016 to audit the financial statements for the 52-week period ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 5 periods, covering the 52-week periods ending 31 December 2016, 5 January 2019, 4 January 2020 and 2 January 2021, and one 53-week period ending 6 January 2018.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and we remain independent of the Group in conducting the audit.
- The audit opinion is consistent with our reporting to the Risk and Audit committee.

Use of our report

This report is made solely to the society's members, as a body, in accordance with Section 87 of the Co-operative and Community Benefit Societies Act 2014 and our engagement letter date 13 January 2021. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christopher Voogd (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester

7 April 2021

Jargon buster (unaudited)

There are lots of technical words in our accounts which we have to use for legal and accounting reasons. We've set out some definitions in the jargon buster table below to help you understand some of the difficult phrases accountants like to use. When a word is in bold in the jargon buster table that means you can also find the definition of that word in this table.

There is also a "What does this show?" introduction to every note to the accounts describing in simple terms what the Note is trying to show.

Initially though we define and explain some of the Alternative Performance Measures (APMs) that we use throughout the Annual Report and Accounts.

Alternative Performance Measures (APMs)

Our Annual Report and Accounts includes various references to Alternative Performance Measures (APMs). These are financial ratios and metrics that are not defined by International Financial Reporting Standards (IFRS) and as such they may not be comparable with the APMs that are reported by other entities.

We include our APMs in the Annual Report and Accounts as we think they give useful information to our members to help them better understand the underlying performance and financial health of their Co-op. We don't however think the APMs that we provide are better than the statutory measures noted under IFRSs and they are not meant to replace them.

The table below explains in simple terms how the APMs are calculated and why we think they are useful measures to use. Where possible we also call out the nearest equivalent IFRS measure and cross-refer to the section of the financial statements where we reconcile between the APM and that IFRS measure. Our choice of APMs has been consistent year-on-year.

APM	
Like-for-like sales	Definition and Purpose: Like-for-like sales growth relates to growth in sales at those Food stores that have been open for more than one year (with any sales from stores that have closed in the year being removed from the calculation and prior year figures). The calculation includes VAT on sales but excludes fuel sales from our petrol forecourts. For Wholesale then the like-for-like metric relates to those partners (stores) that have been with Co-op for more than one year (with any sales from partners who have left in the year being removed from the calculation). The measure is used widely in the retail sector as a relative indicator of current trading performance versus the prior year. It is also helpful to our members in comparing our underlying performance and growth against the wider market as well as against other retailers (as it removes the impact that opening and closing stores may have on absolute sales levels). Closest IFRS equivalent: There is no close equivalent to this measure under IFRS. Where reconciled in the financial statements: Not applicable as there is no close equivalent to this measure under IFRS.
Underlying operating profit before tax	Definition and Purpose: Underlying operating profit reflects our operating profit before the impact of property and business disposals (including individual store and branch impairments), the change in the value of investment properties and one-off items. We exclude these items as they are not generated by our day-to-day trading and by excluding them it is easier for our members to see and understand how our core businesses are performing. Closest IFRS equivalent: Operating Profit. Where reconciled in the financial statements: Income statement – see page 130, and Note 1 (Operating segments) – see page 135.

Underlying profit before tax (PBT)	Definition and Purpose: Our underlying PBT figure is simply our underlying operating profit (as calculated above) less our underlying interest (being the day-to-day interest we pay on our bank borrowings and lease liabilities). Other interest income or expense such as our net interest income or expense on funeral plans is either not generated by our day-to-day trading or is not considered by management in the day-to-day running of the business as it distorts the underlying trading performance of the Group. Such items are not included in our underlying PBT metric so it is easier for our members to see and understand how our core businesses are performing. Again the measure looks to remove those items that are not generated by our day-to-day trading (as per the definition noted above) but we also include the day-to-day finance costs of running of our businesses. Closest IFRS equivalent: Profit before tax. Where reconciled in the financial statements: Note 1 (Operating segments) – see page 135.
Net debt (interest bearing loans and borrowings only)	Definition and Purpose: Net debt is made up of our of bank borrowings and overdrafts off-set by our cash balances. The figure excludes any lease liabilities. The metric provides a useful assessment of the Group's overall indebtedness which in turn reflects the strength of our balance sheet and consequently the financial resources available to us to employ and direct on behalf of our members. Closest IFRS equivalent: Interest bearing borrowings less cash and cash equivalents. Where reconciled in the financial statements: Consolidated statement of cashflows – see page 134.
Total debt (including lease liabilities)	Definition and Purpose: Total debt is made up of our of bank borrowings and any lease liabilities that we have. It excludes any cash or cash equivalent balances that we may hold. The metric provides a measure of the Group's gross indebtedness. Closest IFRS equivalent: Interest bearing loans and borrowings plus lease liabilities. Where reconciled in the financial statements: Consolidated statement of cashflows – see page 134.

Jargon Buster

Accounting surplus (pensions)	When a pension scheme has more **assets** than the amount it expects to pay out in the future (the **present value** of its **liabilities**) then it has an accounting surplus.
Accrued income	When we've performed a service but haven't billed the customer yet, we hold the amount due on the **balance sheet** as accrued income. Once we bill the customer the balance is then moved to **receivables**.
Amortisation	Similar to **depreciation**, but for intangible assets.
Amortised cost	We value some of our **debt** based on its amortised cost. This is the **present value** of the expected future cash flows in relation to the debt.
Asset	This is an amount on our **balance sheet** where we expect to get some sort of benefit in the future. It could be a building we use or are planning to sell, some cash or the amount of money a customer owes us.
Assets held for sale	Sometimes we have to sell things. When we've decided to make a large disposal before the year end but the **asset** hasn't been sold yet, we have to show it in this line on the **balance sheet** and reduce its value (**impairment**) if necessary.
Assets in the course of construction	These are **assets** that we're in the middle of building. They're on our **balance sheet** as we've spent money already building them, but they aren't ready for us to use them yet so we're not **depreciating** them.
Associate	When we have significant influence over a company (usually by owning 20-50% of a company's shares and/or having a seat on its Board), we call that company an associate.
Balance sheet	This shows our financial position – what **assets** we have and the amounts we owe (**liabilities**).
Banking Syndicate	We have an agreement in place with a collection of banks (known as our Banking Syndicate) that gives us quick access to borrowings should we need them.
Benefit payments (pensions)	This is the amount our pension funds pays out to pensioners.
Capital expenditure	When we spend money on items that will become **assets** (such as property or IT systems) this is shown as capital expenditure. The costs are not shown in the **income statement** of the year it's spent – instead the costs are spread over the life of the **asset** by **depreciation** or **amortisation**.
Cash flow statement	This shows how much cash has come in or gone out during the year and how we've spent it.
Cash Generating Unit (CGU)	A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For our Food business this is defined as an individual store, and for our Funeral's business this is defined as a regional care centre and the funeral branches which it serves as they are heavily interrelated.
CISGIL	This is the society that operates the Insurance underwriting business – CIS General Insurance Limited. We sold this business on 3 December 2020.
Commitments	Where we've committed to spend money on something (such as building projects) but we're not technically liable to pay for it, we don't put the amount on the **balance sheet** but we disclose the amount in the commitments note.
Comprehensive income	This is our profit for the year plus **other comprehensive income**.

Consolidated	As this report is based on the financial performance and position of many societies and companies around **the Group**, we have to add up all those entities and the total is the consolidated position.
Contingent **asset**	This is an amount that we might get in the future. Unless it's almost certain that we'll get the amount, we're not allowed to put it on the **balance sheet** but we show the amount in the contingent **assets** and **liabilities** note.
Contingent **liability**	This is an amount that we might have to pay in the future. If it's only possible, rather than probable, that we'll have to pay the amount, then we won't show the amount on the **balance sheet** but we show the amount in the contingent **assets** and **liabilities** note.
Contract **assets**	These are costs we've incurred in advance of being entitled to receive payment from a customer under a contract, such as costs incurred in setting up a **funeral plan**. We hold these on the balance sheet until we've delivered all the services to our customer and are entitled to receive payment.
Contract **liabilities**	This is where a customer has paid us in advance of them receiving goods or services under a contract (for example, a **funeral plan**). We have to hold this on the **balance sheet** until the customer receives the service they've paid for.
Corporate investor shares	This is money that other societies invest with us and we pay them interest on it. The societies can get their money back at any time.
Credit	This is an increase in income/reduction in costs on the **income statement** or an increase in a **liability**/reduction in an **asset** on the **balance sheet**.
Current	An **asset** or **liability** that is expected to last for less than a year.
Current tax	This is the amount we expect to pay in tax for the year based on the profits we make.
Debenture	This is a type of loan that we've issued and are paying interest on.
Debit	This is a decrease in income/increase in costs on the **income statement** or a decrease in a **liability**/increase in an **asset** on the **balance sheet**.
Debt	Loans that we've issued and are paying interest on.
Deferred acquisition costs	These are amounts which our Insurance underwriting business pays to secure business. It then holds these costs on the **balance sheet** and **amortises** over the length of the insurance period.
Deferred consideration	This is an amount we'll be paying to a seller for businesses we've bought or an amount we'll be getting from a buyer for businesses that we've sold.
Deferred income	Occasionally we receive monies (or recognise deferred consideration following the sale of a business) in advance of when we will actually perform the service we are being paid for. When this happens we hold a liability on our balance sheet until the point at which we perform the service at which point we extinguish the liability and recognise the income.
Deferred tax	Sometimes our **assets** and **liabilities** are worth more or less on our **balance sheet** than they are for tax purposes. The tax on the difference in value is called deferred tax and can be an **asset** or **liability** depending on whether the value is greater in the **balance sheet** or for tax purposes.
Defined benefit schemes	This is a pension scheme where an amount is paid out to an employee based on the number of years worked and salary earned.
Defined contribution schemes	This is a pension scheme where an amount is paid into the scheme and at retirement the employee draws on the amount that has been invested over the years.

Depreciation	Some **assets** the Co-op will have for a while (such as vehicles). When we buy them the cost goes on our **balance sheet** and then depreciation spreads the cost of the **asset** evenly over the years we expect to use them in the **income statement**.
Derivatives	These are financial products where the value goes up or down based on an underlying **asset** such as currency, a commodity or interest rate.
Discontinued operations	When we sell a large business, we report its results at the bottom of the **income statement** so that it's easier for readers to see the performance of **the Group's** other continuing businesses.
Discount rate	This is the amount that we are **discounting** by. It's a percentage and varies based on what we expect interest rates or inflation to be in the future.
Discount unwind	Every year the amount that we're **discounting** is going to be worth more as we get nearer to paying or receiving it. We have to put that increase in value (the discount unwind) through our **income statement**.
Discounting	When we have to pay or receive cash in the future, accountants like to take off part of the amount if it's a big amount (like on our **onerous leases**). This is because cash we pay or receive in the future is going to be worth less than it is now – mainly because of inflation.
Disposals	When we have sold an **asset**.
EBITDA	This is **operating profit** excluding any **depreciation** or **amortisation**. The letters stand for earnings before interest, tax, depreciation and amortisation.
Effective tax rate (ETR)	This is the average tax rate we pay on our profits. This might be different to the standard corporation tax rate, for example, if we aren't allowed to deduct some of our costs for tax purposes.
Equity	This is the difference between the **assets** we own and the **liabilities** we owe – theoretically, this is how much money would be left for our members once every **asset** is sold and every **liability** is paid.
Eurobond Notes	This is our largest, fixed interest **debt** that we pay interest on to fund our businesses' operations.
Expected credit losses	This is an estimate of the amount of our **receivables** which will not be repaid.
Fair value movement	There are some things on our **balance sheet** which we have to revalue every year. This includes some of our **debt, investment properties,** our pension schemes and **funeral plans**. The change in value is called the fair value movement.
Federal	Federal relates to the activities of a joint buying group that is operated by the Group for itself and other independent co-operative societies. The Group acts as a wholesaler to the other independent co-operatives and generates sales from this. This is run on a cost recovery basis and therefore no profit is derived from its activities. This is separate to our **Wholesale** business.
Finance costs	These are usually the interest we pay on our **debt**, but can also be other things such as the **fair value movement** on our debt or the **discount unwind of liabilities**.
Finance income	This mainly relates to the interest on our pension assets and the **unrealised gains on funeral plan investments**, but can also be other things such as the **fair value movement** on our **debt** or the **discount unwind** of **receivables**.
Finance Lease	A finance lease is a way of providing finance. Effectively a leasing company (the lessor or owner) buys the asset for the user (usually called the hirer or lessee) and rents it to them for an agreed period.
Financial Conduct Authority (FCA)	The FCA regulates the financial services industry in the UK.

Financial instruments	A collective term for **debt** or **derivatives** that we have.
Financial Reporting Council (FRC)	The FRC regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship codes.
First Mortgage Debenture Stock	This is a small **debt** we owe that is secured against some properties – a bit like a mortgage.
Fuel	Refers to fuel sales generated from our petrol forecourts.
Funds in use invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us. 'Funds in use' is just the term for the amount we owe to the finance company.
Funeral plans	Our customers may not want his or her family to pay a large single sum for a funeral when he or she dies. Therefore, the customer can pay for it gradually or in lump sums over a number of years and **the Group** will invest that money.
Funeral plan investments	When a customer gives us money for their funeral in the future, we invest this money. The balance of these investments is held on the **balance sheet**.
Goodwill	When we buy a business or a group of **assets**, sometimes we pay more for it than what its **assets** less **liabilities** are worth. This additional amount we pay is called goodwill and we put it on our **balance sheet**.
(the) Group	This is Co-operative Group Limited and all companies and societies that it owns.
Hedging	Sometimes we want to protect ourselves in case we have to pay more in the future for something. This could happen if the value of the pound falls so we have to pay more when buying something abroad or if interest rates go up. We take out **derivatives** to protect us from this and this process is known as hedging.
IAS	International Accounting Standards. **The Group** use these as the accounting rules. There are many different IASs that cover various accounting topics (e.g. IAS 38 is for **intangible assets**)
IFRIC	International Financial Reporting Interpretations Committee. These are interpretations of IASs or IFRSs that the **Group** also has to abide by.
IFRS	International Financial Reporting Standards. Similar to IAS, but cover different subjects.
Impairment	Sometimes our **assets** fall in value. If a store, branch, business or investment is not doing as well, we have to revalue it and put the downward change in value as a cost in our **income statement**.
Income statement	This not only shows our income as the name suggests, but also what our costs are and how much profit we've made in the year.
Intangible **asset**	We have **assets** at the Co-op that we can't see or touch which are shown separately to other **assets**. These include things like computer software and **goodwill**.
Interest rate swaps	We like to know what interest we're going to be paying in the future so we can manage our businesses effectively. We enter into arrangements with banks so that we can do this – for example, if we have **debt** where the interest rate can vary, we can buy an interest rate swap which means that instead we'll pay a fixed rate of interest. The value of these swaps can go up or down depending on how the market expects interest rates to change in the future.
Inventories	This represents the goods (the stock) we're trying to sell. The cost of this is shown on our **balance sheet**.
Inventory provision	If some of our stock isn't selling, we write those costs off to the **income statement** and hold a **provision** against those goods on the **balance sheet**.

Investment properties	Properties that we don't trade from, and which we might rent out or hold onto because the value might go up, are called investment properties.
Invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us.
Joint ventures	When we own 50% of a company we call it a joint venture. Sometimes **associates** are called joint ventures commercially as they're ventures with other parties, but are called **associates** for accounting purposes. A joint venture is a company where we own exactly 50%.
Lease Liability	This represents the discounted future payments we are due to make to suppliers in exchange for the right to use their equipment or property.
Liability	This is an amount on our **balance sheet** which we'll have to pay out in the future.
Like-for-like sales	The measure of year-on-year sales growth for stores that have been opened for more than one year. This is a comparison of sales between two periods of time (for example, this year to last year), removing the impact of any store openings or closures.
Listed **debt** securities	People can trade some of our **debt** such as the **Eurobonds fair**. When this is the case, it's a listed debt security.
Member payments	This is an amount we've paid our members in the year and approved at the AGM such as dividends.
Member rewards	These are the benefits that members have earned for themselves during the year as part of the 2% membership offer.
Net **assets**	Same as **equity**.
Net **debt**	This is the **debt** we have less any cash that we might have.
Net operating **assets**	**Net assets** less investments, funeral bonds, **deferred tax**, **pension surplus** and drawn **debt**.
Non-controlling interest	This is the **equity** in a **subsidiary** which is owned by another shareholder. For example, if we only own 60% of a company, the other 40% is the non-controlling interest.
Non-current	An a**sset** or **liability** that is expected to last for more than one year.
Non-GAAP measure	GAAP stands for Generally Accepted Accounting Principles. This is the common set of accounting principles, standards and procedures that companies must follow. Sometimes, companies want to provide different measures to help readers understand their accounts (such as underlying profit) where there isn't a standard definition – these measures are called non-GAAP measures.
One-off items	Items that are not regular in size or nature and would otherwise cloud the underlying profitability of **the Group** are stripped out. This could include a large IT project or a large restructuring exercise.
Onerous leases	When we close a store we sometimes still have to pay running costs until the lease runs out (such as rates). When this happens, we make a provision for the amount of the running costs we will have to pay in future and hold this on the **balance sheet**. Rental costs are excluded from this **provision** now we have adopted **IFRS** 16 (Leases) as those costs are included in the **lease liability**.
Operating profit	This is our profit before we have to pay any interest to our lenders or tax to the tax authorities.

Operating segments	This is an accounting term for the different businesses we have. When the financial performance of one of our businesses is reviewed separately from the other businesses by our Board, we call that business an operating segment and its sales and profit are disclosed in Note 1.
Other comprehensive income	Sometimes we have big **fair value movements** on long term **assets** and **liabilities**. The **income statement** is meant to show the performance during the year, so to avoid this being distorted by these big changes, they are shown separately as other comprehensive income.
Parent	This is the owner of a **subsidiary**.
Payables	Another name for **liabilities**.
PAYE	Pay As You Earn. A tax which is paid on wages.
Pension interest	This is the interest that we're allowed to show in our **income statement** and is the **discount rate** used to **discount** the pension liabilities multiplied by the pension surplus or deficit last year.
Performance obligations	These are promises to provide distinct goods or services to customers.
Prepayment	When we pay in advance for a cost which relates to services that will be received over a future period of time (for example, rent or insurance), we hold that cost on our **balance sheet** as a prepayment and then spread the cost over the period of the service.
Present value	This is the value of a future cost or income in today's money and is arrived at by **discounting**.
Provisions	This is a **liability**, but one where we're unsure what the final amount we have to pay will be and when we'll have to settle it. We use our best estimate of the costs and hold that on the **balance sheet**.
Realised gains	This is when we sell an **asset** for a profit.
Receivables	When someone owes us some money, we hold that amount as a receivable on our **balance sheet**.
Reclaim Fund	This is an entity that helps money in dormant bank accounts to be used for charitable purposes.
Related party	This is a company or person that is closely linked to the Co-op. It's usually a member of our Board or Executive or their close family plus companies such as our **associates** and **joint ventures**.
Remeasurement gains / losses on employee pension schemes	There are lots of assumptions that are used when valuing pensions. If those assumptions change this can have a big effect on the size of the pension **asset** or **liability**. So that we don't distort the **income statement**, this effect is shown in **other comprehensive income**.
Repayment Notes	This is a type of loan, which we repay either in instalments or in a lump sum at the end of the loan.
Reserves	This is the amount of **equity** we have, but excluding any **share capital**.
Restated	Sometimes we change the numbers that we showed in last year's accounts. This might be because we have changed where or how we record certain things or it could be that we have corrected an error. There are strict rules around what can be changed and when we make changes we explain why in the accounting policies.

Retained earnings	This is all the profits we've made since the beginning of time for the Co-op that have not yet been paid out to members.
Retirement benefit obligations	Another term for our pension **liabilities**.
Return on plan **assets** (pensions)	This is the income our pension **assets** have generated in the year.
Revaluation reserve	When we revalue a property upwards, we're not allowed to put this **unrealised gain** through our **income statement** or within **retained earnings** as law dictates that this can't be distributed to members until the property is sold. It's then ring-fenced as a specific **reserve**.
Revolving Credit Facility	This is money that our lenders have agreed we can borrow if we need to. It works a bit like an overdraft.
Right of use asset (ROU)	This is an asset that we don't own legally, but which we lease from another party. The asset represents the value the Co-Op has in being able to use the asset over the length of a lease contract.
ROCE	Return on capital employed. This is based on our underlying profit we make in the year divided by the net operating assets we have.
Sale and leaseback	This is when an asset is sold to a third party and then immediately leased back under a lease agreement. For the Co-op, this usually relates to the sale of a building such as a store.
Sensitivity analysis	When an item on our **balance sheet** varies in value from year to year based on some estimates that we make, we show a sensitivity analysis which shows you how much the **asset** or **liability** would change by if we were to change the estimate.
Share capital	This is the amount of money that our members have paid us to become members less any amounts that we've repaid to them when they cancel their membership.
Society	The Co-operative Group Limited is a registered co-operative society. We sometimes refer to our collective whole as 'the Group' or 'the Society' and the terms are broadly interchangeable.
Subsidiary	This is a company or society that is owned by another company.
Supplier income	Sometimes our agreements with suppliers mean they will give us money back based on the amount of their products we buy and sell. We call this supplier income.
Underlying interest	This is the day-to-day interest we incur on our bank borrowings and **lease liabilities** and is what management consider in the day-to-day running of our Co-op. Non-underlying interest are those items that are not generated by our day-to-day trading or are not considered by management in the day-to-day running of the business (such as the interest on **funeral plan** liabilities or the **fair value movement** on the Group's quoted debt and **interest rate swaps**).
Unrealised gains	An **asset** may have gone up in value, but we've not sold it. If this is the case, the profit from the gain is unrealised as we've not sold the **asset** yet.
Unrealised gains - funeral plans	The **funeral plan investments** which we hold attract interest and bonus payments each year (depending upon market conditions). The gains or losses in the **fair value** of the plan investments is recognised within finance income /costs each year.
Wholesale	The Group's **operating segment** (trading Division) that sells direct to other retailers (rather than to individual members of the public). This primarily relates to the business we operate after we bought Nisa but it also includes any franchise stores. Wholesale is separate to our **Federal** segment.

Five year summary (unaudited)

£m	2020	2019 (restated*)	2018	2017 (i)	2016
Revenue					
Food	7,765	7,505	7,274	7,103	7,105
Wholesale	1,577	1,423	983		
Funerals (iv)	272	272	283	296	307
Legal (iv)	37	39	34	24	22
Federal	1,813	1,613	1,532	1,461	1,343
Other	8	12	56	59	67
Total revenue	**11,472**	**10,864**	**10,162**	**8,943**	**8,844**
Underlying profit before tax					
Food	350	283	204	182	182
Wholesale	6	(10)	(21)		
Funerals (iv)	16	12	23	41	56
Legal (iv)	4	6	2	1	
Other	(141)	(118)	(111)	(117)	(138)
Underlying segment operating profit	235	173	97	107	100
Underlying net interest expense on lease liabilities	(72)	(74)	-	-	-
Underlying interest	(63)	(64)	(64)	(64)	(65)
Underlying profit before tax	**100**	**35**	**33**	**43**	**35**
EBITDA (ii)					
Underlying segment operating profit (above)	235	173	97	107	100
Depreciation (plant, property and equipment)	250	252	256	256	246
Depreciation (right-of-use assets)	113	110	-	-	-
Amortisation	17	17	15	8	5
Underlying segment EBITDA (ii)	**615**	**552**	**368**	**371**	**351**
Insurance (underwriting business) - (v)					
Revenue	273	315	323	331	439
Underlying PBT	19	(10)	(1)	11	11
Profit / (loss) on discontinued operation	5	(16)	(230)	(17)	-
Other performance items					
2% Member reward (vi)	(45)	(57)	(60)	(61)	(16)
2% Community reward (vi)	(13)	(11)	(12)	(13)	(3)
Profit / (loss) after tax - continuing operations	72	49	66	71	(129)
ROCE (ii)	8.1%	6.0%	4.7%	5.6%	5.7%
Balance sheet items (restated*)					
Total assets	8,986	9,913	9,547	9,203	9,225
Group net debt (excluding IFRS 16 leases)	(550)	(695)	(796)	(775)	(885)
Group net debt (including IFRS 16 leases)	(1,975)	(2,165)	-	-	-
Total equity	2,669	2,685	3,061	3,015	3,241
Net debt: EBITDA ratio (excluding leases)	0.89	1.26	2.16	2.09	2.52
Net debt: EBITDA ratio (including leases)	3.21	3.92	-	-	-
Total pension assets	11,708	11,168	10,271	10,538	12,879
Total pension liabilities	(9,854)	(9,304)	(8,412)	(8,985)	(11,152)
Total net surplus	1,854	1,864	1,859	1,553	1,727
Business-specific measures					
Total Food like-for-like sales increase	6.9%	1.9%	4.4%	3.4%	3.5%
Number of Food stores	2,613	2,611	2,582	2,532	2,774
Total Food sales area ('000 sq ft) (iii)	8,407	8,327	8,292	8,307	8,797
Number of At-need funerals sold	100,943	90,630	95,363	99,925	97,607
Number of Pre-need funerals sold	42,497	49,066	55,593	68,969	58,999
Number of Funeral homes	840	998	1,049	1,079	1,026

* Revenue and balance sheet items for 2019 have been restated following a change in accounting treatment for revenue recognition on funeral plans and de-consolidation of Reclaim Fund. See Note 35 for details. Figures in the tables above for 2018 - 2016 have not been adjusted for these changes.

(i) 53-week year.
(ii) See Jargon buster on page 220 for definition.
(iii) Quoted excluding petrol forecourt area.
(iv) Funerals and Legal results are now shown separately (previously they were combined within Funerals and Life Planning). For more details on the representation, refer to the general accounting policies section on page 197.
v) Our Insurance underwirting business has been held as a discontinued operation from 2018 and was sold on 3 December 2020.
vi) Our membership proposition was updated from October 2020 such that member and community rewards are earned at 2% (prior to that it was 5% and 1% respectively).

Co-operative Group Limited

Registered society, registered in England and Wales under the Co-operative and Community Benefit Societies Act

Registered office: 1 Angel Square, Manchester M60 0AG

Registered number: 525R

coop.co.uk

It's what we do