News release

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Annual Results Announcement: 52 Weeks to 02 Jan 2021

Co-operation Works During Covid Crisis

The Co-op plays critical role in supporting members and communities during the pandemic

Group financial highlights

- Revenue was £11.5bn (2019: £10.9bn) with Food growth of 3.5% and Funeralcare revenue flat year-on-year
- Reported profit after tax and discontinued items was £77m (2019: £33m)
    - Profit after tax and discontinued items (excluding change in accounting policy for funeral plans) of £49m (2019: £69m)
- Reported profit after tax from continuing operations of £72m (2019: £49m), and is net of a £55m tax charge
    - Profit after tax from continuing operations (excluding change in accounting policy for funeral plans) of £44m (2019: £85m)
- Reported profit before tax was £127m (2019: £24m)
    - Excluding change in accounting policy for funeral plans, profit before tax was £92m (2019: £67m)
- Net debt* of £550m (2019: £695m)
- Capex of £313m (2019: £407m), reflecting reduced investment in the business, due to the pandemic
- Additional Covid costs during the year of £84m**, including additional new colleagues, increased colleague absence linked to the virus, a colleague "Thank You" reward and the purchasing of personal protective equipment

* Excluding the IFRS 16 lease liability
** Support from the Government's emergency economic measures amounted to £82m

Co-op highlights

All our Co-op colleagues, including temporary recruits, played an extraordinary role in caring for and feeding the nation during the crisis, enabling over 3,400 of the Co-op's community-based Food stores and funeral homes to remain open and a further 5,000 independent food stores to be supplied through the pandemic. Underpinning all of that, the business continued to drive its Community and Colleague support when it was needed most.

- Significant increase in Co-op Community & Campaigning Support
    - Over £12m of funds given to charities and community causes, a further £15m shared with 4,500 local causes from our Local Community Fund
    - FareShare had been able to distribute five million meals through our support
    - £3.1m in Co-op food vouchers and technology equipment provided to 6,000 pupils at our academies
    - Co-operate online volunteering and community platform launched, and 1,000 Co-op Member Pioneers provide dedicated support for the vulnerable during lockdown
    - A key member of the Stop Child Food Poverty Taskforce, supporting Marcus Rashford in his successful campaign to extend free school meals
- Support of colleagues across the business
    - £25m given to colleagues in recognition of their hard work and commitment
    - Commitment to improving our hourly pay rates to align with the Real Living Wage in 2021, boosting pay for 33,000 colleagues with an investment of £53m per annum

- Commitments to tackle racial inequalities published and new Equality and Inclusion Think Tank mobilised
- Our efforts to ensure colleague safety accelerated through our 'Safer Colleagues, Safer Communities' programme

Operational highlights

- **Food**
  - Another good year for Food business - Food sales of £7.8 billion up 3.5% on 2019, like-for-like sales up 6.9%
  - Wholesale business achieved sales of £1.6 billion compared to £1.4 billion in 2019; a further 624 new independent stores signed up by Nisa
  - During the pandemic, 56 new Co-op stores were opened, a further 105 were refitted and 13 more were extended
  - Our online offer expanded significantly during the year, with 800 Co-op Food stores now providing food to homes via our delivery partners
- **Funeralcare**
  - Increase in the number of funerals arranged, with over 10,000 more funerals than 2019 - an increase of 11.4%, sadly reflecting the excess deaths caused by Covid-19
  - Government restrictions meant that only the most basic of arrangements were possible. As a result, and despite the increase in funerals conducted, revenue was flat year on year at £272m
  - Marked reduction in funeral plan sales as colleagues focused on providing greater at need care
  - As we right-sized the branch estate for the future we made the difficult decision to close 164 funeral homes
- **Insurance and legal services**
  - Sales were much reduced during the spring and early summer, particularly for motor and travel insurance policies, as lockdown restrictions impacted trading across the sector
  - Legal Services saw case volumes grow by 9% in 2020. The number of probate cases we took on also grew, though external factors impacted our overall performance
  - Successful completion of the sale of our insurance underwriting business took place at the end of 2020. The sale enables us to unlock the potential of Co-op Insurance under a new operating model which will provide lower prices and more bespoke products
- **Power**
  - In November we re-launched Co-op Power, our business to business clean energy buying group, with plans to significantly grow its membership in the years ahead. Recent corporate clients include Nationwide Building Society, Roadchef and the RNLI
- **Health**
  - Our Health venture grew significantly during 2020 and responded brilliantly to the challenges presented by Covid, growing to become the 6th largest dispensary business by the end of the year
  - 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

Outlook

Looking ahead, we see significant uncertainty and must continue to exercise financial prudence. The market remains highly competitive and, against the backdrop of a worsening consumer economy, the Co-op is planning for and dealing with continued lockdowns. We continue to rebuild the Co-op's balance sheet to secure the long-term future of the group.

We are working to respond to the changing needs of our customers, reflected in hyper-localism, further moves towards digitisation in all our businesses and providing value for money across the business.

As a co-operative, our approach and purpose will remain the same: championing a better way of doing business for our customers and members and their communities by offering a range of products and services which create value in its broadest sense.

Steve Murrells, Chief Executive of the Co-op, said:

"In 2020 we lived through a perfect storm, with every part of our lives turned upside down – socially and economically, mentally and physically. Along the way we 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.

"During the last few years, we've created a business that is truly focused on delivering clear value and benefits for our members, customers 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."

Allan Leighton, Independent Non-Executive Chair of the Co-op, said:

"Covid-19 presented us with a national emergency and a unique set of business challenges and community needs which showed that co-operation was capable of making a difference during an extraordinary time in the nation's history. I am proud 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.

"On behalf of the Board, 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."

Ends

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About the Co-op:

The Co-op is one of the world's largest consumer co-operatives with interests across food, funerals, insurance, legal services and health. Owned by millions of UK consumers, the Co-op operates 2,600 food stores, over 800 funeral homes and provides products to over 5,100 other stores, including those run by independent co-operative societies and through its wholesale business, Nisa Retail Limited.

Employing over 63,000 people, the Co-op has an annual turnover of over £11.5 billion. As well as having clear financial and operational objectives, the Co-op is a recognised leader for its social goals and community-led programmes. The Co-op exists to meet members' needs and stand up for the things they believe in.

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 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.

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 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 needs 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 in 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 our 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 frontline 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 have a voice, learn new skills and access 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 onboard. 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 hearts 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

How we responded to the pandemic – our commercial response

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 was 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 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 know which of their neighbours are 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 have 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, while after the first lockdown was lifted we saw a 250% increase in divorce related enquiries, reflecting the tremendous stress many relationships have 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 twelve 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

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 need each day.

Throughout the first lockdown and beyond, we issued a regular 'Co-op Care' email to all colleagues focused 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 messages 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 thirteen 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

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 have 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.

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 Academy 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

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.

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, that 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 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 with 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 Covid remain proportionate and provide families with the opportunity to say their best goodbye.

<u>How are we building back better and *different?*</u>

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 continues and green targets remain. 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 £1 million additional cost.

- 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 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 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 when and where helps them.

- 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

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 and within note 19.

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. 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	2019 (restated*)	2020 (excluding change in policy on Funeral plans**)	2019 (excluding change in policy on Funeral plans)
	£m	£m	£m	£m
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 then 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 (APM's) is given in the Jargon Buster section.

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 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 has 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	2019
	£m	£m
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	2019
	£m	£m
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 offset by a £3m charge in relation to changes to historic pension liabilities.

Property and business disposals

	2020	2019
	£m	£m
Write-down of assets on loss making properties	(36)	(44)
Sale or 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 £m	2019* £m
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 debt 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 then 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 14).

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 £60m in technology to upgrade IT systems to improve 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 note 6 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.

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 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 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.

- **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.

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.

		2020	2019 (restated*)
Continuing Operations	Notes	**£m**	£m
Revenue		**11,472**	10,864
Operating expenses	2	**(11,277)**	(10,700)
Other income		**12**	9
Operating profit	1	**207**	173
Net finance costs (excluding funeral plans)	4, 5	**(108)**	(102)
Net finance income / (costs) on funeral plans	4, 5	**28**	(47)
Profit before tax	1	**127**	24
Taxation	6	**(55)**	25
Profit from continuing operations		**72**	49
Discontinued Operation			
Profit / (loss) on discontinued operation, net of tax	7	**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).

		2020	2019 (restated*)
Continuing Operations	Notes	**£m**	£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		**(1)**	(27)
Underlying operating profit	1	**235**	173
Less underlying loan interest payable	5	**(63)**	(64)
Less underlying net interest expense on lease liabilities	4, 5	**(72)**	(74)
Underlying profit before tax		**100**	35

*We have restated our 2019 results as we have changed the way that we account for revenue on funeral plans. See Note 19 for details of the restatement.

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

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 above. These are usually revaluations of pension schemes and some of our financial investments.

		2020	2019 (restated*)
	Notes	**£m**	£m
Profit for the period		**77**	33
Items that will never be reclassified to the income statement:			
Remeasurement losses on employee pension schemes	15	**(83)**	(99)
Related tax on items above	6	**-**	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	6	**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)

*We have restated our 2019 results as we have changed the way that we account for revenue on funeral plans. See Note 19 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 7 (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.

		2020	2019 restated*	Opening 2019 restated*
		(2 January 2021)	(4 January 2020)	(6 January 2019)
	Notes	**£m**	£m	£m
Non-current assets				
Property, plant and equipment	9	**1,955**	2,001	2,005
Right-of-use assets	10	**1,031**	1,045	1,056
Goodwill and intangible assets	11	**1,105**	1,087	1,094
Investment properties		**17**	16	42
Investments in associates and joint ventures		**3**	3	3
Funeral plan investments	12	**1,331**	1,271	1,223
Derivatives	16	**3**	-	27
Pension assets	15	**1,931**	1,973	1,984
Trade and other receivables		**203**	111	81
Finance lease receivables	10	**34**	40	14
Contract assets (funeral plans)		**60**	54	47
Total non-current assets		**7,673**	7,601	7,576
Current Assets				
Inventories		**460**	454	458
Trade and other receivables		**546**	445	528

Finance lease receivables	10	**11**	11	3
Contract assets (funeral plans)		**6**	4	4
Cash and cash equivalents		**269**	308	278
Assets held for sale	13	**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	14	**803**	803	976
Lease liabilities	10	**1,234**	1,277	1,329
Trade and other payables		**214**	183	202
Contract liabilities (funeral plans)		**1,570**	1,483	1,377
Derivatives	16	**1**	1	-
Provisions		**85**	95	163
Pension liabilities	15	**77**	109	125
Deferred tax liabilities		**161**	122	169
Total non-current liabilities		**4,145**	4,073	4,341
Current liabilities				
Interest-bearing loans and borrowings	14	**16**	200	66
Lease liabilities	10	**191**	193	185
Income tax payable		**-**	7	8
Trade and other payables		**1,747**	1,520	1,390
Contract liabilities (funeral plans)		**167**	158	134
Provisions		**46**	62	62
Liabilities held for sale	13	**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		**74**	73	73
Retained earnings		**2,594**	2,597	2,644
Other reserves		**1**	15	12
Total equity		**2,669**	2,685	2,729
Total equity and liabilities		**8,986**	9,913	9,960

*Refer to Note 19 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).

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	15	**-**	**(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	6	**-**	**3**	**-**	**3**
Total other comprehensive loss		**-**	**(80)**	**(14)**	**(94)**
Contributions by and distributions to members:					
Shares issued less shares withdrawn		**1**	**-**	**-**	**1**
Balance at 2 January 2021		**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 7 (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	15	-	(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	6	-	17	(1)	16
Total other comprehensive income / (loss)		-	(82)	5	(77)
Revaluation reserve recycled to retained earnings		-	2	(2)	-
Balance at 4 January 2020		73	2,597	15	2,685

**Refer to Note 19 for details of the restatement.

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	8	**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	14	**(1)**	(2)
Repayment of borrowings	14	**(246)**	(343)
Proceeds from new borrowings	14	**-**	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	7	**-**	(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)	**269**	308

*Refer to Note 19 for details of the restatement.

The balances above include cashflows from Discontinued operations.

Group Net Debt	Notes	2020 £m	2019 £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	14	**(1,975)**	(2,165)
Add back fair value / amortised cost adjustment	14	**34**	33
Group Net Debt (pre fair value / amortised cost adjustment)	14	**(1,941)**	(2,132)
Group Net Debt (interest-bearing loans and borrowings only)		**(550)**	(695)
Add back fair value / amortised cost adjustment	14	**34**	33
Group Net Debt (interest-bearing loans and borrowings only and pre fair value / amortised cost adjustment)	14	**(516)**	(662)

Notes to the financial statements

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) £m	Underlying segment operating profit / (loss) (a) £m	Operating profit / (loss) £m	Additions to non-current assets (d,e) £m	Depreciation and amortisation £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) £m	Underlying segment operating profit / (loss) (a) £m	Operating profit / (loss) £m	Additions to non-current assets (d,e) £m	Depreciation and amortisation
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 for details of the representation and to Note 19 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 7 (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.

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 18 (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 18 (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**	**£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	£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 for details of the representation and Note 19 for the restatement.

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

		2020	2019 (restated*)
Continuing Operations	Notes	**£m**	£m
Underlying operating profit		**235**	173
Underlying loan interest payable	5	**(63)**	(64)
Underlying net interest expense on lease liabilities	4, 5	**(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		**1**	27
Finance income (excluding any lease interest or fair value movement on funeral plans)	4	**41**	57
Unrealised fair value movement of funeral plan investments	4	**81**	11
Discount unwind on funeral plan debtors	4	**7**	1
Interest accruing on funeral plan liabilities	5	**(60)**	(59)
Other non-cash finance costs	5	**(14)**	(21)
Profit before tax from continuing operations		**127**	24

*Refer to Note 19 for details of the restatement.

Loss from property, business disposals, closures and impairment of non-current assets	**2020**		2019	
	£m	**£m**	£m	£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.

2 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	2019
	£m	£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 18 (Events after the reporting period)).

Employee benefits expense

	2020	2019
	£m	£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	2019
	Number	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.

Auditor remuneration and expenses	**2020**	2019
	£m	£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

	2020	2019
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.

3 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**	2019
	£m	£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%

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. 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.

4 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 5). If they are gains, then we also show the fair value movement on our funeral plan investments (see Note 12) as well as the discount unwind on funeral instalment plan debtors.

	2020	2019 (restated*)
	£m	£m

Net pension finance income	**37**	57
Underlying interest income from finance lease receivables	**3**	4
Fair value movement on interest rate swaps (Note 16)	**4**	-
Unrealised fair value movement on funeral plan investments (Note 12)	**81**	11
Discount unwind on funeral plan debtors	**7**	1
Total finance income	**132**	73

*Refer to Note 19 for details of the restatement and Note 16 for details of our accounting policy for funeral plans.

5 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 4). 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	2019 (restated*)
	£m	£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 14)	**(10)**	(7)
Fair value movement on interest rate swaps	**-**	(1)
Interest accruing on funeral plan liabilities	**(60)**	(59)
Non-underlying finance interest	**(4)**	(13)
Other finance costs	**(74)**	(80)
Total finance costs	**(212)**	(222)

*Refer to Note 19 for details of the restatement and Note 16 for details of our accounting policy for funeral plans.

Non-underlying finance interest includes the impact of discount unwind on payables and provisions

Total interest expense on financial liabilities (including lease liabilities) that are not at fair value through the income statement was £98m (2019: £128m).

6 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.

		2020	2019 (restated*)
	Footnote	**£m**	£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
Profit / (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) below 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 (restated*) £m
Actuarial gains and losses on employee pension scheme	**-**	17
Insurance assets held at fair value through other comprehensive income	**3**	(1)
	3	16

*Refer to Note 19 for details of the restatement.

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 general accounting policies section for details of the restatement.

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 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 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 6:

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. 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'). 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 18 (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. 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 7 (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.

7 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 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 about 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 2), Other income and Finance costs (Note 5). 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**	**-**	**16**	**32**	**(43)**
52 weeks ended 4 January 2020	315	(10)	(14)	56	(58)

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:

Cash received in cash and cash equivalents (net of costs)	**56**
Add: overdrafts disposed	**(6)**
	62

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

	2020	2019
	£m	£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.

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.

8 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	2019 (restated*)
	£m	£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 19 for details of the restatement.

9 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**	**Plant and equipment**	**Total**
	£m	**£m**	**£m**
Cost or valuation:			
At 4 January 2020	**1,463**	**2,437**	**3,900**
Additions	**45**	**218**	**263**
Reclassified as assets held for sale (see Note 13)	**(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 13)	**(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).

For the period ended 4 January 2020	Property	Plant and equipment	Total
	£m	£m	£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	1	-	1
Reclassified as assets held for sale (see Note 13)	(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 13)	(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

Critical accounting estimates and judgements
Impairment
The carrying amount of property, plant and equipment is reviewed at each balance sheet date and if there is any indication of impairment, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any associated goodwill allocated to cash-generating units, and then to reduce the carrying value of other fixed assets.

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 Goodwill impairment - sensitivity testing below. 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 Goodwill impairment - sensitivity testing below.

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

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

Impairment
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.

10 Leases

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

A. As a lessee

Right-of-use assets

	Property	Plant and equipment	Total
	£m	£m	£m
Balance at 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 13)	**(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)

	2020 £m	2019 £m
Lease liabilities	**(1,470)**	(1,482)
Additions	**(114)**	(145)
Disposals	**26**	42
Interest expense	**(77)**	(78)
Transfer to liabilities held for sale (see Note 13)	**5**	-
Payments	**205**	193
Total lease liabilities	**(1,425)**	(1,470)

The Group recognised rent expense from short-term leases of £3m (2019: £1m).

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 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**

ii. Finance lease

The Group also sub-leases some of its non-occupied leased properties. The Group classifies the sub-lease 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.

11 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 13)	**(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 13)	**-**	**(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

Goodwill

The components of goodwill are as follows:

	2020	2019
	£m	£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 9.

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.

Food:
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.

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

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

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

12 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**	2019
	£m	£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	2019
	£m	£m
Fair value through the income statement:		
Funeral plan investments (see below)	**1,331**	1,271
Total Funeral plan investments	**1,331**	1,271

	2020	2019
Funeral plan investments:	**£m**	£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 4)	**81**	11
At end of period	**1,331**	1,271

See Note 16 for further detail on the accounting policy for funeral plans.

The Group holds investments on the balance sheet in respect of funeral plan policies which are predominantly invested in individual whole-of-life insurance policies and, to a much smaller extent, independent trusts. 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	**30 September 2020**	30 September 2019
	£m	£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	**30 September 2020**	30 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.

13 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	2019	**2020**	2019
	£m	£m	**£m**	£m
	Assets held for sale		**Liabilities held for sale**	
(a) Discontinued operation - Insurance (see Note 7)	**-**	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 7 (Loss on discontinued operations, net of tax).

	2020	2019	**2020**	2019
	£m	£m	**£m**	£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 18 (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 7 (Loss on discontinued operation, net of tax).

14 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**	2019
	£m	£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**	2019
	£m	£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 16 for more information about the Group's exposure to interest rate and foreign currency risk, and a breakdown of the Group's borrowings by the three-level fair value hierarchy (which reflects different valuation techniques) as defined within IFRS 13 (Fair Value Measurement).

Reconciliation of movement in net debt

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

For period ended 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 16.

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.

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 exercisable 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 16.

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 4 and 5). 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.

15 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	**2019**
	£m	**£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.

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 (GMPs) in light of the judgement on the back of the Lloyds case. A second hearing in November 2020 concluded that schemes must top-up past transfer payments paid since 17 May 1990 that failed to take account of the obligation to equalise for GMPs. 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.

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.

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**	2019

	£m	£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

Changes in the fair value of the plan assets	**2020**	2019
	£m	£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	**2020**	**2020**	2019	2019	2019
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£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**	2019
	£m	£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**	2019
	£m	£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.

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.

16 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 7 (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 5).

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 7 (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**	**Fair value**	Carrying value	Fair value
	2020	**2020**	2019	2019
	£m	**£m**	£m	£m
Interest-bearing loans and borrowings	**691**	**769**	871	875

The table below analyses financial instruments by measurement basis:

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

2019	Fair value through income statement	Amortised cost	Loans and receivables	Total
	£m	£m	£m	£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 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 cannot guarantee that the prices they provide are based on actual trades in the market then all of the corporate bonds are classified as Level 2.

Valuation of financial instruments

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Assets				
Financial assets at fair value through the income statement				
- Funeral plan investments	**-**	**-**	**1,331**	**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 hierarchy. Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs). The vast majority of our funeral plan investments are held in Whole of Life (WoL) insurance policies. The plan investments are financial assets which are recorded at fair value each period using valuations provided to Co-op by the policy provider. The plan values reflect the amount the policy provider would pay out on redemption of the policy at the valuation date with the main driver being underlying market and investment performance.

The value of the Eurobonds carried at amortised cost is disclosed in Note 14. 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	Level 2	Level 3	Total
	£m	£m	£m	£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

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).

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

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

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

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

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

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

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

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

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

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.

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.

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.

17 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. 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

18 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 13).

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 19 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.

19 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 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 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 18).

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)	-	**(47)**
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**

Consolidated balance sheet as at 4 January 2020	**As previously reported**	**Funeral plans**	**Reclaim Fund**	**As restated**
	£m	**£m**	**£m**	**£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**	**Funeral plans**	**Reclaim Fund**	**As restated**
	£m	**£m**	**£m**	**£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**

2018 Consolidated balance sheet	**Closing position as reported**	**IFRS 16 ***	**Restated for IFRS 16**	**Funeral plans**	**Reclaim Fund**	**Opening position restated**
	(5 January 2019)		**(5 January 2019)**			**(6 January 2019)**
	£m	**£m**	**£m**	**£m**	**£m**	**£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.

Status of financial information

The financial information, which comprises the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated balance sheet, Consolidated statement of changes in equity, Consolidated statement of cash flows and related notes, is derived from the full Group financial statements for the 52 weeks to 2 January 2021 and does not contain all information required to be disclosed in the financial statements prepared in accordance with International Financial Reporting Standards.

The Group Annual Report and Financial Statements 2020, on which the auditors have given an unqualified report and which does not contain a statement under part 7, section 87(4) or (7) of the Co-operative and Community Benefit Societies Act 2014, will be submitted to the Financial Conduct Authority following the 2021 Annual General Meeting.

General information

Co-operative Group Limited ('the Group') is a registered co-operative society domiciled in England and Wales. The address of the Group's registered office is 1 Angel Square, Manchester, M60 0AG, and the trading locations of all stores and branches can be located on our website https://finder.coop.co.uk/food.

Basis of preparation

The Group accounts have been prepared in accordance with international accounting standards in conformity with the requirements of the Co-operative and Community Benefit Societies Act 2014 and additionally in accordance with international financial reporting standards adopted 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.

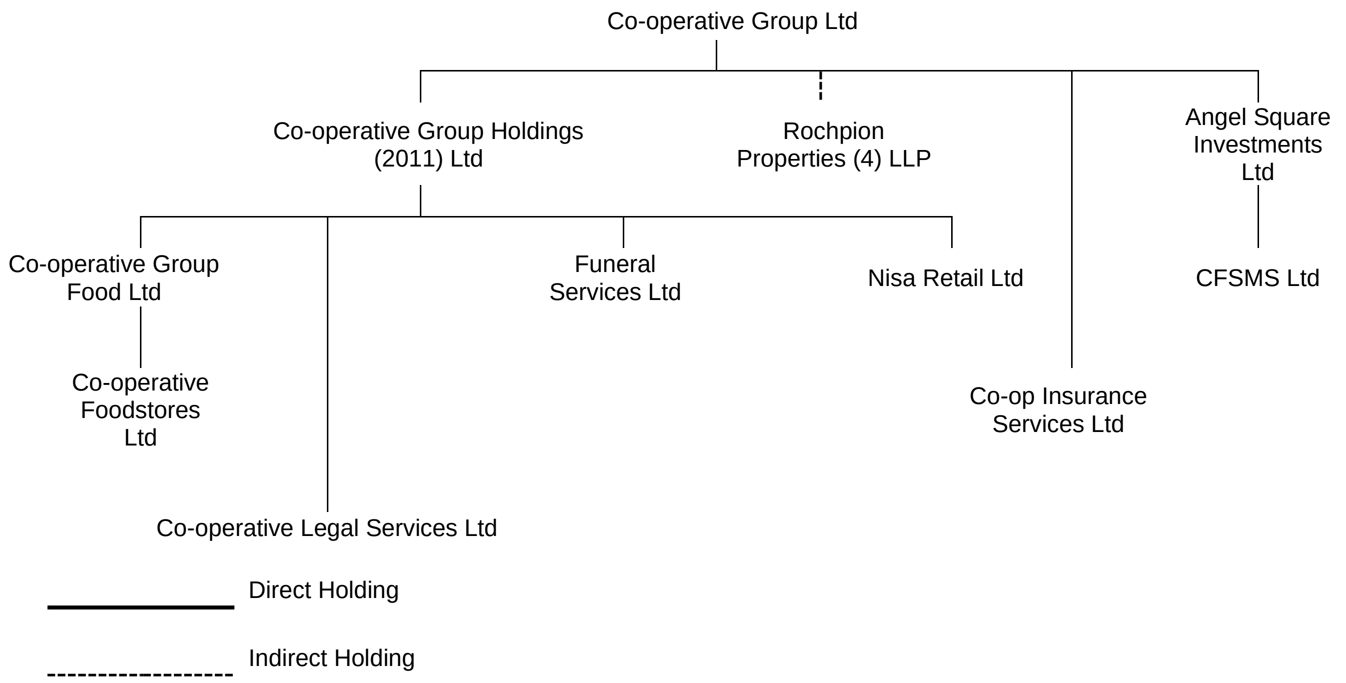
The accounts are prepared on a going concern basis. See later section on **'Going Concern'.**

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. 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 19, 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 16. 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 other Trading Group 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.

<u>Key judgements:</u>

In the process of applying the Group's accounting policies, management has made the following key judgements which have the most significant impact on the consolidated financial statements:

- *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 18). 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 appropriate 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 19.

- *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 15)* – 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 15 along with associated sensitivities to those assumptions.

• *Impairment of non-financial assets (Notes 9, 10 & 11)* - 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 9.

• *Provisions* – 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.

• *Pre-need funeral plan obligations (Note 12)* – 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 12. 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 19. 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 14 to the accounts. In addition, Note 14 also includes 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.

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 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 ongoing impact of Covid-19.

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.

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	<u>Definition and Purpose:</u> 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). <u>Closest IFRS equivalent:</u> There is no close equivalent to this measure under IFRS. <u>Where reconciled in the financial statements:</u> Not applicable as there is no close equivalent to this measure under IFRS.
Underlying operating profit before tax	<u>Definition and Purpose:</u> 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. <u>Closest IFRS equivalent:</u> Operating Profit.

	<u>Where reconciled in the financial statements:</u> Income statement and Note 1 (Operating segments).
Underlying profit before tax (PBT)	<u>Definition and Purpose:</u> 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. <u>Closest IFRS equivalent:</u> Profit before tax. <u>Where reconciled in the financial statements:</u> Note 1 (Operating segments).
Net debt (interest bearing loans and borrowings only)	<u>Definition and Purpose:</u> 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. <u>Closest IFRS equivalent:</u> Interest bearing borrowings less cash and cash equivalents. <u>Where reconciled in the financial statements:</u> Consolidated statement of cashflows.
Total debt (including lease liabilities)	<u>Definition and Purpose:</u> 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. <u>Closest IFRS equivalent:</u> Interest bearing loans and borrowings plus lease liabilities. <u>Where reconciled in the financial statements:</u> Consolidated statement of cashflows.

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 revenue – significant financing	Monies received from customers for funeral plans are held on our balance sheet as a **contract liability**. Over the life of the plan we accrue interest on those liabilities to reflect a financing element from receiving the monies upfront. This increases the liability as additional deferred revenue until the plan is redeemed.
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 regulate auditors, accountants and actuaries and they set the UK's Corporate Governance and Stewardship codes.
First Mortgage Debenture Stock	This is a small **debt** we owe that is secured against some properties – a bit like a mortgage.
Fuel	Refers to fuel sales generated from our petrol forecourts.
Funds in use invoice discounting facility	Invoice discounting is an arrangement with a finance company so that we can be paid for amounts we are owed on invoices earlier than the date our customers are due to pay us. 'Funds in use' is just the term for the amount we owe to the finance company.
Funeral plans	Our customers may not want their family to pay a large single sum for a funeral when he or she dies. Therefore, the customer can pay for it gradually or in lump sums over a number of years and **the Group** will invest that money.
Funeral plan investments	When a customer gives us money for their funeral in the future, we invest this money. The balance of these investments is held on the **balance sheet**.
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 **asset** or **liability** that is expected to last for more than one year.
Non-GAAP measure	GAAP stands for Generally Accepted Accounting Principles. This is the common set of accounting principles, standards and procedures that companies must follow. Sometimes, companies want to provide different measures to help readers understand their accounts (such as underlying profit) where there isn't a standard definition – these measures are called non-GAAP measures.
One-off items	Items that are not regular in size or nature and would otherwise cloud the underlying profitability of **the Group** are stripped out. This could include a large IT project or a large restructuring exercise.
Onerous leases	When we close a store we sometimes still have to pay running costs until the lease runs out (such as rates). When this happens, we make a **provision** for the amount of the running costs we will have to pay in future and hold this on the **balance sheet**. Rental costs are excluded from this provision now we have adopted **IFRS** 16 (Leases) as those costs are included in the **lease liability**.
Operating profit	This is our profit before we have to pay any interest to our lenders or tax to the tax authorities.
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 on behalf of our customers attract interest and bonus payments each year (depending upon market conditions). The gains or losses in the **fair value** of the plan investments is recognised within finance income /costs each year.
Wholesale	The Group's **operating segment** (trading Division) that sells direct to other retailers (rather than to individual members of the public). This primarily relates to the business we operate after we bought Nisa but it also includes any franchise stores. Wholesale is separate to our **Federal** segment.